Fufeng Group Limited
阜豐集團有限公司

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

2017
ANNUAL REPORT

FUFENG
阜丰

CONTENTS

Chairman's Statement

Li Xuechun
Chairman

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 2017.

Results for the Year and Business Overview

As at 31 December 2017, the audited turnover of the Group amounted to approximately RMB13.0 billion, representing an increase of about 10.4% compared to 2016. Net profit was approximately RMB1,382.4 million, representing an increase of about 26.5%.

As the state continued the reformation of the corn purchasing and storage policy in 2016, farmers engaged in production activities could benefit from the change in policy that the provision of subsidies is based on the difference between the market price and the price predetermined by the government. This policy adjustment induced preliminary formulation of the market pricing mechanism for corn in 2017, optimisation of the planting structure, and a significant improvement in industrial competitiveness. As a leading industrial operator, the Group benefited from these significant development opportunities.

Our strategic layout of production bases, which are mainly located in the major corn producing and coal-rich regions, enabled the Group to enjoy more competitive cost advantages. Over the past two years, we have enhanced our production technology for MSG, thus further improving our production efficiency, as well as enjoying a great advantage in costs, which helped to further consolidate our leading position in the market. Since the new Longjiang base commenced production (started production in January 2018), our strategic layout of production bases was further improved, as a result of which our product line was further diversified and our competitive strength further enhanced.

Chairman's Statement

During the year, the Group continued to build its competitive strength in the global amino acid market, further expanding our amino acid product mix for the purposes of increasing the proportion of high value-added products and diversifying its revenue sources. In addition, the Group continued expanding its highly profitable businesses such as animal nutrition and colloid, thus generating new momentum for our business growth.

The Board recommends the payment of a final dividend of HK11.0 cents per share, with the paid interim dividend and the final dividend to be paid totaling HK19.8 cents per share, representing a payment ratio of around 30%.

Diversified Business Portfolio

Our products are mainly divided into four categories in terms of usage: 1) Food additives (including MSG, compound seasoning, starch sweeteners, corn oil, etc.), 2) Animal nutrition (including threonine, tryptophan, corn refined products etc.), 3) Colloid (including xanthan gum, welan gum, pectin etc.), and 4) High-end amino acid products (including valine, leucine, isoleucine, glutamine, hyaluronic acid, etc.).

Operational performances of our main products in 2017 are as follows:

MSG

As the weak market sentiment for MSG products continued, domestic sales were weak in the fourth quarter of 2017. By comparison, the corn price in the domestic market showed an upward trend in the fourth quarter of 2017, which drove the ASP of MSG to increase in the fourth quarter. However, the overall pricing was still at a low level. In light of the abovementioned factors, the Group's MSG business operation faced certain challenges, but we will seize opportunities to achieve further industrial integration. By increasing efforts to improve ourselves, we will further enhance our management and production efficiency and cost-effectiveness.

The sales volume of MSG was about 1,148,995 tonnes in 2017, representing an increase of 6.0% as compared with 2016. The ASP of MSG was approximately RMB5,522 per tonne, representing a decrease of 6.6% as compared with 2016. The revenue from sales of MSG products was approximately RMB6,341.7 million in 2017, representing a decrease of 1.1% as compared with 2016.

Animal Nutrition, High-end Amino Acids and By-products

Sales and prices of animal feed additives such as threonine, starch sweeteners, high-end small packed amino acids and other by-products remained at a desired level and some of these products even recorded an increase in pricing. Threonine and high-end amino acid products, with higher gross profit margins, became new growth drivers of the Group.

During the year, the sales volume of threonine reached 161,595 tonnes, representing an increase of 35.6% as compared with 2016. The revenue generated from threonine amounted to RMB1,394.0 million, representing an increase of 37.6% as compared with 2016. The revenue from high-end amino acid products reached RMB878.8 million, representing an increase of 32.4% as compared with 2016.

Xanthan Gum

Our xanthan gum business stabilized with an increase in price and sales volume. During the year, the ASP of xanthan gum was approximately RMB13,289 per tonne, representing an increase of approximately 23.8% as compared with the ASP in 2016. The gross profit margin was approximately 29.2%, representing an increase of approximately 13.3 percentage points. The sales volume of xanthan gum achieved approximately 52,822 tonnes, representing an increase of approximately 4.1% as compared with 2016. The revenue of xanthan gum increased 25.1% to RMB703.5 million.

Chairman's Statement

Achievements

1. Diversified Product Mix and More Stable Revenue Structure

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

2. International Development and Cooperation for Mutual Benefit

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

3. Improved Comprehensive Strength

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

4. Further Enhanced Financial Strength

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

5. Sustainability

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

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

6. Capital Restructuring

During the year, we strived to lower our gearing ratio and improve our balance sheet statement for the purposes of achieving healthier financial conditions by tapping into our diverse revenue sources and cash flow.

During the year, the Group's total assets amounted to approximately RMB15,966.5 million, and our total borrowings amounted to approximately RMB1,971.2 million. Our gearing ratio (i.e. total borrowings with interest incurred over total assets) was approximately 12.3%, representing a decrease of 9.1 percentage points as compared to 2016.

2018 Outlook

– Construction of Longjiang Fufeng Project Phase II will commence with a new annual production capacity of 300,000 tonnes of starch sweeteners and 200,000 tonnes of lysine.

– We will focus on diversifying our facilities and product line, which is comprised of MSG, colloid, threonine, lysine, starch sweeteners, high-end amino acid products, etc., to continue to build on our impressive growth.

– Construction of the dedicated railway lines for our Hulunbeir Fufeng and Longjiang Fufeng will further lower our logistics expenses.

– We will further extend our product chain and optimize our production capacity, as a result of which, our production costs will be further reduced.

Appreciation

On behalf of the Board, I would like to express my appreciation 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. We will continue to strive for better achievements in the coming years.

Li Xuechun
Chairman

27 March 2018

Five-Year Summary

	Year				
	2013	2014	2015	2016	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Operating results – Summary					
Turnover	11,366,722	11,297,696	11,225,722	11,803,131	**13,033,501**
Gross profit	2,099,443	2,166,865	1,802,491	2,406,373	**2,979,471**
Profit before income tax	634,697	774,176	679,774	1,301,898	**1,652,781**
Profit attributable to Shareholders	506,132	626,428	516,261	1,092,512	**1,382,380**
Balance sheets – Summary					
Non-current assets	8,170,547	9,334,995	9,220,961	9,516,968	**10,859,636**
Current assets	4,448,621	4,359,282	4,629,217	4,939,134	**5,106,898**
Total assets	12,619,168	13,694,277	13,850,178	14,456,102	**15,966,534**
Non-current liabilities	3,689,594	4,258,072	2,761,158	2,647,336	**1,298,851**
Current liabilities	4,110,788	4,067,139	5,281,961	4,992,902	**5,207,578**
Net assets	4,818,786	5,369,066	5,807,059	6,815,864	**9,460,105**
Financial ratio					
Earnings per share (Basic) (RMB Cents)	25.13	29.98	24.36	51.37	**57.04**
Gross profit margin (%) *(Note 1)*	19	19	16	20	**23**
ROE (%) *(Note 2)*	11	12	9	16	**15**
Current ratio *(Note 3)*	1.08	1.07	0.88	0.99	**0.98**
Inventory turnover days (Day) *(Note 4)*	60	79	86	97	**118**
Debtors' turnover days (Day) *(Note 5)*	58	33	27	25	**31**
Trade receivable turnover days (Day) *(Note 6)*	12	12	13	13	**15**
Creditors' turnover days (Day) *(Note 7)*	49	60	49	58	**56**
Trade payable turnover days (Day) *(Note 8)*	48	40	47	48	**53**
Gearing ratio (%) *(Note 9)*	36	33	28	21	**12**

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 365 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 365 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 365 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 365 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 365 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.

Corporate Information

Executive Directors

Mr. Li Xuechun
Mr. Zhao Qiang (appointed on 5 June 2017)
Mr. Li Deheng
Mr. Pan Yuehong (appointed on 5 June 2017)
Mr. Li Guangyu
Mr. Xu Guohua (resigned on 5 June 2017)

Independent Non-executive Directors

Mr. Xiao Jian Lin (appointed on 26 September 2017)
Ms. Zheng Yu
Mr. Qi Qing Zhong
Mr. Sun Yu Guo (resigned on 25 September 2017)

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. Xiao Jian Lin *(Chairman)*
(appointed on 26 September 2017)
Ms. Zheng Yu
Mr. Qi Qing Zhong
Mr. Sun Yu Guo (resigned on 25 September 2017)

Remuneration Committee

Mr. Xiao Jian Lin *(Chairman)*
(appointed on 26 September 2017)
Ms. Zheng Yu
Mr. Qi Qing Zhong
Mr. Sun Yu Guo (resigned on 25 September 2017)

Nomination Committee

Mr. Li Xuechun *(Chairman)*
Mr. Xiao Jian Lin (appointed on 26 September 2017)
Ms. Zheng Yu
Mr. Qi Qing Zhong
Mr. Sun Yu Guo (resigned on 25 September 2017)

Principal Bankers in the PRC

China Construction Bank
Bank of China
Agriculture Bank of China
China Merchants Bank
Shanghai Pudong Development Bank
China Minsheng 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

SMP Partners (Cayman) Limited

Branch Share Registrar

Tricor Investor Services Limited

Stock Code

546

Website

www.fufeng-group.com

SHANDONG PLANT

BAOJI PLANT

IM PLANT

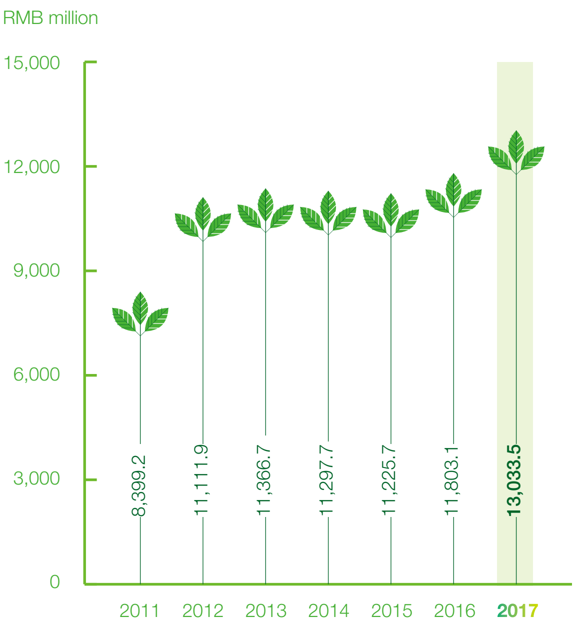
HULUNBEIR PLANT

XINJIANG PLANT

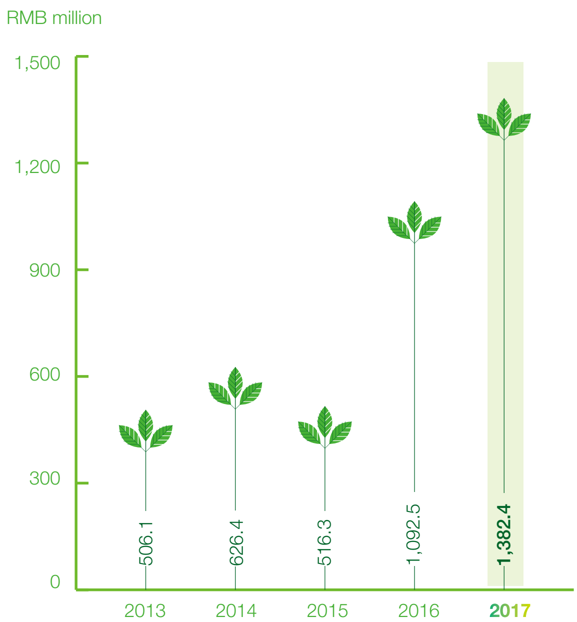
LONGJIANG PLANT

Financial Highlights

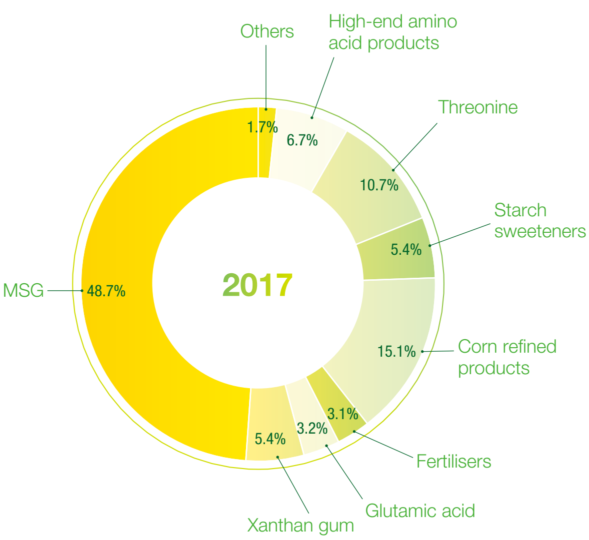
Turnover Growth

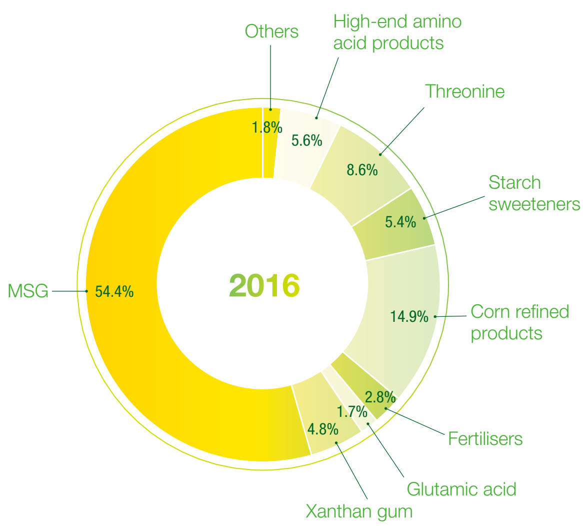


Profit Attributable to Shareholders

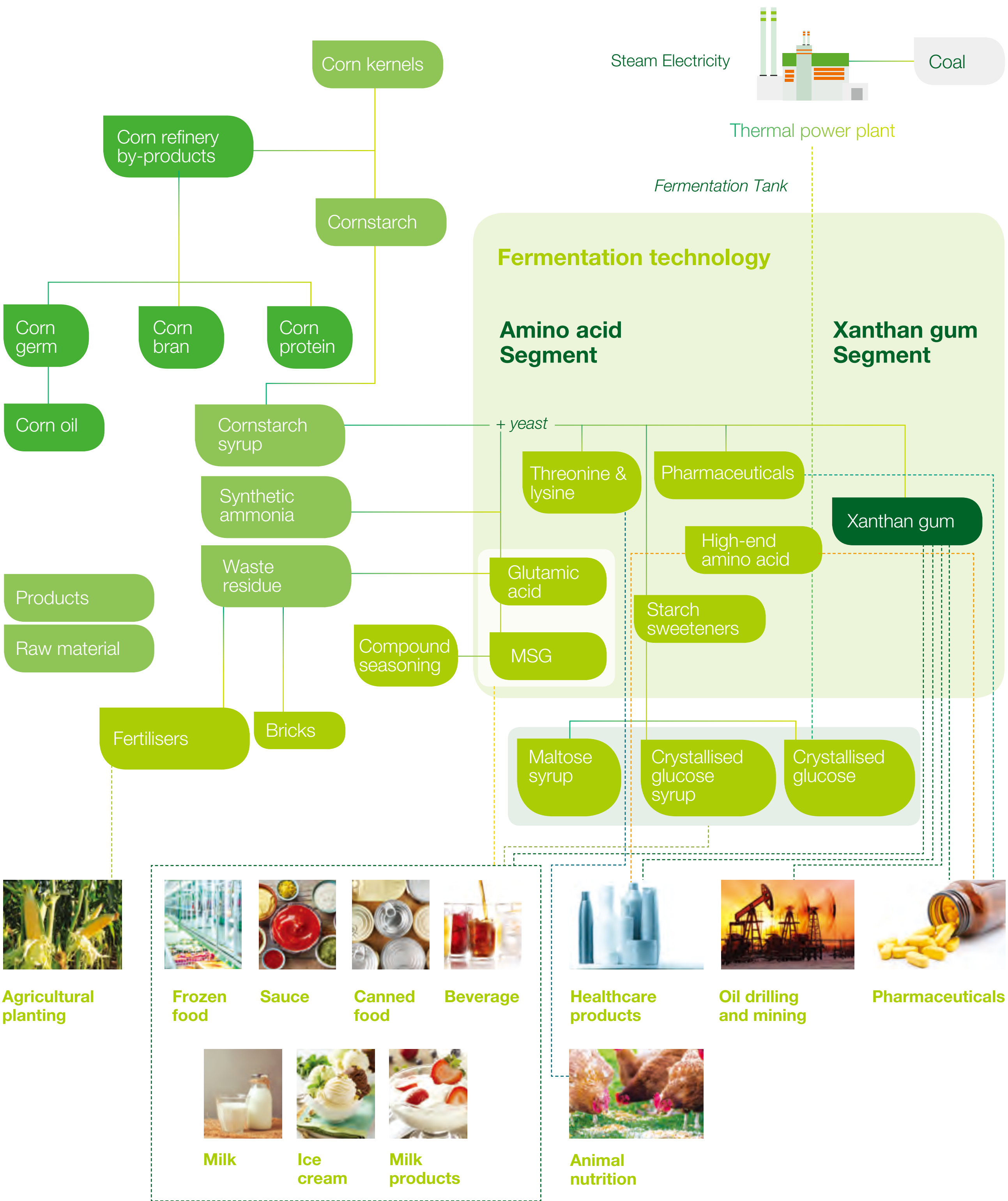


Revenue Analysis





Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 66, 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, Longjiang 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 36 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 38.94% 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).

趙強 (Zhao Qiang), aged 50, is an executive Director and a chief executive officer of the Group. Mr. Zhao has over 22 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 0.20% of the issued share capital of the Company.

李德衡 (Li Deheng), aged 49, 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, Hulunbeir Fufeng and Longjiang 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 17 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 1.31% of the issued share capital of the Company.

Biographies of Directors and Senior Management

潘悦洪 (Pan Yuehong), aged 53, is an executive Director and a 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 30 years of experience in the fermentation industry, he is mainly responsible for the Group's sales and marketing activities. Mr. Pan is a director of Longjiang Fufeng and also a sole director of Advanced Quality Limited. Mr Pan 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 2.71% of the issued share capital of the Company.

李廣玉 (Li Guangyu), aged 39, is an executive Director and a vice general manager of the Group who is responsible for the operation and business management of Baoji Fufeng. Mr. Li has over 12 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

肖建林 (Xiao Jian Lin), aged 50, was appointed as an Independent non-executive Director on 26 September 2017. Mr. Xiao has over 25 years experience in the field of accounting and financial management. Mr. Xiao graduated from the Department of Economics and Management of North Jiaotong University and got his master's degree from the Department of Accounting of Xiamen University. From 1997 to 2015, Mr. Xiao served in Hisense Group Co., Ltd. as vice president and head of Business Administrative Department. During the period, Mr. Xiao once served as president of Hisense Kelon Electric Limited Company, a company listed in the Stock Exchange (stock code: 921.HK) and the Shenzhen Stock Exchange (stock code: 000921.SZ). Mr. Xiao was also responsible for the important management positions such as business daily operation, financial management, auditing, legal affairs and information technology of Hisense Group Co., Ltd.. Mr. Xiao also act as principal of a number of subsidiaries owned by Hisense Group Co., Ltd.. Currently, Mr. Xiao is a member of the Chinese People's Political Consultative Conference of Shandong Province and is also a private investor. Mr. Xiao does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. Save as disclosed above, Mr. Xiao 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. Xiao 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 50, 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 18 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 63, was appointed as an Independent non-executive Director on 1 November 2014. Mr. Qi has over 33 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.

Biographies of Directors and Senior Management

Senior Management

陳遠 (Chen Yuan), aged 49, is a chief financial officer of the Group who was appointed on 10 July 2017. Mr. Chen obtained a bachelor degree of accountancy from Xiamen University in 1991 and then received his Master in business administration degree from Birmingham Business school of University of Birmingham in 2001. Mr. Chen has over 20 years of experience in the corporate finance, corporate development and investor relations sector. Prior to re-joining the Group, Mr. Chen was CFO of HyalRoute Communication Group Limited from January 2015 to August 2016. In his role as CFO, Mr. Chen would be responsible for matters relating to financial management, capital markets, corporate development and investor relations, as well as to assist the Group to develop strategic planning, long-term development plan and also help the Group to explore potential overseas expansion opportunities. Mr. Chen was previously a key senior management of the Group, having joined the Group in September 2010, and was appointed as an executive Director on 9 November 2010 and the CFO on 13 May 2011, until 1 January 2015. During his previous tenure with the Group, Mr. Chen was also responsible for financial management, capital markets, corporate development and investor relations matters, and assisted the Group to develop strategic planning and long-term development plan. Mr. Chen was granted an option to subscribe the 5,000,000 Shares pursuant to the New Share Option Scheme, represented 0.20% of the issued share capital of the Company.

來鳳堂 (Lai Fengtang), aged 49, 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 26 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 2.71% of the issued share capital of the Company.

唐永強 (Tang Yongqiang), aged 43, is the general manager of Longjiang Fufeng responsible of the operation of Longjiang Fufeng. 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 20 years of experience in the industry management, he is mainly responsible for the project development of the Group. Mr. Tang was granted an option to subscribe the 1,000,000 Shares pursuant to the Post-IPO Share Option Scheme, represented 0.04% of the issued share capital of the Company.

趙蘭坤 (Zhao Lankun), aged 45, 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 24 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 2.71% of the issued share capital of the Company.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 49, 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 24 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 0.07% of the issued share capital of the Company.

Management Discussion and Analysis

Business and Financial Review

Overview

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

The Group continued to strategically utilise the production facility and capacity of each plant in order to match ongoing market demand. In order to take full advantage of corn production capacity in Heilongjiang Province, the Company has completed construction of a new corn processing project in Qiqihar City, Heilongjiang Province, to sustain the development of the animal nutrition and food additive businesses. Current annual production capacity of the first phase amounts to 200,000 tonnes of starch sweeteners and 100,000 tonnes of threonine and the project began pilot production at the end of 2017. The Group has continuously explored the development of animal nutrition such as threonine, new high-end polymer materials such as gellan gum, hyaluronic acid and amino acid products, in order to improve product diversity and increase sales and penetration in the health and wellness, pharmaceutical and skincare related industries. Only by continuously upgrading our product quality and expanding our product range, can we transform gradually from the traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

In 2017, the Group continuously benefited from the achieved results of industry consolidation in the past few years. We actively strengthened our competitiveness and constantly improved production technology to achieve better cost effectiveness and more actively expanded the Amino acid business. Our newly enhanced production technology of MSG further strengthened our competitive cost advantages by reducing production costs and increasing production yield.

The strategy of our product development is mainly divided into four categories: 1. Food additives (key products include MSG, compound seasoning, starch sweeteners, corn oil etc.), 2. Animal nutrition (key products include threonine, tryptophan, corn refined products etc.), 3. Colloid (key products include xanthan gum, welan gum, pectin etc.), and 4. High-end amino acid products (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid etc.).

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

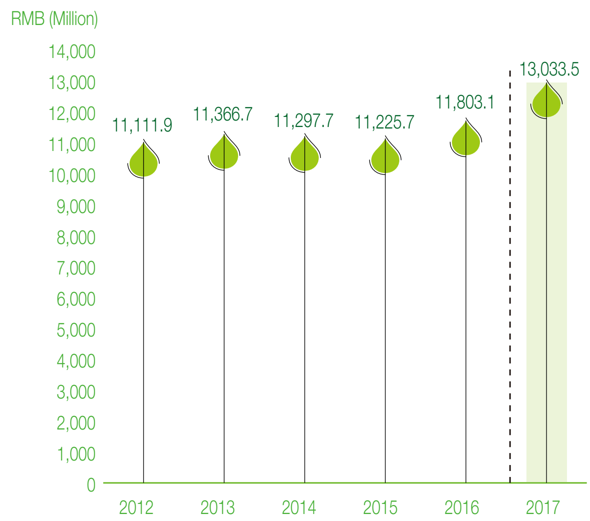
Overall revenue of the Group increased for the year ended 31 December 2017, and the Group was able to rely on the growth products such as threonine and high-end amino acids and effective implementation of cost controls to increase overall profitability. The high-end amino acid products successfully expanded in terms of product development and market share, and we are more confident that we can become one of the world's leading suppliers of threonine and high-end amino acid products. The overall production capacity of the Group in 2017 remained almost fully operational.

Management Discussion and Analysis

Our Amino acid segment is primarily made up of our MSG, threonine, high-end amino acid products and starch sweeteners. In terms of MSG business, there was a decrease in the ASP in 2017 as costs of main raw materials, particularly corn kernels, stayed at a low level during the year. The ASP of MSG remained at a relatively low level and the Group continued to face lackluster conditions in the domestic catering and consumer markets, in addition to price competition. Despite the market conditions, the Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing. The Group was able to record an increase in gross profit and gross profit margin in its Amino acid segment, mainly due to increasing contribution from the sales of threonine, high-end amino acid products and starch sweeteners. The expansion of threonine, high-end amino acid products and starch sweeteners continued to increase its revenue contribution to the Group. The commencement of operations at the new production facility of Longjiang Plant in Qiqihar City at the end of 2017 will result in continuous growth of revenue contribution from threonine.

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

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



For the year of 2017, revenue for the Group increased to approximately RMB13,033.5 million as compared to approximately RMB11,803.1 million for the year of 2016. The increase in revenue was primarily caused by the increase of the revenue from threonine, high-end amino acid products and xanthan gum. MSG industry consolidation gradually aided the improvement in the business environment, coupled with a decrease in the price of corn kernels, which led to a decrease in production costs. With demand and supply of MSG stabilising, the reveune of MSG witnessed stability in 2017. The effect of the increase in the sales volume of MSG was offset by the decreasing in ASP of MSG during 2017.

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

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

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

In view of the challenging market conditions, the Group has had to continue actively implementing cost controls and also managed to undertake a technology enhancement to its production processes, which contributed to improvements in production efficiency and cost structure. The increase in gross profit margin of the Amino acid segment in 2017 demonstrates the Group's ability to leverage on its diversification of its products, economies of scale and production capabilities to manage its costs effectively.

The production and sales volume of MSG increased by approximately 13.1% and 6.0% in 2017 as compared to 2016, respectively. The production volume of MSG increased as a result of the technology enhancement of its production processes which led to the production yield increase of MSG during the year.

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

Animal nutrition and High-end Amino Acid Business

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

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

The high-end amino acid business, as part of our Amino acid segment, is the Group's new growth driver. The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging on the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. During the year, the total sales amount of high-end amino acid products reached RMB878.8 million which, compared to 2016, represents an increase of 32.4%. Our high-end amino acid products generally enjoy higher profitability and focus on the healthcare and pharmaceutical materials industries. The short-term goal of the Group is to become a major producer and supplier in the world by market share for several of our key amino acid product types. The development and production of these products will add further diversity to the Group's product and revenue mix. The Group also plans to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end products.

Overall, the diversity of the Group's product portfolio has allowed the Group to maintain its overall revenue growth momentum in 2017.

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

Market Overview

Amino acid segment

Our Amino acid segment is primarily made up of our MSG, threonine, high-end amino acid products and starch sweeteners. In terms of MSG business, there was a decrease in the ASP in 2017 as costs of main raw materials, particularly corn kernels, decreased during the year. The ASP of MSG remained at a relatively low level and the Group continued to face lackluster conditions in the domestic catering and consumer markets. However, market conditions have improved as the economy shows slightly stronger growth. The Group was able to maintain its leadership in terms of market share and sales volume and also increase gross profit margin by leveraging its cost advantages to adopt competitive pricing. The Group was able to record an increase in gross profit and gross profit margin in its Amino acid segment, mainly due to increasing contribution from the sales of threonine, high-end amino acid products and starch sweeteners. The high-end amino acid products, a relatively new product of the Group, continued to increase its revenue contribution to the Group.

Xanthan gum Segment

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

Operational Review of the Group

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

Turnover/Gross profit/Gross profit margin of the Group

	Years ended 31 December		Change
	2017	2016	%
Turnover *(RMB'000)*	**13,033,501**	11,803,131	10.4
Gross profit *(RMB'000)*	**2,979,471**	2,406,373	23.8
Gross profit margin *(%)*	**22.9**	20.4	2.5 ppts.

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

Profit attributable to the Shareholders

	Years ended 31 December		
	2017	2016	**Change**
	RMB'000	*RMB'000*	%
As reported	**1,382,380**	1,092,512	26.5

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

Management Discussion and Analysis

Segment Highlights

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

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

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

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

Amino acid Segment

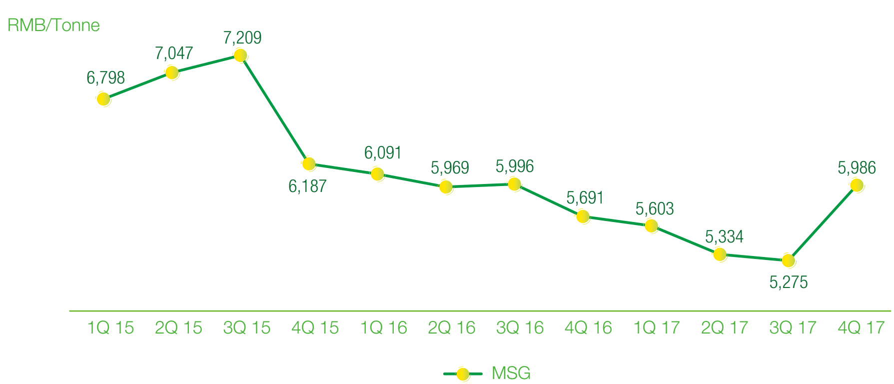
Revenue and ASP

Revenue generated from the sale of the Amino acid segment products increased to RMB12,330.0 million in 2017, representing an increase of RMB1,089.4 million, or 9.7%, as compared with 2016, mainly attributed to the increase in the revenue of threonine and high-end amino acid products. The revenue of MSG was stable primarily due to the effect of an increase in the sales volume of MSG offset by the effect from a decrease in ASP during the year. The sales volume of MSG was approximately 1,148,995 tonnes in 2017, representing an increase of 6.0% as compared with 2016, mainly due to the production technology enhancement which increased production yield and strengthened our competitive advantage.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2017 and 2016:

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

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



Management Discussion and Analysis

MSG

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

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

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

Fertilisers

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

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

Continuing connected transaction

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

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

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

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

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

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

Corn refined products

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

Starch sweeteners

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

Threonine

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

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

Management Discussion and Analysis

High-end amino acid products

The high-end amino acid products business continues to be the new growth driver of the Group. The total sales amount of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, increased to approximately RMB878.8 million in 2017 as compared to approximately RMB663.7 million in 2016. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end amino acid products by capitalising on our research and development capabilities and resources advantage to realise the Group's development strategy of "Low Investment – High Return".

In 2017, the Group, through our wholly-owned subsidiary Xinjiang Fufeng, our new specialty ingredients such as hyaluronic acid and high-end amino acid products, with the aim of improving product diversity and increasing sales and penetration in health and wellness, pharmaceutical and skin care related industries.

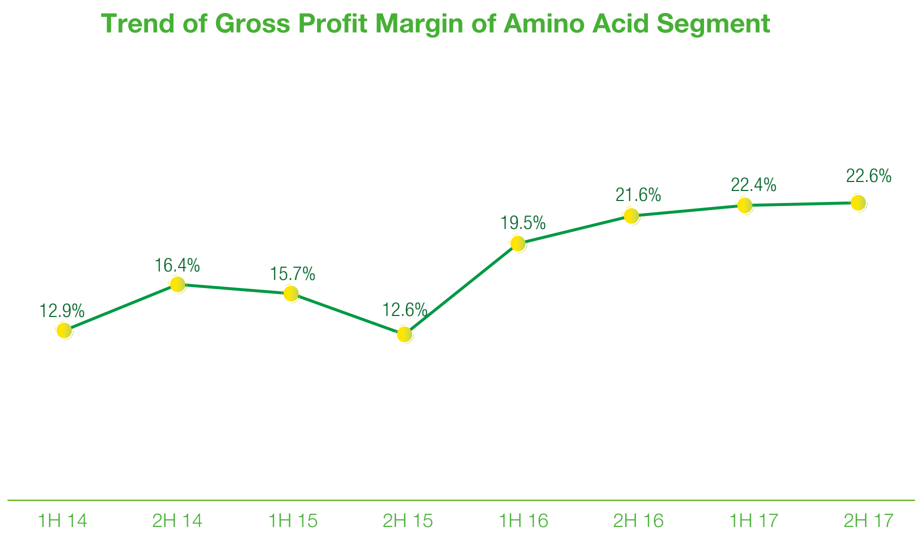
Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

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

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

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



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

Production costs

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

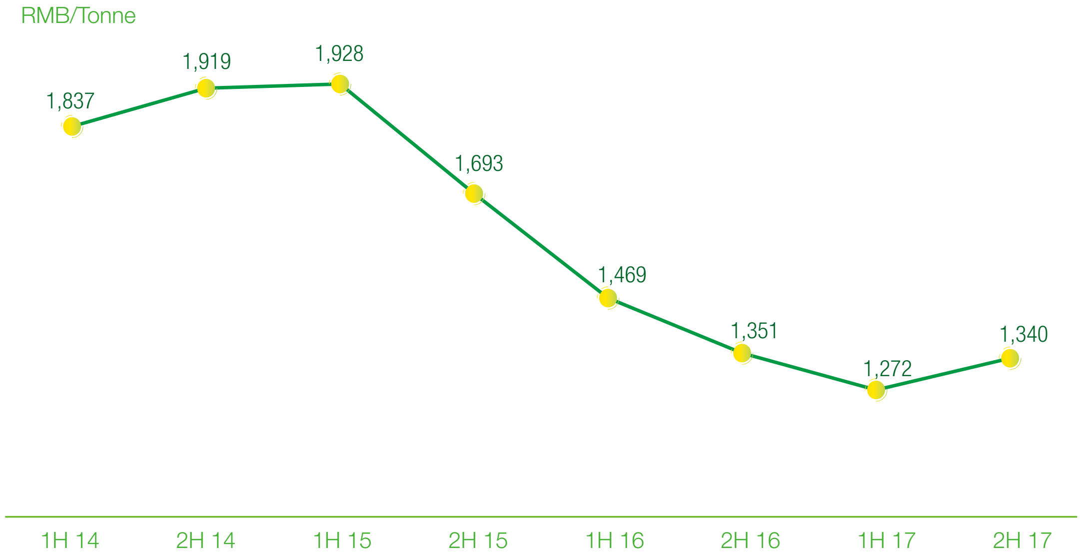
Management Discussion and Analysis

Corn kernels

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

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

Price Trend of Corn Kernels



Liquid ammonia

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

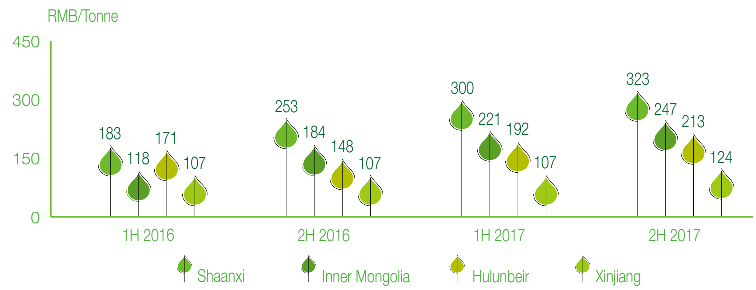
Sulphuric acid

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

Coal

Coal accounted for about 14.2% (2016: 10.2%) of total production cost in this segment in 2017. The average unit cost of coal was RMB212 per tonne in 2017, representing a significant increase of RMB57 per tonne, or 36.8%, from 2016. Based on the market situation, the average unit cost of coal in our plants location increased over 25% during the year except for Xinjiang Plant, where the average unit cost of coal only increased by 7.5% in 2017. Our average coal costs were still at a low level which reflected that the competitive cost advantages from Hulunbeir Plant and Xinjiang Plant were fully realised during the year.

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



Other production costs

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

Production

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

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

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

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

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 2017 and 2016:

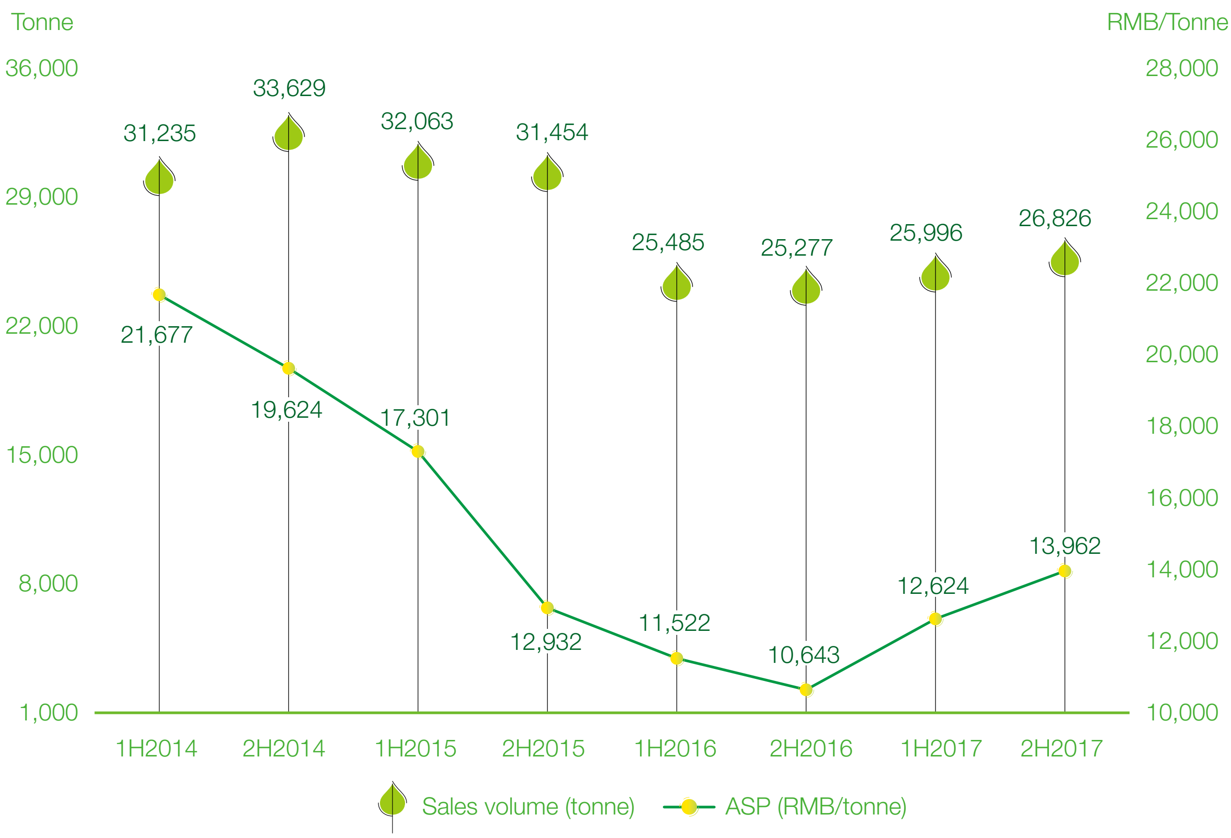
	Years ended 31 December 2017	2016	Change %
Revenue *(RMB'000)*	**703,454**	562,466	25.1
ASP *(RMB/tonne)*	**13,289**	10,738	23.8
Gross profit *(RMB'000)*	**205,397**	89,693	129.0
Gross profit margin *(%)*	**29.2**	15.9	13.3 ppts.
Annual designed production capacity *(tonnes) (Note)*	**60,000**	73,000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

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

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

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

Sales Volume vs. ASP of Xanthan Gum



Global demand for xanthan gum fluctuated during the year. Market demand returned to stability in the second half of 2017, and the Group expects this to continue in the foreseeable future as demand remains stable at a low level in the oil industry as well as other sectors.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment increased by about 129.0% from approximately RMB89.7 million in 2016 to approximately RMB205.4 million in 2017. Gross profit margin increased as well, by 13.3 percentage points to 29.2% in 2017, reflecting recovery in global market demand and an upward trend in the oil industry.

Management Discussion and Analysis

Production costs

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

Corn kernels

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

Soybeans

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

Coal

In 2017, coal accounted for approximately 23.6% (2016: 17.5%) of the total production cost of this segment. The average unit cost of coal was approximately RMB212 per tonne in 2017, which represents an increase of approximately RMB71 per tonne, or 50.4%, from that of 2016. The Group continued to take full advantage of the relatively low coal cost that the Group was able to source and utilise locally in its IM Plant and Xinjiang Plant.

Other production costs

Depreciation costs were lower than last year as part of our production capacity was modified to produce other high margin products, resulting in production volume significantly decreasing during the year. Therefore, depreciation costs decreased 28.8% from RMB42.6 million in 2016 to RMB30.3 million in 2017. Depreciation accounted for approximately 9.5% (2016: 8.8%) of the total production cost of this segment.

Other Financial Information

Selling and marketing expenses

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

Administrative expenses

Administrative expenses decreased by approximately RMB9.8 million, or 1.9%, in 2017. The decrease was mainly due to expenses relating to the listing application for the Shenhua Holding Limited spin off project only being incurred in 2016, offset by the effect from increasing research and development as well as staff costs.

Finance costs (net)

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

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

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

Staff costs

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

Depreciation

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

Other income

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

Income tax expense

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

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

Four subsidiaries of the Group, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (2016: 15%).

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

Proposed Spin-off

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

Strategic Investment

Co-developing the polylactide acid market with COFCO:

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

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

Outlook

Amino acid segment

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

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

Xanthan gum segment

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

Achievements

1. Diversified Product Mix and More Stable Revenue Structure

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

2. International Development and Cooperation for Mutual Benefit

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

3. Improved Comprehensive Strength

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

4. Further Enhanced Financial Strength

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

5. Sustainability

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

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

Future Plan and Recent Development

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

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

Enhancing our competitive strengths in global amino acid market

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

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

Strengthen infrastructure construction

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

Expanding overseas market share and improving customers' satisfaction

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

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

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

Strengthen our management team

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

Liquidity and Financial Resources

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

Convertible bonds

The Group issued RMB975.0 million convertible bonds with a fixed coupon rate of 3.0% per year on 27 November 2013 with 5-year terms ("2013 CB"). The yield to maturity rate of 2013 CB is 4.5% per annum. The net proceeds in the amount of approximately USD155 million from the issue of the 2013 CB were used to repay the syndicated bank loan at the end of 2013. During the six months ended 30 June 2015, 2013 CB in principal value of RMB56 million were converted to 17,065,033 ordinary Shares. Full conversion of the remaining principal value of RMB919 million 2013 CB into 280,049,404 ordinary Shares by the bondholders took place in the first half of 2017. There is no outstanding principal of 2013 CB as at 31 December 2017.

Corporate bonds

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

Share placement

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

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

Material acquisition or disposal of subsidiary and associated company

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

Employees

As at 31 December 2017, the Group had approximately 9,500 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Scheme" under the "Directors' Report" section below for the share options granted to certain Directors and employees of the Group pursuant to the Post-IPO and New share option schemes.

Contingent liabilities

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

Charges on assets

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

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

Gearing ratio

As at 31 December 2017, the total assets of the Group amounted to approximately RMB15,966.5 million (2016: RMB14,456.1 million) whereas the total borrowings amounted to RMB1,971.2 million (2016: RMB3,100.0 million). The gearing ratio was approximately 12.3% (2016: 21.4%), which is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and foreign currency bank borrowings. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of bank borrowings by remitting the necessary funds to the PRC and using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2017.

Dividend and dividend policy

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

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

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year under review.

Purchase, redemption or sales of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

Corporate governance report

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

During the year of 2017, the Company has complied with the Code Provisions of the Revised CG Code except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Director, Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 12 May 2017. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

Audit Committee

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

Closure of register of members

The register of members of the Company will be closed from 16 May 2018 to 21 May 2018 (both dates inclusive), during which period no transfer of Shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 21 May 2018, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 15 May 2018.

The register of members of the Company will be closed from 28 May 2018 to 30 May 2018 (both dates inclusive), during which no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 25 May 2018.

Annual general meeting

The annual general meeting is expected to be held on 21 May 2018. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

Environmental, Social and Governance Report

About this Report

In accordance with the "Environmental, Social and Governance Reporting Guide" of the Stock Exchange of Hong Kong Limited, the Group prepared its 2017 Environmental, Social and Governance Report for the period from 1 January 2017 to 31 December 2017, 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 of the environmental protection and social contribution is indispensable to achieving the Group's strategic objectives. The Report will illustrate the Group's belief and practice of sustainable development and social responsibility from both environmental and social perspectives.

Regulatory Structure for Environmental, Social and Governance Issues

The Board of Directors (the "Board") of the Group will lead the management of the environmental, social and governance issues. A leading work group for the "environmental, social and governance" (the "ESG") issues, which comprises the senior management and Board members, is responsible for guiding the work of the Group's ESG issues and making decisions on the implementation of the guideline requirements. The execution group for the ESG issues, which comprises each head of our departments and business units, is responsible for carrying out specific tasks and daily communications, as well as submitting regular reports to the steering committee. Fufeng Group has already taken ESG factors into consideration over its daily decision-making process, which plays a fully active role in our governance structure. This will push forward the long-term development of our environmental protection business.

A Environment

Fufeng Group has been striving to minimise the environmental impact of its productions and operations. In 2017, the Group continued to invest its resources in environmental protection.

As for environmental protection, the Group continues its investments in energy-saving equipment. Its low-carbon emission production facilities are designed to minimise the environmental impact of the Group's business. The Group attaches great importance to green production, and continuously reforms and implements its technologies in energy-saving, emissions reduction and production. In accordance with national regulations on energy conservation and consumption reduction, the Group selects advanced technologies and processes with low-energy consumption, and sets reasonable design parameters based on actual conditions, as a result of which energy consumption is minimised during the production. To select equipment models for production purposes, we prioritizes efficient energy-saving equipment designed with an advanced and rationalized structure, while phasing out obsolete mechanical and electrical equipment to vigorously promote energy-saving products.

The Group has long been paying close attention to clean production and circular economy by considering the clean production and circular economy as an important measure to enhance the overall quality and competitiveness of an enterprise. The leadership accountability system has been implemented for clean production and circular economy, thus ensuring that specific personnel at all levels will be held accountable. We strive to increase the awareness and skills of clean production and circular economy among our employees by advancing promotions and position-specific training, while encouraging our employees to proactively participate in the activities of clean production and circular economy.

A1 Emission

Fufeng Group is in compliance 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 such exhaust, sewage, greenhouse gases, hazardous and non-hazardous waste, smoke and dust, and peculiar smell that are discharged from the production and operation of the Group.

In accordance with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, as well as subject to the relevant national, provincial and municipal laws and regulations, the industrial pollutants, such as sewage, exhaust and solid waste generated and discharged by Fufeng Group members in their production activities, were treated or disposed to meet the relevant discharge standards.

As for exhaust

Fufeng Group's exhaust emissions are mainly comprised of NO_x, SO_2 and smoke and dust generated from production. The Group strictly complies with 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》) and requirements of other laws and regulations, and strictly manages exhaust emission in accordance with the Environmental Protection Management System, the Desulfurization and Denitrification Process Management System on Boiler Procedures, the Exhaust Treatment and Control Procedures and the Desulfurization Operating Regulation and the Denitrification Operating Regulation.

In connection with emission of NO_x, SO_2 and smoke and dust, the Group strictly implements the Emission Standard of Air Pollutants from Thermal Power Plants (GB 13223-2011), the Emission Standard of Air Pollutants from Industrial Furnaces (GB 9078-1996) and the Integrated Emission Standard of Air Pollutants (GB16297-1996). All production units are installed with on-line monitoring systems, data derived from which is sent to provincial and municipal environmental protection agencies through network connection for their monitoring purposes. Meanwhile, each production unit cooperates actively with the environmental protection department. In 2017, all inspections reached the national and local standards.

Performance indicator	Unit	2017
NO_x emissions	tonne	2,556.95
SO_2 emissions	tonne	1,838.75
Smoke and dust emissions	tonne	334.88
Total exhaust emission	tonne	4,730.58
Exhaust emission density*	tonne/million RMB revenue	0.86

* *The exhaust emission density in 2017 is calculated based on tonne/million RMB revenue*

Environmental, Social and Governance Report

Fufeng Group has an accountability system in place and Fufeng Group members are required to take effective measures to control exhaust emissions to ensure that the Emission Standard of Air Pollutants from Thermal Power Plants (GB 13223-2011), the Emission Standard of Air Pollutants from Industrial Furnaces (GB 9078-1996) and the Integrated Emission Standard of Air Pollutants (GB16297-1996) are met. 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. In June 2017, the subsidiary based on Inner Mongolia put into operation a new fertiliser technological transformation project with an annual production capacity of 200,000 tonnes. The investments in the environmental design for the project amounted to RMB123.91 million, representing 27.68% of the total investment, and were successfully approved by the local environmental protection bureau.

Cases:

Xinjiang Fufeng Biotechnology Co., Limited has upgraded its existing flue gas treatment facilities. To meet national and local environmental laws and regulations and improve the air quality of the region while lowering its operating costs, with its own resources, technologies and capital strength in place, it proposed to adjust its current desulfurization technique by utilizing carbide slags derived from industrial waste within the park, which achieved a comprehensive utilization of resources. As for the flue gas treatment project, it proposed to recycle carbide slags from industrial waste. This transformation project adopted the carbide slag-gypsum EFGD process based on the configuration of five furnaces and two towers, which included the slurry preparation system, SO_2 absorption system, flue gas system, gypsum dehydration system, processed water treatment system, air compression system, accidental discharge system, the energy medium system for auxiliary utilities, and electrical control instrumentation system. The furnace-based desulfurization technology is used on boilers in which part of SO_2 is removed before the flue gas with a SO_2 concentration of 485mg/m^3 drifts into the desulfurization tower, and the SO_2 concentration after the whole process is 34mg/m^3, a total of 1,650t/a is removed.

As for sewage

Fufeng Group's sewage mainly includes production and domestic sewage generated from the production process and the plant premises. All members of Fufeng Group have specialised sewage treatment devices and equipment in place to ensure that the discharged sewage is in strict compliance with 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》), the Pollutant Discharge Standard for the MSG Industry (《味精工業污染物排放標準》) and the Pollutant Discharge Standard for Urban Sewage Treatment Plants (《城鎮污水處理廠污染物排放標準》). All production units were installed with on-line monitoring systems, data derived from which would be sent to provincial and municipal environmental protection agencies through network connection for their monitoring and inspection purposes. In 2017, all members of Fufeng Group continued to meet the sewage discharge standards. The sewage index was far below the limitations of the Pollutant Discharge Standard for the MSG Industry (《味精工業污染物排放標準》) (GB19431-2004).

The Group continued to improve the Environmental Protection Management System and the Administrative Measures on Sewage Discharge for Environmental Protection Treatment Plants, as well as various standards to control sewage discharge. In addition, the Group set up a special management team for the management of internal and external sewage discharge, strictly controled various types of sewage discharge, avoided random or excessive discharge of the water treatment system, and eradicated sewage pollution accidents, thus ensuring the standard discharge of production sewage and preventing water pollution.

Performance indicator	Unit	2017
Total sewage discharge	tonne	4,960,772.94
Recycled sewage volume	tonne	40,713,897.99
COD	tonne	286.72
$N\text{-}NH_3$	tonne	46.39

The Group's sewage treatment process is based on the principle of the clean-up and separation process. The bacterial protein is extracted from the highly-concentrated glutamic acid wastewater, and the compound fertiliser is produced to nurture agriculture after the concentration of granulation. Medium-concentrated starch water flows into the anaerobic system for anaerobic treatment before entering the aerobic system, and other lowly-concentrated sewage (including corn syrup condensate sewage, decontaminated column water, and water from the recirculating cooling system) flows into the sewage treatment plant with a daily processing capacity of 11,000 m^3 and 5,000 m^3, which uses the anaerobic-aerobic process with the A2/o (anaerobic/hypoxic/aerobic) approach as a processing design. After a period of operation, the processing design will be changed to ASND (Aerobic, de-nitrification and nitrification simultaneously). Then it goes into the workshop with a daily processing capacity of 20,000 m^3, and the treatment process will be changed to the process of "softening and sedimentation + multi-media filtration + ultrafiltration + reverse osmosis". In addition, the Group also extracts feed and fertilisers from sewage through recycled resources. The biogas produced in the sewage treatment process is collected and recycled for production.

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As for greenhouse gas emissions

Carbon dioxide is the major greenhouse gas produced during the operation of Fufeng Group. It is mainly produced in the combustion process of coal, with a small amount derived from the wet limestone-gypsum desulphurization process. In 2017, the Group's direct greenhouse gas emission mainly generated from industrial production emission and gasoline and diesel emission, which totaled 7.709 million tons of carbon dioxide equivalent. The Group's indirect Greenhouse gas emission was mainly from the indirect emission of external purchased electricity, which totaled 18.4 thousand tons of carbon dioxide equivalent.

Each member actively reformed its coal-fired boilers to improve energy management and efficiency, thus reducing greenhouse gas emission.

Performance indicator	Unit	2017
Emission from fuel coal combustion	tCO_2e	8,083,714.80
Raw coal emission	tCO_2e	567,557.23
Limestone emission	tCO_2e	57,023.91
Sodium carbonate emission	tCO_2e	77,813.72
Methane emission from sewage treatment	tCO_2e	56,380.94
Emission from vehicle fuel combustion	tCO_2e	8,942.17
Emission from external purchase of electricity	tCO_2e	18,345.35
Total emission of greenhouse gases	tCO_2e	8,868,778.11
Emission concentration of greenhouse gases *	tCO_2e/million RMB revenue	680.54

* *Emission concentration of greenhouse gases in 2017 was calculated based on tCO_2e/million RMB revenue*

As for waste discharge

In strict compliance with the requirements 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 City Solid Waste (《城市生活垃圾管理辦法》), Fufeng Group formulated various management and control measures on waste generated during the production process, such as the Administrative Measures on Solid Waste, the Hazardous Solid Waste Management System and the Administrative Measures on Industrial and Domestic Waste Disposal. The production units shall strictly perform and implement the relevant waste management systems in accordance with the rules and procedures. On the other hand, all production units shall carry out waste management in accordance with the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste (GB18599) and the Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001). In 2017, the solid waste disposal rate was 100%.

Solid waste generated by the Group mainly includes domestic garbage, coal fly ashes from thermal power plants, slag and sewage sludge, etc. The solid waste is comprehensively used or properly disposed, thus meeting the requirements of the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste. The domestic garbage was uniformly handled by the sanitation department of the industrial park where the Group is located. The Group set up a large-scale refuse collection station. All domestic waste is collected and sorted centrally, forming a comparatively sound domestic garbage management system. This system is conducive to screening and reasonable recycling work within the park. The sewage produced by sewage treatment plants is used to produce organic fertilisers, while coal fly ashes and slag are transported from the workshop to factories specialized in innovative building materials, which are processed into aerated brick for internal use and external sales.

Factories shall categorise the waste acid, waste lye, residual liquid or organic solvents generated during production and equipment maintenance, and reuse them for production purposes. Alternatively, the above mentioned waste items, after being processed and treated, shall be sold to qualified processing institutions for disposal, and unauthorised discharge of such items is strictly prohibited.

Members of the Group have built a temporary storage site specialized for solid waste. All hazardous waste shall be processed by the relevant waste disposal institutions recognised by the local environmental protection authorities. The clearance, transportation and treatment of hazardous waste shall be recorded, managed and maintained properly.

In 2017, Fufeng Group transferred a total of 111.69 tonnes of hazardous waste and 786,503.32 tonnes of general waste, respectively.

Performance indicator	Unit	2017
Total discharge of hazardous waste	tonne	111.69
Total discharge of non-hazardous waste	tonne	786,503.32

Performance indicator	Unit	2017
Emission intensity of hazardous waste*	tonne/million RMB revenue	0.01
Emission intensity of non-hazardous waste *	tonne/million RMB revenue	66.64

* *Emission intensity of hazardous and non-hazardous waste is calculated based on tonne/million RMB revenue in 2017*

Non-hazardous waste should undergo classified collection and storage by the production units at a fixed location, while recyclable waste can be collected by recycling groups 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 waste should be regularly cleared by municipal waste disposal agencies.

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Smoke and dust and peculiar smell emission

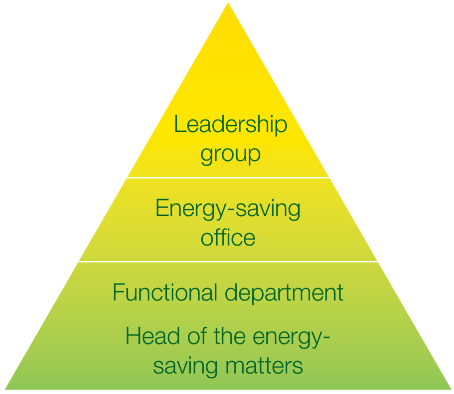
Fufeng Group actively implements the Environmental Protection law of People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and the Emission Standards for Odor Pollutants (《惡臭污染物排放標準》) as well as other laws and regulations, pursuant to which, the Group is vigorously committed to creating a green production environment by upgrading its equipment for prevention of stench or odor pollution during the production process, as well as improving the working environment of frontline workers.

In 2017, the Group invested RMB 150 million in the ultra-high speed two-stage centrifugal coupling sterilization process, which was officially put into use for a company based in Inner Mongolia following completion. This process in use minimises the odorous flue gas problem generated by bacterial protein granulation fertilisers from the source. The same company based in Inner Mongolia added over RMB21 million to fully upgrade the granulation workshop of the compound fertiliser plant and flue-gas treatment system of the hypoglycemic pool. A new type of energy saving and cooling water tower is built to replace the original water cooling equipment, and six square-shape cooling towers, which are installed with GFNL3-1500 FRPs and operate a counter-flow pattern, are built as well. Therefore, the odor removal rate amounts to 80%. With effect from the implementation of this project, 96,000 tonnes of water will be conserved, and 1,080 thousand kilowatt of power will be saved every year, generating annual economic benefits of RMB 0.9 million.

A2 Use of Resources

Fufeng Group attaches great importance to environmental protection. In strict compliance with the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》), as well as subject to the latest policies, regulations and standards on energy conservation provided by national, local and industrial authorities, the Group is actively and constantly improving management measures and increasing investments in technological transformation in the field of energy conservation. In addition to earnestly implementing the programme of improving resource efficiency, the Group continues to strengthen the concept of energy conservation, reduce the use of resources, and minimize environmental impacts.

As for energy saving



Three-tier energy-saving management framework

To further engage in various energy conservation and environmental protection activities, Fufeng Group constantly improves the energy-saving management system, fully maximises the leadership in the three-tier energy-saving management framework over the course of daily production and operation, and actively implements energy-saving transformation projects. In addition, Fufeng Group reinforces the operation, maintenance and management of energy-saving and environmental protection equipment. The Group formulates and fully implements a series of rules and regulations, including the Working System for Corporate Energy Management, the Management System on Energy Conservation and Consumption Reduction, the Control Procedures for Energy Monitoring, Measurement and Analysis, the Energy Management Regulations and the Energy Conservation Management System, and is equipped with energy measuring devices to monitor and measure the operation and results of energy management systems in each subsidiary to ensure that the energy management systems operate effectively to achieve the expected energy performance.

In 2017, all members of the Group established, implemented, maintained and further enhanced the energy management systems of the Company in strict compliance with the requirements of GB/T23331-2012 Standard and applicable laws and regulations for the purposes of reducing energy consumption and improving energy efficiency. In addition, these systems were prepared in a written form for future implementation and maintenance purposes. With the relevant systems in place, the members of the Group constantly improved the systems and their related documents to ensure their daily work continued to operate effectively and efficiently in accordance with the requirements of the documents. In accordance with the scope and boundaries determined by the energy management systems, the members of the Group planned and established energy policies, targets and indicators, management systems, operating standards, energy management implementation plans, working instructions and related records, which stipulate appropriate monitoring and measurement specifications to ensure the effective operation of the systems. Meanwhile, by determining the criteria and methods required for the effective procedural control, the Group focused on more than energy conservation. Simultaneously, the Group rationalized the utilization of energy, while improving energy efficiency to constantly improve the energy performance and energy management systems.

Total resources consumption in 2017:

Performance indicator	Unit	2017
Electricity	KWh	26,737,618.00
Coal	Tonne	4,856,428.65
Gasoline	Litre	74,938.68
Diesel	Tonne	2,778.39
Total energy intensity*	GJ per million RMB revenue	12,683.39

* *Total energy intensity is calculated based on GJ per million RMB revenue in 2017*

The Group actively tried and succeeded in implementing its pilot circular economy projects. Currently, the Inner Mongolia Company and Northeast Company have built a complete industry chain for circular economy, in which, crushed corn is saccharified to produce glucose, which is mixed with bacteria to ferment and produce glutamic acid. The corn bran, corn gluten meal and corn germ produced in the crushing process are sold to feed processing enterprises as a single feed, and the bacterial protein in the high-concentration waste water is extracted to produce a single feed. Waste water generated in the fermentation process is concentrated and sprayed to granulate fertilisers for reuse in farmland. The recycling process has been achieved in the entire industry chain. Due to the pilot circular economy projects, both Inner Mongolia Company and Northeast Company recorded an integrated utilisation rate of 99.6% for their industrial solid waste with the utilisation volume of industrial waste amounting to 52,320 tonnes, as well as with the industrial water reuse rate amounting to 84.81%.

In addition, Northeast Fufeng started the slime recycling project this year with a total investment of RMB28.92 million, which is expected to be completed by the end of 2018. By then, the synthetic coal slime can be recovered and reused with a heating value of 46,000 tonnes/year. Upon completing the frame filter pressing and dewatering, 13,800 tonnes of standard coal can be saved.

As for water conservation

In strict compliance with the Water Law of the People's Republic of China and national, provincial, municipal laws and regulations, Fufeng Group thoroughly implements the water conservation policies, actively promotes water-saving technological transformation projects including recycling of greywater, and constantly increases investments in water-saving facilities. Meanwhile, to achieve reasonable and efficient water use, Fufeng Group constantly strengthens the knowledge of all employees about water conservation by regulating water use and water conservation of the production units based on the Management System on Energy Conservation and Consumption Reduction. In 2017, Fufeng Group did not encounter any difficulty in obtaining suitable water sources, and a total of 11,934,639 tonnes of water was consumed.

Performance indicator	Unit	2017
Total water consumption	tonne	11,934,639.00
Total water consumption intensity*	tonne/thousand RMB revenue	1.01

* *Total water consumption intensity is calculated based on tonne/thousand RMB revenue in 2017*

The Xinjiang Company and Northeast Company are actively constructing the greywater recycling system, in which Fufeng Xinjiang completed a greywater recycling project with respect to in-depth treatment in January 2017 and added a new in-depth wastewater treatment line with a processing capacity of 500 m^3/h. With a total purchase of more than 80 units, including the pretreatment-ultrafiltration (UF)-reserve osmosis technology and inclined tube filters, V-type filters, ultrafiltration membranes reverse osmosis membranes and other auxiliary equipment, waste water can be reused in the production after aerobic treatment. Our new composite treatment technology successfully recycles water of 4.2 million cubic meters per year. As a result, the direct economic benefits in 2017 exceeded RMB8.4 million. The Northeast Company designed and installed a greywater recycling system on its own. With this system, the loop water generated by amino acid is recycled for further treatment, which successfully supplies 5,000 t/d of cooling water for workshops.

The Inner Mongolia Company also implemented a series of energy conservation and water-saving measures in 2017. Obsolete loop cooling towers with poor cooling performance and large energy consumption were replaced with new energy-saving square cooling towers, which are installed with GFNL3-1500 FRPs and operate a counter-flow pattern. In addition, the loop water cooling equipment with BO-160/45 asymmetric water trap devices was adopted, thus effectively enabling the cooling water system to reduce the loss of evaporation, as well as significantly conserving energy and water.

Afforestation

Over the years, Fufeng Group has always attached importance to the active role of the green land system in balancing ecological effects, purifying the environment and reducing greenhouse gas emissions. Currently, it has planted more than 20,000 trees of all types with a survival rate of 98% and more than 40,000 square meters of lawn.

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Packaging materials

Packaging materials used by Fufeng Group are mainly composite packaging materials, paper packaging materials and plastic packaging materials. Set out below is the total amount of various packaging materials consumed in 2017:

Performance indicator	Unit	2017
Composite packaging materials	tonne	16,793.33
Paper packaging materials	tonne	2,330.43
Plastic packaging materials	tonne	1,699.85

A3 Environmental and Natural Resources

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

B Society

B1 Employment

Fufeng Group firmly believes that employees are the cornerstone to support sustainable development of enterprises. By adhering to the people-oriented management philosophy, Fufeng Group cherishes the hard work of each employee in our development process, and strives to build a long-term and stable employment relationship. Fufeng Group vigorously promotes the talent pool strategy by providing our employees with comprehensive channels and broad space for personal career development.

- **Employment**

  In strict compliance 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》), Fufeng Group has formulated the Recruitment Process System, which expressly regulates the position setting, employment process and recruitment principles. Based on the employment conditions and requirements of recruitment positions, the Group adheres to the principles of openness, fairness and equality, regardless of gender, ethnicity and other differences. Fufeng Group has formulated the Regulations on Staff Entry, Post Adjustment and Resignation Management of Fufeng Group and signs formal labor contracts with all hired staff. In 2017, Fufeng Group signed formal labor contracts with all its employees according to law and no illegal recruitment of child labor and forced labor was identified.

- **Remuneration**

  Taking into consideration the market conditions and local remuneration level, Fufeng Group 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 Fufeng Group staff compensation policies are annual-salary remuneration system for management personnel, hierarchy-based remuneration system for technicians and four-tier remuneration system for general staff. Fufeng Group is committed to ensuring a competitive average remuneration to its staff in the regions where its business operations are located.

- **Benefits**

  The Group makes contributions to pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund for its employees in accordance with national and local laws and regulations. It has also formulated its Staff Leave System according to the relevant national laws and regulations. With reference to the actual conditions of the Group, we offer our staff paid holidays, including annual leave, sick leave, marriage leave, maternity leave, funeral leave and work injury leave.

- **Talents development**

  Employee development has always been a fundamental focus of the Group. The Group vigorously promotes a "people-oriented" modern management system, and actively creates a favorable development environment where talents can demonstrate their specialised skills. In addition, the Group also endeavors to constantly improve the system of personal growth and development of employees by encouraging its employees to tap into their full potential and maximize their personal value, as well as by providing protection and creating conditions for employees to promote the growth and development of both our Company and our employees.

  In light of development needs, the Group timely adjusts and improves its talent echelon management mechanism, effectively selects and trains the echelon talent team. In addition, to meet the Group's demand for a sound and sustainable development, the Group timely revises and improves the Fufeng Group Administrative Measures on Echelon Talents. The echelon talents are comprised of two teams, namely, junior management personnel (C1-C5) and junior technicians (CJ1-CJ5). Personnel are selected directly from the front-line managers and logistic backbone staff of workshops. Furthermore, strict control process is implemented to screen true talents as key targets for further cultivation.

- **Diversity**

The Group actively cares its employees' needs in various respects, as well as their physical and mental health by creating a diversified work environment. In addition, the Group provides its employees with community service facilities, such as dormitories, bathhouses, hair salons, entertainment, audio-visual and sports facilities. It also organizes a variety of cultural and sports activities to enrich leisure life and improve physical and mental health of its employees.

On 3 May 2017, the third large public welfare wedding ceremony with the theme of "Care for Zhalantun and Destiny at Fufeng" held at Tianbaishan Square of the Northeast Company was successfully completed, where 36 blessed young couples at Fufeng Group walked into the sacred marriage hall. This collective wedding ceremony expressed the new couples' attention to public welfare and their care and love for the underprivileged groups. In addition, a number of public welfare activities were conducted. From 28 April to 30 April, the Party committee of the Company organized various public welfare activities. For example, newly employed staff were organized to spend the money saved from the wedding ceremony in buying stationery and daily necessities, which were donated to special education schools with the theme of "Caring for Children and the Disabilities" and senior homes with the theme of "Promoting Filial Piety and Caring for Senior Citizens". This triggered positive responses in the communities, allowing all communities to understand and recognize the Company.

- **Anti-discrimination**

In strict compliance with the national and local laws and regulations in connection with race, sex, color, age, family background, religious belief and physical fitness, Fufeng Group shows no discrimination against any employee and ensures all employees enjoy the equal opportunities in respect of remuneration systems, training opportunities and promotion assessments under the same standards.

B2 Health and Safety

With production safety as its first priority, Fufeng Group is in strict compliance with the 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 Group 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 Group 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

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 formulation and implementation. In 2017, Fufeng Group continued to improve the system and accepted third-party certification on a regular basis to obtain the authentication certificate.

- *Policies and Systems on Safe Production*

  Active in standardising safe production, the Group 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, hence safe production can be effectively implemented.

  We improved the "three systems" governing production safety, and further improved the Group's accountability system for production safety in accordance with the requirements of laws and regulations governing production safety. In addition, we continued to clarify the terms of reference of personnel at all levels and various functional departments, through which the personnel at all levels know, understand, perform and assume their responsibilities to ensure the effectiveness and operation of the system.

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To further improve the safety inspection system, the Group developed an annual plan to identify and detect potential risks at the beginning of the year, under which, monthly, weekly, group-based or 24-hour inspections are carried out by the Group, its workshops, group captain, or the security staff, respectively. Since the beginning of the year, the Group conducted 6 regular inspections to rule out hidden risks and 4 investigations into special hidden dangers. A total of 750 potential safety problems were identified. Rectification notices were issued on identified risks, according to which, responsible officers were appointed, countermeasures were taken, and the timeframe to resolve risk issues was set. In addition, special agents were designated to carry out supervision and inspection duties. All of these were carried out under a closed-loop management model.

Meanwhile, the Group also increased more efforts to carry out safety accountability assessment for determining penalties and awards. The safety committee members of the Group assessed the implementation conditions of the safety management responsibilities of production units on a monthly basis along with a comprehensive assessment on the implementation conditions of safety responsibilities from various aspects, including on-site management, operation management, staff training and self-inspection of internal risks. These assessment results are linked to employees' remuneration, which will encourage our employees at all level to actively carry out safety responsibilities and prevent accidents.

(2) Occupational Health

Fufeng Group has established the Management System on Preventing and Treating Occupational Diseases in accordance with the Prevention and Control of Occupational Diseases Law of the PRC. The System clarifies the responsibilities of each department in the prevention and treatment of occupational diseases. In 2017, clear warning signs along with Chinese descriptions were provided at positions where occupational hazards may take place, with such personnel to be offered the relevant protection and first-aid supplies in a timely manner. The distribution rate of these protective supplies reached 100%. The personnel engaged in hazardous operations regularly received occupational health checks. We also established the Occupational Health Monitoring Files for our employees, in which case, re-examination will be organized with a position reassigned (wherever necessary) when unusual conditions are identified. All these efforts aim to prevent occupational disease accidents.

(3) Fire safety

Each subsidiary of the Group incorporates fire prevention know-how and fire-fighting skill training programmes into its annual education plan, under which, training time, contents, methods and responsible officers are clearly defined to ensure the effective implementation of training. Meanwhile, third-party fire training institutions are invited to provide training on fire safety know-how for production units. Under the guidance of the third-party fire training institutions, some subsidiaries set up fire-fighting emergency teams and designated specific personnel to remain on duty in the fire control room. All fire-fighting emergency members have obtained fire-fighting qualification certificates, while volunteer firefighters receive monthly training. Furthermore, regular fire drills are conducted. Our fire brigade is equipped with fire trucks, fire suits, air respirators, fully sealed chemical-proof suits and other emergency protective devices. In strict compliance with different risks such as fire and leakage of toxic substances at production sites, the Group requires each subsidiary to set up leakage detection alarms, automatic fire extinguishers and sprinklers, and emergency equipment such as fire hydrants, which will be subject to monthly inspections to be conducted by the Group. In addition, each subsidiary organized our fire emergency team and the production workshop to carry out emergency rescue drills on key parts semiannually. These drills effectively improved their capacities of responding to and addressing emergencies, carrying out self-rescue actions and seeking survival through fire escape.

B3 Development and Training

Fufeng Group firmly believes that employees are the cornerstone to ensure the sustainability of an enterprise and that one important principle for Fufeng Group's staff management is to strike a harmonious balance between staff growth and business development. Hence, Fufeng further improved its training system and Fufeng Group Management Regulation on Training in 2017 for the purposes of fully utilizing the organisation function of our Fufeng Business School in our training and strengthening the core role of general managers of the Group, deputy general managers and human resources departments and administrative officers in the training system. The four training management systems intended to further the career development of our employees, including induction of new employees, compliance standards for various positions, systematic training for professional skill enhancement, and managerial knowledge, will be further improved. In 2017, the Group strengthened its comprehensive analysis of job descriptions and staff learning requirements, and actively built and explored such training mechanism and contents that are more conducive to the Group's development.

Fufeng Group fully taps into its own resources by taking the "Fufeng Group Management Regulation on Lecturers" as a guide to further strengthen the key role of the lecturers in the training system. Among our intermediate management and technicians, the Group selected and assessed those staff with desired skills and a strong willingness to offer their skills before appointing them as our in-house lecturers. The Group organized professionals to provide comprehensive training for internal lecturers. As our outstanding frontline employees could share their specialised skills and know-how as role models with a strong sense of self-discipline, the Group fully utilized these role models to effectively motivate the learning desire of other cadres and employees and improve their training results.

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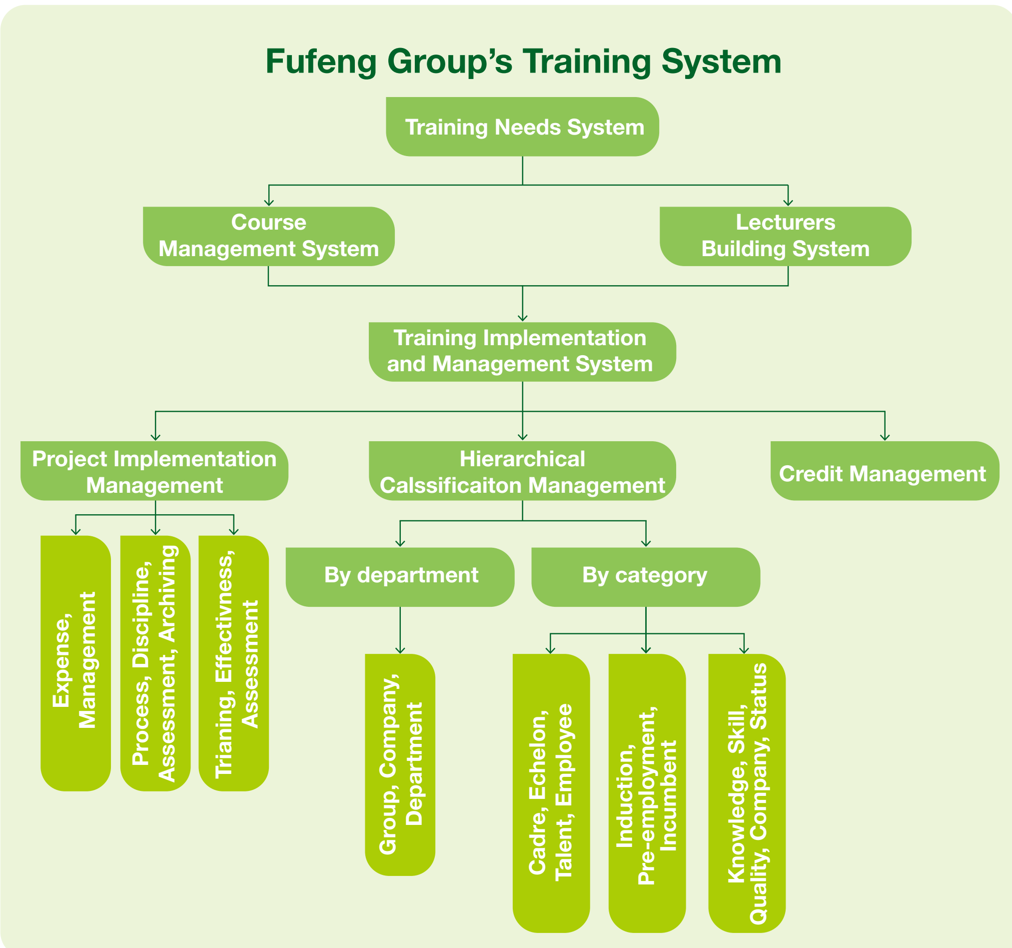
Fufeng Group has been investing in the Fufeng Business School for many consecutive years by constantly improving its training system, and actively researching the in-depth integration of the business courses with our business development. By constantly optimizing our curriculums, the Fufeng Business Schools has set up 54 business courses in seven major areas including mid-to-high-level management training, talent echelon training and grass-roots management training. In particular, nine courses, including "TWI Series Courses"and "New Staffing Generation Management", were added in 2017. The Fufeng Business School has also built a learning system based on the intelligent mobile terminal and created an intelligent platform for information sharing and online courses, thereby providing technical support for all staff's learning needs.

In 2017, besides induction training for new employees, Fufeng Group has organised a total of 360 training sessions for various management personnel. A total of over 7,253 attendances to various professional training sessions by our grassroot managers, business executives and middle and senior managers were recorded. During these training sessions, 370 attendances by middle and senior managers accounted for 5.1% of the total attendances.



B4 Labor Standards

Fufeng Group strictly complies 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》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and Prohibition of Child Labor Provisions (《禁止使用童工規定》). As clearly stupilated in Fufeng Group System on the Recruitment Process formulated by the Group, the Group shall strictly comply with international labor standards, with new staff to be at least 18 years old. The Group strictly reviews its employee's identity documents and academic degree certificate in the actual recruitment process to verify their age. As stipulated in the Fufeng Group Regulations on Staff Entry, Post Adjustment and Resignation Management, the Group shall enter into a labor contract with its new employees and an internship agreement with internship students (which could be convered into a labor contract upon their graduation from school), to ensure non-use of child labor. Fufeng Group did not engage in child labor during the reporting period.

Fufeng Group's 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

Fufeng Group firmly believes that close cooperation with its suppliers is an essential factor for the long-term development of our business. Over the years, Fufeng Group has been closely communicating with various suppliers, building mutual trust and sharing benefits. Gradually, a long-term and stable cooperative relation has been established. The Group is also committed to working hand-in-hand with its suppliers to jointly strengthen its environmental and social efforts and investments.

The Group has set up a supplier access mechanism with a unified supplier database. To determine whether to include them into our database, the Group will conduct a comprehensive range of considerations as to suppliers, including their supply capacity, qualifications, production equipment, process conditions, capability of developing new products, staff training, and system certification. For certain suppliers, the Group carries out factory inspection and on-site visits and evaluations on their production environment, production technology, and many other areas. When their comprehensive assessment results meet our standard, they will be included to our database.

The Group has formulated and promulgated the Management Regulation on Material Procurement, which clearly stipulates that the supply department shall be responsible for the daily management of suppliers and timely following up non-compliances with respects to supply quality and quantity, delivery price, delivery punctuality and after-sales service quality. Any default incident by our suppliers will be subject to penalties based on the level of severity in accordance with our rules.

Environmental, Social and Governance Report

The Group explicitly sets forth its environmental requirements at the beginning of the procurement process, which among others, requires that sulfur content in coal purchases should be less than 0.6%. The Group has set clear inspection and acceptance standards for all kinds of raw materials. In addition, a strict arrival acceptance mechanism is set up to safeguard the absolute quality of raw materials through an independent quality control process.

The Group implements an annual supplier evaluation mechanism and conducts a collective assessment on the delivery punctuality, product compliance rate and after-sales service responses of the suppliers that the Group cooperates during the same year. The supply department will replace suppliers failing the eligibility criteria and identify new suppliers separately.

To actively promote corporate social responsibility, the Group encourages its suppliers to actively fulfill their obligations of environmental protection and requires its suppliers to prohibit the employment of child labor and forced labor in full compliance with the national laws and regulations governing labor work.

B6 Product Responsibility

Food safety is Fufeng Group's solemn commitment to the community. Fufeng Group's persistent pursuit during its the development aims to prioritize quality and provide endless services. To constantly improve the quality and service standard, Fufeng Group carries out a series of effective measures. On one hand, it vigorously implements the international standardized management systems to ensure the standardization of our work. On the other hand, the Group invests heavily in hardware to develop the production environment, techniques, and equipment of each subsidiary into a first-class production line among the global business rivals. Furthermore, the Group continues its management enhancement and reform, while our scientific process management ensures high-quality production process management, both of which enable us to maintain our leading position in the international market in terms of product and service quality.

- **Management of Product Quality and Food Safety**

  The 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》). The Group manages product quality by adopting 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, so as to further improve and optimize production, supply, sales and service chains. Based on the above systems, the Group has established its management mechanism specialized in 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 Group's policies on quality and food safety are ensured.

The Group organizes, establishes, implements and maintains the "Hazard Analysis Control Program" and "HACCP Plan Control Program" to control the production process of sodium glutamate (MSG), threonine, glutamic acid, edible glucose, starch sugar (edible glucose and isomerized sugar), xanthan gum, chicken essence, xanthan gum, corn oil and other products, which safeguards the product quality control, as well as identifying and evaluating the food safety hazards in the production of the Group. In addition, the level of hazardousness regarding each identified hazard to food safety will be confirmed along with their respective countermeasures. In the end, such hazards to food safety will be eliminated or reduced to an acceptable level.

In a bid to enhance product quality management, effectively trace and address quality issues, and strengthen quality control in all production processes, the Group has formulated the Fufeng Group Management Measures for Quality-related Reward and Punishment. The Measures center on customer needs and specify the extent of influence and the elements that affect quality. The Group has also formulated the Quality Standards on Finished Products and Semi-finished Products to regulate semi-finished products over the production process and ensure the product quality from the source.

The Group has established an internal quality control system to effectively enhance the quality control of production. The Group has set up a quality control department to regulate the testing standards and methods and stipulated the treatment principles and procedures. The Group has invested in a complete range of testing equipment to build testing laboratories that meet the national standards, and has obtained for its laboratory a CNAS certificate. All testing personnel have passed the examination and obtained corresponding qualification certificates to fully guarantee the product safety. Meanwhile, the Group has set up an external testing mechanism. By preparing the Regular Submission Inspection Plan, the Group will send its products to third-party testing platforms for testing to ensure that relevant national standards are met.

The Group's quality control department carries out product quality control training from time to time to ensure a constant improvement in the professionalism of our skilled employees.

- **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 has formulated the Product Quality Complaint Handling Process and other related systems and established a sound after-sales service mechanism, quality information feedback process and customer complaints management framework to ensure that the quality issues will be timely and effectively resolved, which in return improves customer satisfaction and brand recognition. Furthermore, the Group will ensure that all quality complaints can timely be relayed to the accountability department and promptly resolved. The Group has set up the 400 complaint hotline service and collected customer complaints by email and from feedback given by our sales representatives. The Group also clarifies that the quality control department should collect and coordinate the complaints and carry out follow-up measures as to the handling results. There were no outstanding customer complaints in 2017.

Fufeng Group has established the Product Recall Procedures and the Product Emergency Response Plan for the purposes of establishing an emergency handling system, pursuant to which, food safety incidents will be dealt with, emergency handling work can be regulated and directed, the harmful effects of food safety incidents can be effectively prevented, or timely controlled and minimized. Such system will safeguard the public health and life safety, while protecting the economic benefits of customers and the Group's corporate image. In addition, this system defines the duties and work procedures of the product recall procedure, and requires that product recall drills be held at least once a year to ensure that the Procedure is effective and feasible.

- **Advertisement and Trademark**

When placing advertisements on advertising platforms and selecting advertising media, the Group will conduct a scientific evaluation over the target audiences. In addition to ensuring accurate selection and multiple-screen integration, the Group will focus more on investing in those advertising platforms that enjoy higher frequencies in contact with target audiences of other media and brands and a higher dependency by target audiences, as well as advertising through further multiple-screen integration. For example, the Group will select the integrated advertising from CCTV, local satellite TV stations, networks, paper-based media, and other multimedia, which in return effectively boost the Fufeng brand awareness, disseminating news about our corporate activities, and accentuating our leadership in the industry. As a result, our corporate image will be further enhanced.

In terms of trademarks, Fufeng Group has established a standard Management System on the Use of Trademarks to regulate the trademark management of the Company, and establish, maintain and safeguard the corporate reputation and image, so that the Company can continue to maintain and improve the value of its trademarks as intangible assets. The Group has formulated the Brand Protect and Control Procedures to make further requirements on trademark registration, operation, printing and protection. In addition, the Fufeng Group VI Manual Management Regulations formulated by the Group has defined its examination and approval, design, inspection and acceptance, modification, supplementation, supervision and management on the VI system.

The Group 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.

- **Privacy Protection**

  Fufeng Group has further enhanced and standardized the patent work management process and responsibilities by implementing the Management Regulations on Corporate Intellectual Property Rights. It also prepared the Measures on Commercial Secrets Management and the Management System of Commercial Secrets Protection to strengthen the management of the Group's commercial secrets and protect the legitimate rights and interests of the Group. In accordance with relevant laws and regulations in the PRC and the Management Regulations on Corporate Intellectual Property 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

Fufeng Group believes that adherence to good morality and integrity has laid a solid foundation for the sustainable and healthy development of the Group. To prevent corruption and bribery, the Group strictly complies with the requirements of laws and regulations, such as the "Group Law of the People's Republic of China" (《中華人民共和國集團法》), 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》), and guides the establishment of a sound anti-corruption mechanism. In addition, Fufeng Group has established and continuously improved the Administrative Measures on Corruption-free Business Practice of Fufeng Group, advocating the integrity code of conduct and fully assigning the integrity work to all employees. Fufeng Group provides training on integrity and professional ethics for all employees each year to promote the integrity culture and constantly enhance their awareness of anti-unfair competition.

The Group has established the Anti-corruption Management Regulation to regulate integrity management in the procurement business and marketing business. To prevent and combat unfair competition during procurement, the Group requires all procurement agents and suppliers to enter into a Fufeng Group Letter of Undertaking for the Clean Practice of the Procurement and Supply System and an Agreement against Commercial Bribery, respectively. To enhance the integrity management and strength of the marketing team and restrain the improper practices between the Company and its customers during the course of business, the Group has established the Anti-corruption Agreement. The Group has a sales management department to oversee the sales and marketing personnel and encourage our employees to actively perform the integrity system.

A sound monitoring and reporting mechanism is established along with specialized telephone line and email address for whistleblowing purposes. The Group will initiate the investigation proceeding with respect to complaints after being verified by the supervision department. In case that any illegal action is perpetuated, such case will be handed over to the judicial authority. Every year, the Group conducts self-examination, self-reflection, self-correction, mutual assessment and reporting work from time to time, and imposes severe penalties against the discovered corruption. In 2017, the Group adopted various methods to train the supervision department personnel to improve their professional skills and abilities to perform their duties.

B8 Community Investment

Fufeng Group bears in mind its corporate social responsibilities and missions. In addition to creating value for its shareholders, the Group actively participates in public welfare activities in the communities, while caring the vulnerable groups by encouraging its branches to support the underprivileged in light of local conditions. To build a sound corporate image, the Group spares no efforts in promoting the development of local communities along with our corporate development.

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.

Gathering at the Cultural Center in January 2017, the Northeast Company expressed its solicitude to its employees who experienced family problems by distributing gifts of care worth nearly RMB50,000 to the employees. The gifts of care were obtained by the Northeast Company from the local governments and workers' unions, and a total of 80 employees were benefited. During the distribution process, our corporate leaders encouraged them to maintain their posts, fulfill their duties, and focus on work without distraction. Through hard work, they would eventually improve their current conditions. At the same time, the Company expressed the best wishes to the families of these employees. This solicitude event helped the employees identify themselves with the Company and feel the warmth from other colleagues, which was reflective of our people-oriented and humanistic practices of Fufeng Group. As a result, it consolidated the cohesion and solidarity among the employees at the Company.

The Xinjiang Company visited the two ethnic minority villages adjacent to the company, i.e. Hongliu Village and Wutong Village, prior to the Spring Festival. It sent daily necessities such as corn oil, rice and flour to underprivileged villagers, and on behalf of the Group expressed their sympathy and solicitude to the villagers.

The Baoji Company visited the impoverished households of 4 villages nearby the company before the Spring Festival. The leaders of the company successively visited the Honggou Village, Luoxing Village, Yuanxing Village and Caojiacun Village and sent daily necessities such as rice, corn oil and meat and festival greetings. Several of these villages even received 5 tonnes of organic fertilisers to improve the organic matter of the soil and the yield and quality of produces.

In 2017, all companies under Fufeng Group delivered the messages of care to local underprivileged households, schools, and kindergartens by giving out donations and benefits in kind.

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 Listing Rules and came into full effect on 1 April 2012. During the year of 2017, the Company has complied with the Revised CG Code for the year from 1 January 2017 to 31 December 2017 except for the following:

Code provision A.6.7 of the Revised Code: The Independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the Independent non-executive Director, Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 12 May 2017. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

Board of Directors

The Board comprises (i) five executive Directors, Mr. Li Xuechun, Mr. Zhao Qiang, Mr. Li Deheng, Mr. Pan Yuehong and Mr. Li Guangyu; and (ii) three Independent non-executive Directors, Mr. Xiao Jian Lin, 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. The Group has appointed Mr. Zhao Qiang as the chief executive officer since 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 24 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. Zhao Qiang (appointed on 5 June 2017)	✓	✓
Mr. Li Deheng	✓	✓
Mr. Pan Yuehong (appointed on 5 June 2017)	✓	✓
Mr. Li Guangyu	✓	✓
Mr. Xu Guohua (resigned on 5 June 2017)	✓	✓
Independent non-executive Directors		
Mr. Xiao Jian Lin (appointed on 26 September 2017)	✓	✓
Mr. Qi Qing Zhong	✓	✓
Ms. Zheng Yu	✓	✓
Mr. Sun Yu Guo (resigned on 25 September 2017)	✓	✓

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 2017, eight regular Board meetings were held. Individual attendance of each director at the Board meeting during 2017 is set out below:

Attendance/Number of Board Meetings in 2017

Director	Attendance in person/ Number of Board Meetings
Executive Directors	
Mr. Li Xuechun *(Chairman)*	8/8
Mr. Li Deheng	8/8
Mr. Zhao Qiang (appointed on 5 June 2017)	6/8
Mr. Pan Yuehong (appointed on 5 June 2017)	6/8
Mr. Li Guangyu	7/8
Mr. Xu Guohua (resigned on 5 June 2017)	2/8
Independent non-executive Directors	
Mr. Xiao Jian Lin (appointed on 26 September 2017)	2/8
Ms. Zheng Yu	8/8
Mr. Qi Qing Zhong	7/8
Mr. Sun Yu Guo (resigned on 25 September 2017)	5/8

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 82.

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	3,795
Non-audit services	750
	4,545

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. Xiao Jian Lin, Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Xiao Jian Lin 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 the year ended of 31 December 2017, two Audit Committee meetings were held with Mr. Sun Yu Guo attended one meeting (as Mr. Sun resigned on 25 September 2017) and Mr. Xiao Jian Lin attended one meeting (as Mr. Xiao is appointed as independent non-executive director on 26 September 2017). 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 2016, the interim results for the year 2017 as well as discussing the risk management assessment and the internal control review and the audit of the Group. The Group's 2016 annual report and 2017 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

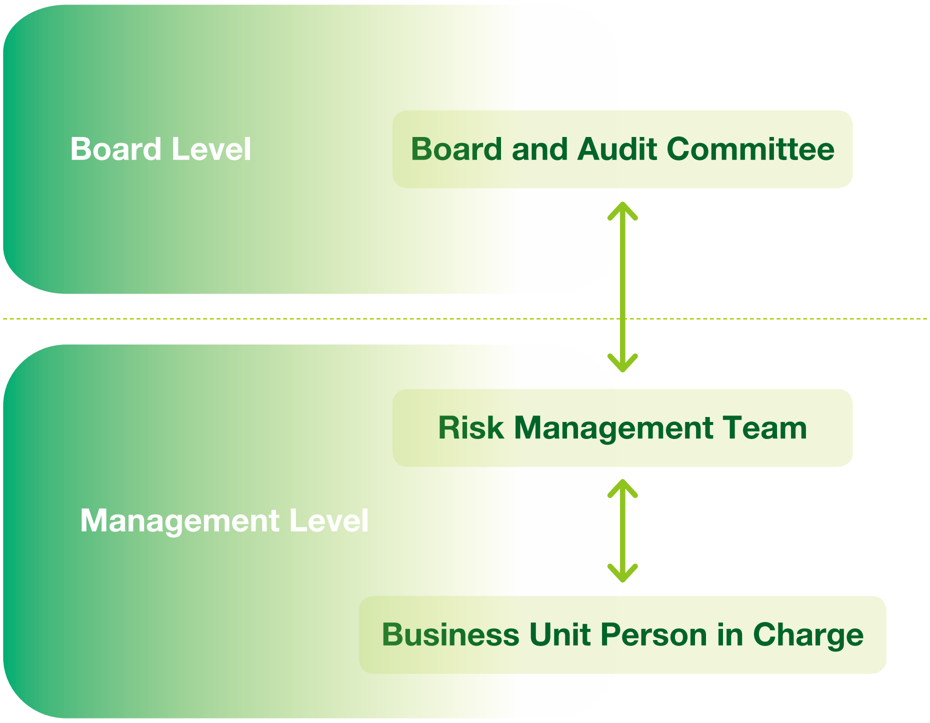
The Board acknowledges that an effective system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the 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 reporting year.

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.

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 reporting year. 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.

Corporate Governance Report

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.

Through the audit committee and risk management team, the Board has reviewed the risk management and internal control of business operations for the year ended 31 December 2017, and considered that the risk management and internal control systems were effective and sufficient. The management has provided confirmation as to the effectiveness of the system for the year ended 31 December 2017 to the audit committee and the Board. 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.

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. Xiao Jian Lin (appointed on 26 September 2017), Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Xiao Jian Lin 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 the year ended of 31 December 2017, 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.

Remuneration of Senior Management

The biographical details of the senior management are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

The remuneration paid/payable to senior management other than the Directors of the Company for the year ended 31 December 2017 fell within the following band:

	Number of Individuals
Nil to RMB500,000	1
RMB500,001 to RMB1,000,000	1
RMB1,000,001 to RMB1,500,000	1
RMB1,500,001 to RMB2,000,000	1

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. Xiao Jian Lin (appointed on 26 September 2017), Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Nomination Committee. For the year ended of 31 December 2017, two Nomination Committee meetings were held for discussion of appointment new executive directors and an independent non-executive director.

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.

Corporate Governance Report

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.

2017	Investor Relations Events
March	2016 Annual Results Roadshow, Hong Kong, Beijing, Shanghai, Shenzhen
April	Daiwa Consumer & Gaming Conference 2017, Hong Kong
	UBS HK/China Small and Mid-Caps Corporate Day, Hong Kong
May	CIMB HK/China Consumer Corporate Day, Hong Kong
	Reverse Roadshow by Daiwa, USA
August	2017 Interim Results Roadshow, Hong Kong, Beijing, Shanghai, Shenzhen
November	JP Morgan Asia Rising Dragons 1x1 Forum, Hong Kong
	Gelonghui Battles Hong Kong Stock, Shanghai
December	CIMB China Education & Consumer Corporate Day, Hong Kong
	Gelonghui Battles Hong Kong Stock, Guangzhou

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 2017.

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 2017 are set out under the consolidated income statement on page 87.

Interim dividend declared and paid after the interim period of HK8.8 cents (equivalent to RMB7.51 cents (2016: HK3.8 cents (equivalent to RMB3.26 cents) per Share totaling HKD224,113,000 (equivalent to RMB191,298,000). The Board recommends the payment of a final dividend of HK11.0 cents per Share (equivalent to RMB8.88 cents) per Share totaling HKD280,141,000 (equivalent to RMB226,158,000 for the year ended 31 December 2017.

Material Acquisitions or Disposal of Subsidiaries and Associated Companies

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

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 24, 25 and 35 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 16 to the financial statements.

Share Capital

Details of the movement in share capital of the Company are set out in Note 22 to the financial statements.

Distributable Reserves

As at 31 December 2017, the Company's reserves available for distribution to the Shareholders amounted to RMB1,362,729,000 (2016: RMB214,991,000).

Directors

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

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Zhao Qiang (appointed on 5 June 2017)
Mr. Li Deheng
Mr. Pan Yuehong (appointed on 5 June 2017)
Mr. Li Guangyu
Mr. Xu Guohua (resigned on 5 June 2017)

Independent Non-executive Directors

Mr. Xiao Jian Lin (appointed on 26 September 2017)
Mr. Qi Qing Zhong
Ms. Zheng Yu
Mr. Sun Yu Guo (resigned on 25 September 2017)

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

Directors' Report

By virtue of Article 86(3) of the articles of association of the Company, the office of Mr. Zhao Qiang, Mr. Pan Yuehong and Mr. Xiao Jian Lin will end at the annual general meeting and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Director, Mr. Zhao Qiang and Mr. Pan Yuehong, 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 5 June 2017 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. Xiao Jian Lin, proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company for two years commencing from 26 September 2017 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 2017, 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.

Contract of Significance

Saved for the continuing connected transaction disclosed on pages 22–23, the Company neither has any contract of significance between the Company, or any of its subsidiaries, and a controlling Shareholder or any of its subsidiaries nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries.

Business Review

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

The Group continued to strategically utilise the production facility and capacity of each plant in order to match ongoing market demand. In order to take full advantage of corn production capacity in Heilongjiang Province, the Company has completed construction of a new corn processing project in Qiqihar City, Heilongjiang Province, to sustain the development of the animal nutrition and food additive businesses. Current production capacity of the first phase amounts to 200,000 tonnes of starch sweeteners and 100,000 tonnes of threonine and the project began pilot production at the end of 2017. The Group has continuously explored the development of animal nutrition such as threonine, new high-end polymer materials such as gellan gum, hyaluronic acid and amino acid products, in order to improve product diversity and increase sales and penetration in the health and wellness, pharmaceutical and skincare related industries. Only by continuously upgrading our product quality and expanding our product range, can we transform gradually from the traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

In 2017, the Group continuously benefited from the achieved results of industry consolidation in the past few years. We actively strengthened our competitiveness and constantly improved production technology to achieve better cost effectiveness and more actively expanded the Amino acid business. Our newly enhanced production technology of MSG further strengthened our competitive cost advantages by reducing production costs and increasing production yield.

The strategy of our product development is mainly divided into four categories: 1. Food additives (key products include MSG, compound seasoning, starch sweeteners, corn oil etc.), 2. Animal nutrition (key products include threonine, tryptophan, corn refined products etc.), 3. Colloid (key products include xanthan gum, welan gum, pectin etc.), and 4. High-end amino acid products (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid etc.).

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

Overall revenue of the Group increased for the year ended 31 December 2017, and the Group was able to rely on the growth products such as threonine and high-end amino acids and effective implementation of cost controls to increase overall profitability. The high-end amino acid products successfully expanded in terms of product development and market share, and we are more confident that we can become one of the world's leading suppliers of threonine and high-end amino acid products. The overall production capacity of the Group in 2017 remained almost fully operational.

Our Amino acid segment is primarily made up of our MSG, threonine, high-end amino acid products and starch sweeteners. In terms of MSG business, there was a decrease in the ASP in 2017 as costs of main raw materials, particularly corn kernels, stayed at a low level during the year. The ASP of MSG remained at a relatively low level and the Group continued to face lackluster conditions in the domestic catering and consumer markets, in addition to price competition. Despite the market conditions, the Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing. The Group was able to record an increase in gross profit and gross profit margin in its Amino acid segment, mainly due to increasing contribution from the sales of threonine, high-end amino acid products and starch sweeteners. The expansion of threonine, high-end amino acid products and starch sweeteners continued to increase its revenue contribution to the Group. The commencement of operations at the new production facility of Longjiang Plant in Qiqihar City at the end of 2017 will result in continuous growth of revenue contribution from threonine.

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

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.

Directors' Report

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 2017, 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	38.94%
Li Deheng	The Company	Interests of controlled corporation *(Note 2)*	33,320,160 Shares	1.31%
Zhao Qiang	The Company	Beneficial interest *(Note 3)*	5,000,000 Shares	0.20%
Sun Yu Guo (former independent non-executive director who resigned on 25 September 2017)	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. These shares represented the Shares which might be allotted and issued to Mr. Zhao Qiang, an Executive Director who was appointed on 5 June 2017, upon the exercise in full of the option granted to him.

4. These shares represented the Shares which might be allotted and issued to Mr. Sun Yu Guo, a former independent non-executive Director who resigned on 25 September 2017, 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 2017, 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 2017, 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	38.94%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	991,638,461 Shares	38.94%
Treetop Asset Management SA	The Company	Beneficial interests	360,328,314 Shares	14.15%

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 991,638,461 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 2017, 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 "Post-IPO 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 Post-IPO 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 Post-IPO 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 Post-IPO 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 Post-IPO Share Option Scheme for holding of the share options before it can be exercised. The Post-IPO Share Option Scheme has expired on 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.

On 12 May 2017, the Shareholders approved the adoption of the New Share Option Scheme (the "New 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 New 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 New 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 New 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 12 May 2017 to make an offer for the grant of a share option. For any option granted under the New 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 New Share Option Scheme for holding of the share options before it can be exercised. As at 31 December 2017, the Share Option Scheme has a remaining life of up to 12 May 2027.

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.

Pursuant to a resolution in writing passed by all shareholders on 10 January 2007, the scheme mandate limit for the Post-IPO Share Option Scheme allow the Company to issue a maximum of 160,000,000 share options under the Post-IPO Share Option Scheme, representing 6.28% of the issued share capital of 2,546,734,037 Shares of the Company. The Post-IPO Share Option Scheme has expired on 7 February 2017. Based on share options were granted and still exercisable under Post-IPO Share Option Scheme, the outstanding number of the shares available for issue under the Post-IPO Share Option Scheme is 17,800,000, representing 0.70% of the issued share capital of 2,546,734,037 Shares of the Company as at 31 December 2017.

Pursuant to an ordinary resolution passed by shareholders in annual general meeting dated on 12 May 2017, the scheme mandate limit for the New Share Option Scheme allow the Company to issue a maximum of 212,668,463 share options under the New Share Option Scheme, representing 8.35% of the issued share capital of 2,546,734,037 Shares of the Company as at 31 December 2017.

Directors' Report

In addition, the outstanding number of the shares available for issue under the New Share Option Scheme is 212,668,463, representing 8.35% of the issued share capital of 2,546,734,037 Shares of the Company as at 31 December 2017.

Under the Post-IPO Share Option Scheme, 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. Moreover, under the New Share Option Scheme, the Company granted options to subscribe for an aggregate of 5,000,000 Shares, and 1,600,000 Shares on 25 August 2017 and 29 December 2017 respectively to eligible employees. Details of the share options granted and outstanding for the period ended 31 December 2017, are as follows:

		Number of share options							
Director and eligible employees	Note	At 1 January 2017	Granted during the Year	Exercised during the Year	Lapsed during the Year	At 31 December 2017	Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
Under the Post-IPO Share Option Scheme									
Eligible employees	A	9,600,000	–	–	(6,000,000)	3,600,000	9/4/2015	5.69	9/4/2016 – 8/4/2020
Sun Yu Guo *(Former independent non-executive Director who resigned on 25 September 2017)*	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	13,000,000	–	–	–	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
Under the New Share Option Scheme									
Eligible employees	D	–	5,000,000	–	–	5,000,000	25/8/2017	4.96	25/8/2019 – 24/8/2023
Eligible employees	E	–	1,600,000	–	–	1,600,000	29/12/2017	5.12	29/12/2019 – 28/12/2023
		23,800,000	6,600,000	–	(6,000,000)	24,400,000			

A) The total fair value, which was determined by an independent qualified appraiser using Binomial 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 Binomial 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 Binomial 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%

Directors' Report

D) The fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options as at the grant date was approximately RMB7,852,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 25 August 2017
Average share price	HKD4.95
Exercise price	HKD4.96
Expected life of options	6.0 years
Expected volatility	44.41%
Expected dividend yield	3.75%
Risk free rate	1.37%

E) The fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options as at the grant date was approximately RMB2,591,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 29 December 2017
Average share price	HKD5.10
Exercise price	HKD5.12
Expected life of options	6.0 years
Expected volatility	43.61%
Expected dividend yield	3.64%
Risk free rate	1.68%

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 2017.

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 2017.

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 27 March 2018, 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 2017.

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 34 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

27 March 2018

Independent Auditor's Report

pwc

羅兵咸永道

To the Shareholders of Fufeng Group Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Fufeng Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 87 to 176, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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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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 2.24 and note 5 to the Group's consolidated financial statements.* Revenue from sales of goods amounted to RMB13,034 million for the year ended 31 December 2017. 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.

Other Information

The directors of the Company are responsible for the other information as set out in the Company's 2017 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.

Responsibilities 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.

- 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.

Independent Auditor's Report *(Continued)*

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 Tang Wai Tung, Tony.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Note	Years ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	5	**13,033,501**	11,803,131
Cost of sales	8	**(10,054,030)**	(9,396,758)
Gross profit		**2,979,471**	2,406,373
Selling and marketing expenses	8	**(981,508)**	(816,603)
Administrative expenses	8	**(506,556)**	(516,315)
Other operating expenses	8	**(17,249)**	(29,252)
Other income	6	**280,661**	363,855
Other (losses)/gains – net	7	**(40,033)**	102,361
Operating profit		**1,714,786**	1,510,419
Finance income	11	**46,414**	9,466
Finance costs	11	**(109,168)**	(218,634)
Finance costs – net	11	**(62,754)**	(209,168)
Share of net profit of associates accounted for using the equity method	12b	**749**	647
Profit before income tax		**1,652,781**	1,301,898
Income tax expense	13	**(270,401)**	(209,386)
Profit for the year and attributable to the Shareholders		**1,382,380**	1,092,512
Earnings per share for profit attributable to the Shareholders during the year *(expressed in RMB cents per share)*			
– basic	14	**57.04**	51.37
– diluted	14	**55.46**	47.79

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Years ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**1,382,380**	1,092,512
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**1,382,380**	1,092,512
Total comprehensive income attributable to the Shareholders	**1,382,380**	1,092,512

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2017

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Leasehold land payments	*15*	**1,393,941**	1,413,942
Property, plant and equipment	*16*	**9,234,061**	7,858,775
Intangible assets	*17*	**17,791**	9,108
Investments accounted for using the equity method	*12b*	**31,396**	30,647
Deferred income tax assets	*29*	**182,447**	184,396
Long-term bank deposits	*21*	**–**	20,100
		10,859,636	9,516,968
Current assets			
Inventories	*20*	**3,229,895**	2,481,911
Trade and other receivables	*19*	**1,361,559**	1,035,076
Cash and bank balances	*21*	**515,444**	1,422,147
		5,106,898	4,939,134
Total assets		**15,966,534**	14,456,102
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	*22*	**244,436**	207,222
Share premium	*22*	**1,736,726**	462,639
Other reserves	*25*	**384,178**	319,980
Retained earnings	*24*	**7,094,765**	5,826,023
Total equity		**9,460,105**	6,815,864
LIABILITIES			
Non-current liabilities			
Deferred income	*28*	**721,936**	707,501
Borrowings	*27*	**560,265**	1,923,185
Deferred income tax liabilities	*29*	**16,650**	16,650
		1,298,851	2,647,336

Consolidated Balance Sheet *(Continued)*

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Current liabilities			
Trade, other payables and accruals	*26*	**3,685,015**	3,721,615
Current income tax liabilities		**111,624**	94,494
Borrowings	*27*	**1,410,939**	1,176,793
		5,207,578	4,992,902
Total liabilities		**6,506,429**	7,640,238
Total equity and liabilities		**15,966,534**	14,456,102

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 87 to 176 were approved by the Board of Directors on 27 March 2018 and were signed on its behalf.

Li Xuechun
Director

Zhao Qiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

		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 2016		207,222	555,157	227,655	4,817,025	5,807,059
Comprehensive Income						
Profit for the year	24	–	–	–	1,092,512	1,092,512
Total comprehensive income		–	–	–	1,092,512	1,092,512
Transactions with the Shareholders						
Profit appropriation	24, 25	–	–	86,924	(86,924)	–
Employee share option schemes:						
– Value of employee services	23, 25	–	–	8,811	–	8,811
– Expiry of share options issued	24, 25	–	–	(3,410)	3,410	–
Dividends	22	–	(92,518)	–	–	(92,518)
Total transactions with the Shareholders		–	(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
Comprehensive Income						
Profit for the year	24	–	–	–	1,382,380	1,382,380
Total comprehensive income		–	–	–	1,382,380	1,382,380
Transactions with the Shareholders						
Profit appropriation	24, 25	–	–	116,594	(116,594)	–
Conversion of convertible bonds	22, 25	24,807	975,463	(59,631)	–	940,639
Issue of ordinary shares	22	12,407	666,737	–	–	679,144
Employee share option schemes:						
– Value of employee services	23, 25	–	–	10,191	–	10,191
– Expiry of share options issued	24, 25	–	–	(2,956)	2,956	–
Dividends	22	–	(368,113)	–	–	(368,113)
Total transactions with the Shareholders		37,214	1,274,087	64,198	(113,638)	1,261,861
Balance at 31 December 2017		244,436	1,736,726	384,178	7,094,765	9,460,105

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

		Years ended 31 December	
		2017	2016
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	1,537,670	2,477,975
Interest paid		(84,139)	(166,930)
Income tax paid		(251,322)	(221,104)
Net cash generated from operating activities		1,202,209	2,089,941
Cash flows from investing activities			
Investment in an associate		–	(30,000)
Payments for leasehold land	15	(3,713)	(80,726)
Purchases of property, plant and equipment		(1,973,914)	(1,311,614)
Purchases of intangible assets	17	(10,714)	(6,445)
Urban planning related government grants received		23,064	–
Proceeds from disposal of property, plant and equipment	31(c)	8,285	1,652
Proceeds from disposal of subsidiaries, net of cash	31(b)	–	164,133
Assets-related government grants received		73,521	122,759
Interest received	11	6,978	9,466
Proceeds from term deposits		5,000	149,000
Placement of term deposits		(5,000)	(2,000)
Net cash used in investing activities		(1,876,493)	(983,775)
Cash flows from financing activities			
Net proceeds from shares issued	22	679,144	–
Dividends paid to the Company's shareholders	22	(368,113)	(92,518)
Proceeds from bank borrowings	31(e)	1,810,887	1,277,096
Repayments of bank borrowings	31(e)	(1,987,832)	(1,507,938)
Repayments of medium-term notes		–	(600,000)
Net cash generated from/(used in) financing activities		134,086	(923,360)
Net (decrease)/increase in cash and cash equivalents		(540,198)	182,806
Cash and cash equivalents at beginning of the year	21	959,686	741,287
Transferred from disposal group classified as held for sale		–	35,593
Cash and cash equivalents at end of the year	21	419,488	959,686

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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, Heilongjiang 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 27 March 2018.

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new amendments of HKFRSs which is relevant to the Group's operations is effective for the first time for the financial year beginning on 1 January 2017.

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

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

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

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

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

(i) HKFRS 9, *Financial Instruments*

Nature of change

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

Impact

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

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

The Group has reviewed its financial assets and liabilities and expects that HKFRS 9 has no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

(i) HKFRS 9, *Financial Instruments (Continued)*

Impact (Continued)

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

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

Date of adoption by Group

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

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

Nature of change

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

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

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

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

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

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

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

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

Date of adoption by Group

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

(iii) HKFRS 16, *Leases*

Nature of change

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

The accounting for lessors will not significantly change.

Impact

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

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

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

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

Date of adoption by Group

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

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

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

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

2.2 Principles of consolidation and equity accounting *(Continued)*

(iii) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

(iv) Changes in ownership interests

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.

2.3 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 2017

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

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.

2.5 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 Group's functional and 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 (losses)/gains – net".

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

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

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.

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 (losses)/gains – net".

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

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.

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.

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 2.15), "Cash and bank balances" (Note 2.16) 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.

2.12 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

2.13 Impairment of financial assets

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.

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

2.14 Inventories

Inventories including raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 90 days and therefore are all classified as current.

Trade 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 and Note 2.13 for a description of the Group's impairment politics.

2.16 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.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

2.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are initially recognised 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.

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

2.20 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.

Other borrowing costs are expensed in the period in which they are incurred.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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

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 tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

2.22 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.

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates five 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.

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).

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

2.23 Share-based payments *(Continued)*

(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.

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Timing of recognition: The Group manufactures and sells a range of fermentation-based food additive, biochemical products and starch-based product in the worldwide market. Sales are recognised when products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location for domestic sales or have been shipped on board for overseas sales. The risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The collectability of the related receivables is reasonably assured.

Measurement of revenue: The products are often sold with discounts and customers have a right to return faulty products. Revenue from sales is based on the price specified in the sales contracts, net of the estimated discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The sales are mostly made with payments in advance.

2.25 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

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

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 (Note 32). 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 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.

2.28 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.

2.29 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. Note 6 provides further information on how the Group accounts for government grants.

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 2017.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export sales") and draw down of bank borrowings. Export sales denominated in foreign currencies amounted to approximately 29% (2016: 24%) of the Group's total revenue for the year ended 31 December 2017. 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 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 19, 21, 26 and 27.

Amounts recognised in profit or loss

During the year, the following foreign-exchange related amounts were recognised in consolidated income statement:

	2017	2016
	RMB'000	*RMB'000*
Amounts recognised in income statement		
Other losses/(gains) – net *(Note 7)*	**43,375**	(73,652)
Net finance (income)/expenses *(Note 11)*	**(39,436)**	37,481
Total net foreign exchange losses/(gains) recognised in profit before income tax for the period	**3,939**	(36,171)

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

During the year, no foreign-exchange related amounts were recognised in other comprehensive income.

At 31 December 2017, 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 RMB17,198,000 lower/higher (2016: RMB59,322,000 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.

(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, 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 27. The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2017.

At 31 December 2017, 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 RMB62,000 (2016: RMB1,816,000) 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 in banks, 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 18.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Group				
At 31 December 2017				
Borrowings	1,410,939	250,773	326,710	1,988,422
Interests payments on borrowings (i)	59,872	15,352	10,090	85,314
Trade and other payables (excluding non-financial liabilities)	2,875,253	–	–	2,875,253
Total	4,346,064	266,125	336,800	4,948,989
At 31 December 2016				
Borrowings	1,176,793	2,056,023	–	3,232,816
Interests payments on borrowings (i)	90,754	69,050	–	159,804
Trade and other payables (excluding non-financial liabilities)	2,432,950	–	–	2,432,950
Total	3,700,497	2,125,073	–	5,825,570

(i) The interests on borrowings are calculated based on bank borrowings, convertible bonds and corporate bonds held as at 31 December 2017 and 2016 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2017 and 2016 respectively.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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% (2016: 40%). The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Total borrowings *(Note 27)*	**1,971,204**	3,099,978
Total assets	**15,966,534**	14,456,102
Gearing ratio	**12.35%**	21.44%

The decrease in the gearing ratio of the Group was mainly due to the reduction of borrowings after the conversion of convertible bonds in 2017.

3. Financial Risk Management *(Continued)*

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 2017 and 2016, the Group did not have any financial instruments that are subsequently measured 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 discussed below.

4.1 Provision for impairment of trade and other receivables

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

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

4.2 Estimated impairment of property, plant and equipment

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

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

4.3 Useful lives of plant and equipment

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

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

4.4 Net realisable value of inventories

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

4.5 PRC taxes

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

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, synthetic ammonia, pharmaceuticals and bricks; and

– manufacturing and sales of xanthan gum.

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

5. Segment Information *(Continued)*

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

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

5. Segment Information *(Continued)*

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

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	12,330,047	703,454	–	13,033,501
Segment results	1,629,902	116,792	(31,908)	1,714,786
Finance costs – net *(Note 11)*				(62,754)
Share of net profit of associates accounted for using the equity method *(Note 12b)*				749
Profit before income tax				1,652,781
Income tax expense *(Note 13)*				(270,401)
Profit for the year attributable to the Shareholders				1,382,380
Other segment items included in the consolidated income statement				
Depreciation *(Note 16)*	802,783	63,847	1,272	867,902
Amortisation of leasehold land payments *(Note 15)*	21,164	2,464	86	23,714
Amortisation of intangible assets *(Note 17)*	2,031	–	–	2,031
Loss on disposal of property, plant and equipment – net *(Note 7)*	836	–	–	836
Impairment charges reversal for property, plant and equipment *(Note 16)*	(25,024)	–	–	(25,024)
Additions to non-current assets	2,316,471	2,693	45	2,319,209

The segment assets and liabilities at 31 December 2017 are as follows:

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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 net profit of associates 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 16)*	759,643	65,628	1,275	826,546
Amortisation of leasehold land payments *(Note 15)*	22,535	4,307	86	26,928
Amortisation of intangible assets *(Note 17)*	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 16)*	119,790	–	–	119,790
Additions to non-current assets	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

5. Segment Information *(Continued)*

There are no significant transactions between reportable segments.

Unallocated segment results mainly comprise the amortisation charges of leasehold land payments held by Baoji Dingfeng Properties Co., Ltd. and Baoji Baofeng Properties Co., Ltd, and the foreign exchange losses from non-PRC incorporated companies.

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

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

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

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

6. Other Income

	2017 *RMB'000*	2016 *RMB'000*
Amortisation of deferred income *(Note 28)*	96,542	172,376
Government grants related to expenses	48,708	64,346
Sales of waste products	112,348	108,388
Others	23,063	18,745
	280,661	363,855

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. See Note 2.29 for further details.

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.

7. Other (Losses)/Gains – Net

	2017 RMB'000	2016 RMB'000
Loss on disposal of property, plant and equipment – net *(Note 31(c))*	**(836)**	(1,594)
Gain on compensation from insurance company after offsetting losses	**4,178**	23,831
Net foreign exchange (losses)/gains *(Note 3.1)*	**(43,375)**	73,652
Gain on disposal of subsidiaries *(Note 31(b))*	**–**	6,472
	(40,033)	102,361

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 (Note 31(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 (Note 15). The disposal resulted in a gain of RMB6,472,000 recognized in the consolidated income statements for the year ended 31 December 2016.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

8. Expenses by Nature

	2017 *RMB'000*	2016 *RMB'000*
Changes in inventories of finished goods and work in progress	**(638,912)**	(118,452)
Raw materials and consumables used	**9,288,704**	8,000,031
Employee benefit expenses *(Note 9)*	**994,226**	979,829
Depreciation *(Note 16)*	**867,902**	826,546
Amortisation of leasehold land payments *(Note 15)*	**23,714**	26,928
(Reversal of)/Provision for impairment charges for property, plant and equipment *(Note 16)*	**(25,024)**	119,790
Amortisation of intangible assets *(Note 17)*	**2,031**	606
Transportation expenses	**622,961**	541,939
Utilities purchased	**22,165**	23,905
Travelling and office expenses	**41,057**	43,908
Provision for inventory write-down *(Note 20)*	**9,942**	7,433
Auditors' remuneration		
– Audit services	**3,795**	4,357
– Non-audit services	**750**	1,980
Land use tax, real estate tax and other taxes	**121,620**	115,666
Advertisement fees	**16,498**	11,405
Provision for/(Reversal of) receivables impairment *(Note 19)*	**19,973**	(237)
Plant relocation expenses	**1,134**	6,174
Listing expenses relating to the spin-off of Shenhua Health Group	**–**	6,514
Others	**186,807**	160,606
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**11,559,343**	10,758,928

9. Employee Benefit Expenses Including Directors' Emoluments

	2017 *RMB'000*	2016 *RMB'000*
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	**911,684**	849,706
– Pension costs – defined contribution plans (a)	**72,351**	121,312
– Share options granted to directors and employees *(Note 25)*	**10,191**	8,811
	994,226	979,829

(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 2017 included two directors (2016: three) whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining three (2016: two) individual during the year are as follows:

	2017 *RMB'000*	2016 *RMB'000*
Salaries and allowances	**2,934**	3,148
Pension costs – defined contribution plans	**31**	61
Share options granted	**2,895**	3,750
	5,860	6,959

For the years ended 31 December 2017 and 2016, 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

9. Employee Benefit Expenses Including Directors' Emoluments *(Continued)*

(b) Five highest paid individuals *(Continued)*

The remunerations paid to the above non-director individuals for the years ended 31 December 2017 and 2016 fell within the following bands.

	Number of individuals	
	2017	2016
	RMB'000	*RMB'000*
Emolument bands (in HK dollar)		
HKD1,000,001 – HKD1,500,000	**1**	–
HKD1,500,001 – HKD2,000,000	**1**	–
HKD2,000,001 – HKD2,500,000	**1**	1
HKD5,500,001 – HKD6,000,000	**–**	1
	3	2

10. Research and Development Costs

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

	2017	2016
	RMB'000	*RMB'000*
Raw materials and consumables used	**34,782**	17,998
Employee benefit expenses	**15,870**	13,997
Depreciation	**6,868**	9,088
Others	**8,645**	6,903
	66,165	47,986

All these research costs arose from internal development activities.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

11. Finance Income and Costs

	2017 *RMB'000*	2016 *RMB'000*
Finance expenses:		
Interest expense		
– Bank borrowings	58,271	68,149
– Medium-term notes	–	10,926
– Convertible bonds *(Note 27(c))*	6,398	57,781
– Corporate bonds	44,499	44,297
Net foreign exchange losses on financing activities *(Note 3.1)*	–	37,481
	109,168	218,634
Finance income:		
Interest income on bank deposits and bank balances	(6,978)	(9,466)
Net foreign exchange gain on financing activities *(Note 3.1)*	(39,436)	–
	(46,414)	(9,466)
Net finance expenses	**62,754**	209,168

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

12a. Subsidiaries

As at 31 December 2017, the Company had direct and indirect interests in the following wholly-owned subsidiaries:

Name	Place of incorporation/ establishment	Paid-up 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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

12a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
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
Neimenggu Fufeng Biotechnilogies 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.
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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

12a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
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
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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

12a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
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	RMB15,843,000	Sales of cosmetic products in the PRC
Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd. ("Longjiang Fufeng") (e)	PRC	RMB1,000,000,000	Manufacture and sales of threonine, starch sweeteners, amino acids, and other related products in the PRC
Jiangsu Fufeng Import and Export Co., Ltd. (f)	PRC	RMB0	Sales of health food and other related products abroad
Qingdao Wanchuang International Trading Co., Ltd. (g)	PRC	RMB0	Sales of monosodium glutamate and other related products abroad
Qiqihar Lifeng Logistics Co., Ltd. (h)	PRC	RMB5,000,000	Provide logistics service
Xinjiang Nongfeng Equity Investment Co., Ltd. (i)	PRC	RMB10,000,000	Practice equity investment in non-listed companies

(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 31(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 31(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.

12a. Subsidiaries *(Continued)*

(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 RMB15,843,000. It is wholly-owned by Shandong Fufeng.

(e) Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd. was established on 3 March 2017, with a registered capital of RMB1,000,000,000 and paid-up capital of RMB1,000,000,000. It is owned by IM Fufeng and Hulunbeir Fufeng.

(f) Jiangsu Fufeng Import and Export Co., Ltd. was established on 24 January 2017, with a registered capital of RMB10,000,000 and paid-up capital of RMB0. It is wholly-owned by Jiangsu Fufeng Biotechnologies Co., Ltd.

(g) Qingdao Wanchuang International Trading Co., Ltd. was established on 15 November 2017, with a registered capital of RMB50,000,000 and paid-up capital of RMB0. It is wholly-owned by Fufeng Marketing and Sales Co., Ltd.

(h) Qiqihar Lifeng Logistics Co., Ltd. was established on 28 June 2017, with a registered capital of RMB5,000,000 and paid-up capital of RMB5,000,000. It is wholly-owned by Longjiang Fufeng.

(i) Xinjiang Nongfeng Equity Investment Co., Ltd. was established on 8 December 2017, with a registered capital of RMB30,000,000 and paid-up capital of RMB10,000,000. It is wholly-owned by Hulunbeir Fufeng.

12b. Investments Accounted for Using the Equity Method

The amounts recognised in the balance sheet are as follows:

	2017 *RMB'000*	2016 *RMB'000*
Associate	**31,396**	30,647
At 31 December	**31,396**	30,647

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

	2017 *RMB'000*	2016 *RMB'000*
Associate	**749**	647
For the year ended 31 December	**749**	647

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

Investment in an associate

Set out below is the associate of the Group as at 31 December 2017. The associate has registered capital of RMB100,000,000, of which 30% are held directly by the Group.

Nature of investment in an associate as at 31 December 2017

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 at and for the years ended 31 December 2017 and 2016 which is accounted for using the equity method.

	Jilin COFCO	
	2017	2016
	RMB'000	*RMB'000*
Total assets	245,078	147,057
Total liabilities	140,425	44,900
Net assets	104,653	102,157
Revenue	7,284	1,122
Net profit and total comprehensive income	2,496	2,155

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

13. Taxation

(a) Income tax expense

	2017 *RMB'000*	2016 *RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	**265,754**	240,924
– Hong Kong income tax	**1,741**	4,210
– Singapore income tax	**1**	(15)
– US income tax	**956**	953
Total current income tax	**268,452**	246,072
Deferred income tax *(Note 29)*	**1,949**	(36,686)
	270,401	209,386

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

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

13. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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

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

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:

	2017 *RMB'000*	2016 *RMB'000*
Profit before income tax	**1,652,781**	1,301,898
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**429,053**	384,057
Preferential tax of certain subsidiaries	**(161,046)**	(173,515)
Unrecognised tax losses	**1,469**	1,395
Expenses not deductible for tax purposes	**2,004**	1,435
Income not subject to tax	**(1,079)**	(3,986)
	270,401	209,386

(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 2017 and 2016 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

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

(b) Diluted

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

14. Earnings Per Share *(Continued)*

(b) Diluted *(Continued)*

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

15. 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:

	2017 *RMB'000*	2016 *RMB'000*
Cost		
At beginning of the year	**1,473,492**	1,546,019
Additions	**3,713**	80,726
Disposal of leasehold land to government	**–**	(33)
Disposal of subsidiaries *(Note 7)*	**–**	(162,536)
Transferred from disposal group classified as held for sale	**–**	9,316
At end of the year	**1,477,205**	1,473,492
Amortisation		
At beginning of the year	**(59,550)**	(35,959)
Charge for the year *(Note 8)*	**(23,714)**	(26,928)
Disposal of leasehold land to government	**–**	6
Disposal of subsidiaries *(Note 7)*	**–**	4,875
Transferred from disposal group classified as held for sale	**–**	(1,544)
At end of the year	**(83,264)**	(59,550)
Net book value		
At end of the year	**1,393,941**	1,413,942

As at 31 December 2017, there was no leasehold land pledged as security for the Group's borrowings (2016: Nil).

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

As at 31 December 2017, 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 RMB221,418,000 (2016: RMB227,308,000), of which nil (2016: RMB14,850,000) had relevant signed contracts with the local government.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

16. Property, Plant and Equipment

	2017					
	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 2017	3,472,858	7,952,127	200,856	61,503	371,487	12,058,831
Additions	17,339	495,231	15,924	16,471	1,759,817	2,304,782
Transfer upon completion	464,297	1,115,139	–	–	(1,579,436)	–
Disposals	–	(10,488)	–	(1,605)	(77,497)	(89,590)
At 31 December 2017	3,954,494	9,552,009	216,780	76,369	474,371	14,274,023
Accumulated depreciation						
At 1 January 2017	(675,154)	(3,153,905)	(147,360)	(40,974)	–	(4,017,393)
Charge for the year *(Note 8)*	(257,901)	(597,478)	(10,915)	(1,608)	–	(867,902)
Disposals	–	1,793	–	1,179	–	2,972
At 31 December 2017	(933,055)	(3,749,590)	(158,275)	(41,403)	–	(4,882,323)
Provision for impairment loss						
At 1 January 2017	(63,200)	(103,216)	(194)	(709)	(15,344)	(182,663)
Reversal of Impairment charge *(Note 8)*	9,272	15,752	–	–	–	25,024
Transfer upon completion	(2,541)	(12,803)	–	–	15,344	–
At 31 December 2017	(56,469)	(100,267)	(194)	(709)	–	(157,639)
Net book value						
At 31 December 2017	2,964,970	5,702,152	58,311	34,257	474,371	9,234,061

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

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

	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	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 from disposal group classified as held for sale	(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 2017

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

(a) As at 31 December 2017, no plant and machinery was pledged as security for the Group's borrowings (2016: Nil).

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

	2017 *RMB'000*	2016 *RMB'000*
Cost of sales	**782,351**	731,229
Administrative expenses	**85,551**	95,317
	867,902	826,546

(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 2016, RMB496,013,000 had been applied to compensate the disposal of property, plant and equipment during 2015 and 2016. The remaining balance of RMB139,778,000 was recorded in "Trade, other payables and accruals" as at 31 December 2016 (Note 26). During the year ended 31 December 2017, further assets amount to RMB77,497,000 were disposed and the compensation balance was reduced by the same amount accordingly.

(d) During the year ended 31 December 2017,certain plants and machineries, which were idle and had been fully impaired in prior years, were switched to produce starch sweeteners. According to the assessments by the Group, these assets' value in use following the switch exceeds what the depreciated historical cost would have been if the impairment had not been recognised. Therefore, the full impairment provision of RMB25,024,000 set aside in previous year was reversed (2016: impairment provision for RMB119,790,000) (Note 8) during the year ended 31 December 2017, which was credited to "Cost of sales" in the consolidated income statement.

(e) As at 31 December 2017, plant and buildings of the Group with a total net book value of RMB202,406,000 were without real estate titles and the Group is in the process to secure the relevant real estate certificates (2016: RMB229,077,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

17. Intangible Assets

	Patents RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2016			
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	(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 *(Note 8)*	(127)	(479)	(606)
Transferred from disposal group classified as held for sale	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	2,113	105	2,218
Net book amount	2,221	6,887	9,108
Year ended 31 December 2017			
Opening net book amount	2,221	6,887	9,108
Additions	30	10,684	10,714
Amortisation *(Note 8)*	(145)	(1,886)	(2,031)
Closing net book amount	2,106	15,685	17,791
At 31 December 2017			
Cost	20,472	20,990	41,462
Accumulated amortisation	(370)	(5,305)	(5,675)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	2,106	15,685	17,791

18. 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.

	2017 *RMB'000*	2016 *RMB'000*
Group 1	**562,423**	398,810
Group 2	**488,946**	388,369
Group 3	**20,258**	285
	1,071,627	787,464

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, LGT Bank, The Hong Kong and Shanghai Banking Corporation Limited, The Royal Bank of Scotland, Citi Bank, United Overseas Bank, Standard Chartered Bank, Mizuho Bank, East West Bank and 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

	2017 *RMB'000*	2016 *RMB'000*
Group 1	**100,458**	41,582
Group 2	**275,380**	755,031
Group 3	**139,134**	645,244
	514,972	1,441,857

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

19. Trade and Other Receivables

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

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

	2017 RMB'000	2016 RMB'000
Within 3 months	402,822	309,683
3 ~12 months	60,765	64,622
Over 12 months	45,617	14,349
	509,204	388,654

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

19. Trade and Other Receivables *(Continued)*

(b) As at 31 December 2017, trade receivables of RMB33,157,000 (2016: RMB50,127,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Past due within 3 months	**28,620**	33,736
Past due in 3 ~12 months	**4,537**	16,391
	33,157	50,127

As at 31 December 2017, trade receivables of RMB20,258,000(2016: RMB285,000) were impaired and fully provided for impairment. The individually impaired receivables relate to customers who were in unexpectedly difficult economic situations and were therefore provided for.

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

	2017 ***RMB'000***	2016 *RMB'000*
As at 1 January	**285**	–
Transferred from disposal group classified as held for sale	**–**	4,749
Provision for/(Reversal of) receivables impairment *(Note 8)*	**19,973**	(237)
Receivables written-off during the years as uncollectible	**–**	(4,227)
At 31 December	**20,258**	285

(c) As at 31 December 2017, notes receivable were all bank acceptance notes aged less than six months, including a total amount of RMB 509,926,000 (2016: RMB387,239,000) that have been endorsed to the suppliers.

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

19. Trade and Other Receivables *(Continued)*

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

	2017 *RMB'000*	2016 *RMB'000*
– RMB	**756,710**	583,715
– USD	**536,769**	295,114
	1,293,479	878,829

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

20. Inventories

	2017 *RMB'000*	2016 *RMB'000*
Raw materials	**1,200,640**	1,081,626
Work-in-progress	**126,866**	78,434
Finished goods	**1,902,389**	1,321,851
	3,229,895	2,481,911

As at 31 December 2017, the total provision for inventory write-down was RMB17,375,000 (2016: RMB7,433,000). During 2017, the Group reversed the opening provision for inventories write-down amounted to RMB7,433,000 and provided for a new provision of RMB17,375,000, which was included in "Cost of sales" in the consolidated income statement.

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

	2017 *RMB'000*	2016 *RMB'000*
Cost of sales	**8,581,636**	7,832,560
Administrative expenses	**68,156**	49,019
	8,649,792	7,881,579

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

	2017 *RMB'000*	2016 *RMB'000*
Long-term bank deposits	–	20,100
Cash and cash equivalents		
– Cash on hand	472	390
– Cash in banks	419,016	959,296
	419,488	959,686
Term deposits over 3 months and within one year	22,100	2,000
Cash and bank balances	441,588	961,686
Restricted bank deposits (a)	73,856	460,461
Total cash and bank balances	515,444	1,422,147
Total long-term bank deposits and cash and bank balances (b)	515,444	1,442,247

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

	2017 *RMB'000*	2016 *RMB'000*
Issuance of bank acceptance notes	72,817	457,431
Others	1,039	3,030
	73,856	460,461

21. 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:

	2017 RMB'000	2016 RMB'000
– RMB	**263,955**	455,293
– USD	**220,434**	978,833
– HKD	**24,401**	7,910
– EUR	**6,467**	–
– SGD	**129**	211
– JPY	**58**	–
	515,444	1,442,247

(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 0.46% per annum for the year ended 31 December 2017 (2016: 0.54%).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

22. Share Capital and Premium

	Number of shares (thousands)	Amount: Ordinary shares RMB'000	Amount: Share premium RMB'000	Amount: Total RMB'000
At 1 January 2016	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
Dividends	–	–	(368,113)	(368,113)
Issue of ordinary shares	140,000	12,407	666,737	679,144
Conversion of convertible bonds	280,049	24,807	975,463	1,000,270
	420,049	37,214	1,274,087	1,311,301
At 31 December 2017	**2,546,734**	**244,436**	**1,736,726**	**1,981,162**

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 2017 and 2016.

In April 2017, 140,000,000 new shares were subscribed and placed to not less than six independent professional, institutional and individual investors at a price of HKD5.55 per share. Therefore the share capital increased by RMB12,407,000 and the share premium increased by RMB666,737,000.

As at 31 December 2017, all of the outstanding 2013 CB has been converted and allotted into 280,049,404 shares of the Company. Therefore the share capital increased by RMB24,807,000 and the share premium increased by RMB915,832,000. Accordingly, the other reserve of RMB59,631,000 of 2013 CB was transferred to share premium (Note 25).

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 2017

23. Share-Based Payment

(a) 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. There were no options being exercised during the years ended 31 December 2017 and 2016.

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

	2017		2016	
	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	9,600	5.69	16,600
Forfeited	5.69	(6,000)	5.69	(7,000)
At 31 December	5.69	3,600	5.69	9,600

The fair value, which was determined by an independent qualified appraiser using Binomial option pricing 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.

In December 2017, one employee resigned and thus all the related 6,000,000 share options were forfeited during the year ended 31 December 2017, which were reclassified from other reserves to retained earnings.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2017 was approximately RMB4,249,000 (2016: RMB7,981,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

23. Share-Based Payment *(Continued)*

(b) 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. There were no options being exercised during the year ended 31 December 2017.

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

	2017		2016	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**3.50**	**13,900**	–	–
Issued	**3.50**	**–**	3.50	14,700
Forfeited	**3.50**	**–**	3.50	(800)
At 31 December	**3.50**	**13,900**	3.50	13,900

The fair value, which was determined by an independent qualified appraiser using Binomial option pricing 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 2017 was approximately RMB4,922,000 (2016: RMB820,000).

23. Share-Based Payment *(Continued)*

(c) 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. There were no options being exercised during the year ended 31 December 2017.

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

	2017		2016	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**3.82**	**300**	–	–
Issued	**3.82**	**–**	3.82	300
At 31 December	**3.82**	**300**	3.82	300

The fair value, which was determined by an independent qualified appraiser using Binomial option pricing 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 2017 was approximately RMB118,000 (2016: RMB10,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

23. Share-Based Payment *(Continued)*

(d) Share options granted on 25 August 2017

The Company granted to certain eligible employee share options to subscribe for an aggregate of 5,000,000 ordinary shares of the Company on 25 August 2017. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the year ended 31 December 2017.

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

	2017		2016	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**–**	**–**	–	–
Issued	**4.96**	**5,000**	–	–
At 31 December	**4.96**	**5,000**	–	–

The fair value, which was determined by an independent qualified appraiser using Binomial option pricing model, of the options as at the grant date was approximately RMB7,852,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 25 August 2017
Average share price	HKD4.95
Exercise price	HKD4.96
Expected life of options	6.0 years
Expected volatility	44.41%
Expected dividend yield	3.75%
Risk free rate	1.37%

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 2017 was approximately RMB898,000.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

23. Share-Based Payment *(Continued)*

(e) Share options granted on 29 December 2017

The Company granted to certain eligible employees share options to subscribe for an aggregate of 1,600,000 ordinary shares of the Company on 29 December 2017. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the year ended 31 December 2017.

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

	2017		2016	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	–	–	–	–
Issued	5.12	1,600	–	–
At 31 December	5.12	1,600	–	–

The fair value, which was determined by an independent qualified appraiser using Binomial option pricing model, of the options as at the grant date was approximately RMB2,591,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 29 December 2017
Average share price	HKD5.10
Exercise price	HKD5.12
Expected life of options	6.0 years
Expected volatility	43.61%
Expected dividend yield	3.64%
Risk free rate	1.68%

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 2017 was approximately RMB4,000.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

24. Retained Earnings

	The Group	
	2017	2016
	RMB'000	*RMB'000*
At 1 January	**5,826,023**	4,817,025
Profit for the year	**1,382,380**	1,092,512
Profit appropriation to statutory reserves *(Note 25)*	**(116,594)**	(86,924)
Expiry of share options issued	**2,956**	3,410
At 31 December	**7,094,765**	5,826,023

25. Other Reserves

	Convertible bonds	Capital reserve	Statutory reserve	Share-based payment reserve	Total
	(Note 22, 27)	*(Note (a))*	*(Note (b))*	*(Note 23)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
1 January 2016	59,631	(370,760)	529,467	9,317	227,655
Profit appropriation *(Note 24)*	–	–	86,924	–	86,924
Employee share option schemes					
– Value of employee services *(Notes 9, 23)*	–	–	–	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
Profit appropriation *(Note 24)*	–	–	116,594	–	116,594
Employee share option schemes					
– Value of employee services *(Notes 9, 23)*	–	–	–	10,191	10,191
– Expiry of share options issued	–	–	–	(2,956)	(2,956)
Conversion of convertible bonds *(Note 22)*	(59,631)	–	–	–	(59,631)
31 December 2017	**–**	**(370,760)**	**732,985**	**21,953**	**384,178**

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

25. 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.

26. Trade, Other Payables and Accruals

	2017 *RMB'000*	2016 *RMB'000*
Trade payables (a)	**1,451,471**	1,214,352
Advances from customers (b)	**346,937**	693,249
Payables for property, plant and equipment *(Note 31(d))*	**1,013,726**	746,611
Bank acceptance notes payable	**83,795**	255,300
Government compensation related to property, plant and equipment disposal received in advance *(Note 16)*	**62,281**	139,778
Salaries, wages and staff welfares payables	**398,098**	398,146
Interest payables	**9,227**	12,444
Government grants received in advance	**2,039**	16,432
Dividends payable	**407**	407
Other payables and accruals	**317,034**	244,896
	3,685,015	3,721,615

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

26. Trade, Other Payables and Accruals *(Continued)*

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

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

(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.

27. Borrowings

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

27. Borrowings *(Continued)*

(a) Borrowings

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

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

As at 31 December 2017, all the bank borrowings were unsecured (2016: RMB307,498,000 borrowings were secured by restricted bank deposits).

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

	2017	2016
Bank borrowings	**3.28%**	3.08%

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

	Carrying amount		Fair value	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings, unsecured	**560,265**	–	**569,034**	–
Corporate bonds (b)	**–**	991,241	**–**	988,405
Convertible bonds (c)	**–**	931,944	**–**	1,056,617
	560,265	1,923,185	**569,034**	2,045,022

The fair values of the non-current bank borrowings at 31 December 2017 were RMB569,034,000. The fair values of corporate bonds at 31 December 2016 were RMB988,405,000. The fair value measurement of them is categorised within level 2 of the fair value hierarchy.

27. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

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 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.

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:

	2017 *RMB'000*	2016 *RMB'000*
6 months or less	415,000	519,146
6 to 12 months	995,939	657,647
1 to 5 years	560,265	1,923,185
	1,971,204	3,099,978

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

	2017 *RMB'000*	2016 *RMB'000*
RMB	1,410,939	2,553,683
HKD	245,138	–
USD	315,127	546,295
	1,971,204	3,099,978

(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.

27. Borrowings *(Continued)*

(c) Convertible bonds

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.

As at 31 December 2016, 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.

As at 31 December 2017, all of the outstanding 2013 CB was converted and allotted into 280,049,404 shares of the Company.

The convertible bonds recognised in the balance sheet are calculated as follows:

	2013 CB *RMB'000*	Total *RMB'000*
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
Liability component at 1 January 2017	934,241	934,241
Interest expense on convertible bonds *(Note 11)*	6,398	6,398
Conversion of convertible bonds	(940,639)	(940,639)
Liability component at 31 December 2017	–	–

28. Deferred Income

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

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

	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**707,501**	752,287
Granted during the year	**110,977**	121,333
Amortised as income *(Note 6, 31)*	**(96,542)**	(172,376)
Transferred from disposal group classified as held for sale	**–**	6,257
At end of the year	**721,936**	707,501

(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.

29. 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:

	2017 *RMB'000*	2016 *RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**100,327**	112,705
– Deferred income tax assets to be recovered within 12 months	**82,120**	71,691
	182,447	184,396
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	**165,797**	167,746

The gross movement on the deferred income tax account is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Beginning balance of the year	**167,746**	126,422
(Charged)/Credited to consolidated income statement *(Note 13)*	**(1,949)**	36,686
Transferred from disposal group classified as held for sale	**–**	4,638
Ending balance of the year	**165,797**	167,746

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

29. 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 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	–	–	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
Credited/(Charged) to consolidated income statement	4,223	(3,913)	5,931	(2,606)	(4,727)	(994)	(2,086)
At 31 December 2017	**4,884**	**2,921**	**85,565**	**42,901**	**40,771**	**6,051**	**183,093**

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

29. Deferred Income Tax *(Continued)*

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 RMB20,613,000 as at 31 December 2017 (2016: RMB15,966,000) 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 2017 and 2016, the expiry date of such tax operating losses is as follows:

Expiry date	2017 *RMB'000*	2016 *RMB'000*
2017	–	1,256
2018	1,468	1,468
2019	1,370	1,370
2020	6,155	6,155
2021	5,717	5,717
2022	5,903	–
	20,613	15,966

Deferred income tax liabilities:

	Capitalisation of borrowing costs *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2016	920	16,650	17,570
Credited to consolidated income statement	(137)	–	(137)
At 31 December 2016	783	16,650	17,433
Credited to consolidated income statement	(137)	–	(137)
At 31 December 2017	646	16,650	17,296

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

29. Deferred Income Tax *(Continued)*

According to the new corporate income tax law, a 10% withholding tax will be levied on the immediate holding companies established out of Mainland China, in respect of earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign immediate holding companies. During the year, no withholding tax has been provided as the Directors have confirmed that the Group does not expect Mainland China subsidiaries to distribute the retained earnings as at 31 December 2017 in the foreseeable future.

Deferred income tax liabilities as at 31 December 2017 of RMB 384,638,000 (2016: RMB316,251,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB 7,692,760,000 (2016: RMB6,325,020,000). 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.

30. Dividends

	2017 ***RMB'000***	2016 *RMB'000*
Interim, paid	**191,298**	69,295
Final, proposed	**226,158**	147,651
	417,456	216,946

The final dividends paid in 2017 amounted to HKD198,645,000 (equivalent to RMB176,815,000) (2016: RMB23,223,000), representing HK7.8 cents (equivalent to RMB6.94 cents per share) (2016: RMB1.09 cents) per ordinary share of the Company. The difference between proposed and paid final dividends was due to the increased ordinary shares as a result of the full conversion of convertible bonds (Note 27(c)).

At a meeting held on 27 March 2018, the Board proposed a final dividend of HKD280,141,000 (equivalent to RMB226,158,000) (2016: RMB147,651,000), representing HK11.0 cents (equivalent to RMB8.88 cents) (2016: RMB6.94 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2018.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

31. Cash Generated from Operations

(a) Cash generated from operations

	2017 RMB'000	2016 RMB'000
Profit before income tax	1,652,781	1,301,898
Adjustments for:		
– Provision for inventory write-down *(Note 20)*	9,942	3,300
– Provision for/(Reversal of) receivables impairment *(Note 19)*	19,973	(237)
– (Reversal of)/Provision for impairment charge for property, plant and equipment *(Note 16)*	(25,024)	119,790
– Depreciation *(Note 16)*	867,902	826,546
– Amortisation of intangible assets *(Note 17)*	2,031	606
– Amortisation of leasehold land payments *(Note 15)*	23,714	26,928
– Amortisation of deferred income *(Note 28)*	(96,542)	(172,376)
– Gain on disposal of subsidiaries – net *(Note (b))*	–	(6,472)
– Loss on disposal of leasehold land prepayments – net *(Note 15)*	–	27
– Gain on compensation from insurance company after offsetting losses *(Note 7)*	(4,178)	(23,831)
– Loss on disposal of property, plant and equipment – net *(Note (c))*	836	1,594
– Employee share option schemes *(Notes 9, 23)*	10,191	8,811
– Interest income *(Note 11)*	(6,978)	(9,466)
– Interest expenses *(Note 11)*	109,168	181,153
– Foreign exchange (gain)/losses on financing activities *(Note 11)*	(39,436)	37,481
Changes in working capital:		
– Inventories	(757,926)	(261,173)
– Trade and other receivables	(343,027)	232,730
– Restricted bank deposits	386,605	(327,679)
– Trade, other payables and accruals	(272,362)	538,345
Cash generated from operations	1,537,670	2,477,975

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

31. Cash Generated from Operations *(Continued)*

(b) Disposal of subsidiaries

	2017 RMB'000	2016 RMB'000
Proceeds from disposal of subsidiaries	–	164,133
Net book amount for disposal of subsidiaries *(Note 15)*	–	(157,661)
Gain on disposal of subsidiaries – net *(Note 7)*	–	6,472

(c) Proceeds from disposal of property, plant and equipment

	2017 RMB'000	2016 RMB'000
Net book amount for disposals *(Note 16)*	86,618	14,612
Loss on disposal of property, plant and equipment – net *(Note 7)*	(836)	(1,594)
Decrease in other payables for government compensation related to property, plant and equipment received in advance *(Note 16, 26)*	(77,497)	(11,366)
Proceeds from disposal of property, plant and equipment	8,285	1,652

(d) Major non-cash transactions

During the year ended 31 December 2017, the Group purchased property, plant and equipment which were recorded in payables without cash outflow in the amount of RMB1,013,726,000 (2016: RMB746,611,000) (Note 26).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

31. Cash Generated from Operations *(Continued)*

(e) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the year ended 2017:

	Borrowings due within 1 year *RMB'000*	Borrowings due after 1 year *RMB'000*	Total *RMB'000*
At 13 December 2016	1,176,793	1,923,185	3,099,978
Cash flows			
– Inflow from financing activities	1,235,000	575,887	1,810,887
– Outflow from financing activities	(1,987,832)	–	(1,987,832)
Foreign exchange adjustments *(Note 11)*	(21,163)	(18,273)	(39,436)
Other non-cash movements			
– Conversion of convertible bonds	–	(931,944)	(931,944)
– Reclassification	991,241	(991,241)	–
– Amortization of borrowing costs	16,900	2,651	19,551
At 31 December 2017	1,410,939	560,265	1,971,204

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

32. Commitments

(a) Capital commitments

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

	2017 *RMB'000*	2016 *RMB'000*
Purchase of property, plant and equipment – Contracted but not yet incurred	233,764	105,021

(b) Operating lease commitments – the Group as lessee

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

	2017 *RMB'000*	2016 *RMB'000*
No later than 1 year	3,193	3,453
Later than 1 year and no later than 5 years	67	611
	3,260	4,064

33. Related Party Transactions and Balances

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

(a) Transactions with related parties

The following transactions occurred with related parties:

(1) Non-recurring connected transaction

	2017 *RMB'000*	2016 *RMB'000*
Services purchased from a related party*	**28,222**	–

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

(2) Continuing connected transaction

	2017 *RMB'000*	2016 *RMB'000*
Sales of products to a related party*	**20,812**	–

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

33. Related Party Transactions and Balances *(Continued)*

(b) Key management compensation

	2017 *RMB'000*	2016 *RMB'000*
Salaries and allowances	**20,726**	17,564
Pension costs – defined contribution plan	**829**	684
Share options granted to key management *(Note 25)*	**10,191**	4,191
	31,746	22,439

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

(c) Year-end balances with related parties

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

(1) Trade receivables from a related party

	2017 *RMB'000*	2016 *RMB'000*
– A company controlled by a close family member of the controlling shareholder	**7,604**	–

(2) Other payables to a related party

	2017 *RMB'000*	2016 *RMB'000*
– A company controlled by a close family member of the controlling shareholder	**27,726**	–

(d) Terms and conditions

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

34. Events after the Balance Sheet Date

Other than the proposed final dividend described in Note 30, 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 2017

35. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**21**	41
Investment in subsidiaries		**460,066**	460,066
		460,087	460,107
Current assets			
Loans to subsidiaries		**912,310**	952,428
Due from subsidiaries		**819,187**	907,310
Deposits and other receivables		**658**	693
Cash and cash equivalents		**29,779**	11,787
		1,761,934	1,872,218
Total assets		**2,222,021**	2,332,325
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		**244,436**	207,222
Share premium		**1,736,726**	462,639
Other reserves	*(a)*	**21,953**	74,349
Retained earnings	*(a)*	**(373,997)**	(247,648)
Total equity		**1,629,118**	496,562
LIABILITIES			
Non-current liabilities			
Borrowings		**560,265**	931,944
Current liabilities			
Borrowings		**–**	865,757
Due to subsidiaries		**14,173**	14,173
Other payables and accruals		**18,465**	23,889
		32,638	903,819
Total liabilities		**592,903**	1,835,763
Total equity and liabilities		**2,222,021**	2,332,325

The balance sheet of the Company was approved by the Board of Directors on 27 March 2018 and was signed on its behalf.

Li Xuechun
Director

Zhao Qiang
Director

35. 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 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
At 1 January 2017	(247,648)	74,349
Loss for the year	(129,305)	–
Conversion of convertible bonds	–	(59,631)
Value of employee services	–	10,191
Expiry of share options issued	2,956	(2,956)
At 31 December 2017	(373,997)	21,953

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2017

36. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The emoluments of every director for the years ended 31 December 2017 and 2016 are set out as below:

	2017				
Name of Director	Fees	Salary	Other benefits (i)	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors:					
Li, Xuechun	–	2,776	–	16	2,792
Zhao, Qiang (vii)	–	4,500	1,674	49	6,223
Li, Deheng	–	1,101	–	49	1,150
Xu, Guohua (iv)	–	1,000	–	49	1,049
Pan, Yuehong (viii)	–	892	–	49	941
Li, Guangyu	–	800	–	49	849
Independent Non-executive Directors:					
Zheng, Yu	308	–	100	–	408
Sun, Yuguo (v)	213	–	100	–	313
Qi, Qingzhong	200	–	100	–	300
Xiao, Jianlin (vi)	40	–	–	–	40
	761	11,069	1,974	261	14,065

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

36. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

	2016				
Name of Director	Fees	Salary	Other benefits (i)	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 (iv)	–	1,000	–	46	1,046
Li, Guangyu	–	800	–	46	846
Independent Non-executive Directors:					
Zheng, Yu	205	–	17	–	222
Sun, Yuguo (v)	150	–	17	–	167
Qi, Qingzhong	100	–	17	–	117
	455	7,719	51	214	8,439

(i) Other benefits include share option.
(ii) Resigned on 25 July 2016.
(iii) Resigned on 19 September 2016.
(iv) Resigned on 5 June 2017.
(v) Resigned on 25 September 2017.
(vi) Appointed on 26 September 2017.
(vii) Appointed on 5 June 2017.
(viii) Appointed on 5 June 2017.

There was no bonus paid to the directors of the Company for the years ended 31 December 2017 and 2016.

No director waived or agreed to waive any remuneration for the years ended 31 December 2017 and 2016.

(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

2017	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	4.63	3.77	61,310
February	5.12	4.48	85,986
March	6.35	4.81	154,629
April	6.44	4.98	331,769
May	5.7	4.12	159,596
June	4.51	4.01	102,348
July	4.87	4.11	121,869
August	5.18	4.37	117,787
September	5.95	4.91	157,830
October	6.1	4.95	88,956
November	5.7	4.85	70,888
December	5.38	4.51	60,102

Issued capital at 31 December 2017 2,546,734,037 Shares

Closing price at 31 December 2017 HKD5.10 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
COFCO	China National Cereals, Oils and Foodstuffs Corporation
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Evonik	Evonik Nutrition & Care GmbH (贏創營養與消費化學品有限責任公司), having its registered office in Germany
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

Glossary *(Continued)*

Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
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 Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Longjiang Fufeng	齊齊哈爾龍江阜豐生物科技有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Longjiang Plant	the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC
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 announcement exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Procurement Framework Agreement	the procurement framework agreement entered into between the Company and the Purchaser dated 5 July 2017
Proposed Spin-off	the proposed spin-off of Shenhua Health Holdings Limited by the Company to be effected by way of the Distribution

Glossary *(Continued)*

SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
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
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company
Stock Exchange	the Stock Exchange of Hong Kong Limited
Summit Challenge	Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company
Xinjiang Fufeng	新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
U.S.	the United States of America
HKD	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of the PRC
USD	United States dollars, the lawful currency of the United States of America
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