STRICTLY CONFIDENTIAL – DO NOT FORWARD

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE PERSONS OR ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: **You must read the following disclaimer before continuing**. The following disclaimer applies to the offering memorandum following this page, you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached offering memorandum on the basis that you have confirmed your representation to Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited and UBS AG Hong Kong Branch (the "Joint Lead Managers") (1) that you are outside the United States and to the extent you purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), AND (2) that you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached offering memorandum is not a prospectus for the purposes of the European Union Directive 2003/71/EC (and amendments thereto) as implemented in member states of the European Economic Area (the "EEA").

PRIIPs Regulation/Prohibition of sales to EEA retail investors – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (the Insurance Mediation Directive), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

The communication of the attached offering memorandum and any other document or materials relating to the issue of the securities offered thereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended (the "FSMA"). Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order")), or who fall within Article 43 of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "relevant persons"). In the United Kingdom, the Securities offered thereby are only available to, and any investment or investment activity to which the attached offering memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached offering memorandum or any of its contents.

The attached offering memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Joint Lead Managers or any person who controls it or any of its directors, employees representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where it is unlawful to do so. The securities referred to in the attached offering memorandum have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this offering memorandum, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other items of a destructive nature. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The information in this preliminary offering memorandum is not complete and may be changed without notice. This preliminary offering memorandum is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where such offer, solicitation or sale is not permitted.

SUBJECT TO COMPLETION
PRELIMINARY OFFERING MEMORANDUM DATED AUGUST 15, 2018

OFFERING MEMORANDUM **CONFIDENTIAL**

US$

Fufeng Group Limited

(Incorporated in the Cayman Islands with limited liability)

% BONDS DUE 20
Issue Price: %

The US$ % Bonds due 20 (the "Bonds") will bear interest from , 2018 at % per annum payable semi-annually in arrears on and of each year, beginning , 20 . The Bonds will mature on , 20 .

At any time (i) if the Bonds are not rated by either Rating Agency, (ii) if the Bonds are rated by one Rating Agency only and the rating of the Bonds by the one Rating Agency is BB+ or lower or (iii) if the Bonds are rated by two Rating Agencies and the rating of the Bonds by both Rating Agencies is BB+ or lower, the Bonds shall bear interest at % per annum.

The Bonds are senior obligations of Fufeng Group Limited (the "Company" or the "Issuer").

Unless previously redeemed, or purchased or cancelled, the Bonds will be redeemed at their principal amount on , 20 . We may redeem all, but not less than all, of the Bonds at a price equal to their principal amount plus accrued and unpaid interest upon certain changes in the tax laws of certain jurisdiction. Upon the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Bonds outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of repurchase.

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4 of the Terms and Conditions) unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 of the Terms and Conditions, at all times rank at least equally with all its other present and future direct, unconditional, unsecured and unsubordinated obligations.

For a more detailed description of the Bonds, see "Terms and Conditions of the Bonds" beginning on page 79.

Investing in the Bonds involves risks. See "Risk Factors" beginning on page 10.

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) (together, "Professional Investors") only. **This document is for distribution to Professional Investors only. Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this offering memorandum, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this offering memorandum to Professional Investors only have been reproduced in this document. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the content of this offering memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

This offering memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of giving information with regard to the Company. The Company accepts full responsibility for the accuracy of the information contained in this offering memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge there are no other material facts the omission of which would make any statement herein misleading. The expected date of listing of the Bonds on the Hong Kong Stock Exchange is on or around , 2018.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold by the Joint Lead Managers (as defined herein) only outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on the resale or transfer of the Bonds, see "Subscription and Sale".

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the "NDRC Notice") promulgated by National Development and Reform Commission (the "NDRC") of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Bonds with the NDRC and obtained a certificate from the NDRC dated June 1, 2018 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Bonds to be reported to the NDRC within 10 working days after the issue date of the Bonds.

The Bonds are expected to be rated " " by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Investors should evaluate the rating independently of other rating (if any) of the Bonds or other securities of the Company.

It is expected that the delivery of the Bonds will be made on or about , 2018 through the book-entry facilities of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

DEUTSCHE BANK **HSBC** **UBS**

The date of this offering memorandum is , 2018

TABLE OF CONTENTS

This offering memorandum does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

This offering memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the "EEA").

PRIIPs Regulation/Prohibition of sales to EEA retail investors – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (the Insurance Mediation Directive), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Notification under Section 309B(1)(c) of the SFA – The Bonds are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The communication of this offering memorandum and any other document or materials relating to the issue of the securities offered thereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended (the "FSMA"). Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order")), or who fall within Article 43 of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "relevant persons"). In the United Kingdom, the Securities offered thereby are only available to, and any investment or investment activity to which this offering memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this offering memorandum or any of its contents.

This offering memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer, having made all reasonable enquiries, confirms that (i) this offering memorandum contains all information with respect to the Issuer and its respective subsidiaries (collectively, the "Group") and the Bonds, which is material in the context of the issue and offering of the Bonds; (ii) the statements contained in it relating to the Issuer, the Group and the Bonds are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Group or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this offering memorandum misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts in relation to the Issuer, the Group or the Bonds and to verify the accuracy of all such information and statements.

Neither the delivery of this offering memorandum nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof.

There has been no independent verification of any of the information contained herein. No representation or warranty, express or implied, is made or given by the Joint Bookrunners, the Trustee or the Agents as defined below (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them) as to the accuracy, completeness or sufficiency of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise, representation or warranty by the Joint Bookrunners, the Trustee (as defined below) or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them). This offering memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Joint Bookrunners the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them) that any recipient of this offering memorandum should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this offering memorandum and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THIS OFFERING, DEUTSCHE BANK AG, SINGAPORE BRANCH, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE BONDS IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE BONDS. AS A RESULT, THE PRICE OF THE BONDS MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Bonds. You should read this offering memorandum before making a decision whether to purchase the Bonds. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Bonds. By purchasing the Bonds, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Subscription and Sale" below.

The Joint Lead Managers (as defined herein) have not separately or independently verified the information contained in this offering memorandum. No representation or warranty, express or implied, is made by Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited and UBS AG Hong Kong Branch (the "Joint Lead Managers"), DB Trustees (Hong Kong) Limited (the "Trustee"), the Agents (as defined in the Terms and Conditions of the Bonds) or any of their respective directors, officers, employees, affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

To the fullest extent permitted by law, none of the Joint Bookrunners, the Trustee or the Agents accepts any responsibility for the contents of this offering memorandum or for any other statement in connection with the issue and offering of the Bonds, the Group or the Issuer made or purported to be made by the Joint Bookrunners or on their behalf. The Joint Bookrunners, the Trustee or the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise, which they might otherwise have in respect of this offering memorandum or any such statement.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Bonds (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Bonds) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Joint Lead Managers.

The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

We are not, and the Joint Lead Managers are not, making an offer to sell the Bonds in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Bonds may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Bonds and distribution of this offering memorandum, see "Subscription and Sale" below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. None of the Company, the Joint Lead Managers, the Trustee, the Agents or our or their respective directors, officers or advisors are making any representation to you regarding the legality of an investment in the Bonds by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Bonds.

We reserve the right to withdraw the offering of the Bonds at any time, and the Joint Lead Managers reserve the right to reject any commitment to subscribe for or purchase the Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. The Joint Lead Managers and certain related entities may acquire for their own account a portion of the Bonds.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY AND FINANCIAL INFORMATION PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms the "Company", the "Group", "Fufeng", "we", "us", "our" and words of similar import, we are referring to Fufeng Group Limited itself or to Fufeng Group Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Joint Lead Managers or its directors and advisors, and neither us, the Joint Lead Managers nor our or its directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Bonds, including the merits and risks involved.

The information and statistics set forth in this offering memorandum relating to the PRC and the biochemical industry in the PRC were taken or derived from various government and private publications. The Joint Lead Managers do not make any representation as to the accuracy of such information and statistics, which may not be consistent with other information or statistics compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the information and statistics herein may be inaccurate and should not be unduly relied upon.

We record and publish our financial information in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.6171 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on June 29, 2018, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK$7.8463 to US$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on June 29, 2018. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars and Hong Kong dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information".

In this offering memorandum, references to "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America (the "United States" or "U.S."); references to "HK$" and "H.K. dollars" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC ("Hong Kong" or "HK"), references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China; references to "Macau" are to the Macau Special Administrative Region of the PRC; references to the "PRC government" or "State" are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or, where the context requires, any of them; and references to the "PRC" and "China" are to the People's Republic of China and, for the purposes of this offering memorandum, do not include Hong Kong, Macau or Taiwan.

"Articles of Association" means the articles of association of the Company as adopted on January 10, 2007, as amended from time to time.

"Baoji Fufeng" means Baoji Fufeng Biotechnologies Co., Ltd., a wholly foreign owned enterprise established in the PRC with limited liability on September 24, 2004 and an indirect wholly owned subsidiary of the Company.

"Baoji Plant" means the production plant of the Group located at Baoji City in Shaanxi Province, the PRC.

"Baoji Plant Phase I" means phase I of the Baoji Plant, which commenced production in November 2004.

"Baoji Plant Phase II" means phase II of the Baoji Plant, which commenced production in November 2005.

"Board of Directors" or "Board" means the board of Directors of the Company.

"BVI" means the British Virgin Islands.

"CAGR" means Compound Annual Growth Rate.

"Connected person" and "controlling shareholder" each has the meaning ascribed to it in the Listing Rules (as defined below).

"Director(s)" mean the director(s) of the Company.

"Ever Soar" means Ever Soar Enterprises Limited, a company with limited liability incorporated in the BVI on March 25, 2004.

"Hong Kong Stock Exchange" means The Stock Exchange of Hong Kong Limited.

"Inner Mongolia" means Inner Mongolia Autonomous Region.

"Inner Mongolia Fufeng" means Neimenggu Fufeng Biotechnologies Co., Ltd., a wholly foreign-owned enterprise with limited liability established in the PRC on March 31, 2006 and an indirect wholly-owned subsidiary of the Company.

"Inner Mongolia Plant" means the production plant of the Group located in Hohhot, Inner Mongolia, the PRC.

"Inner Mongolia Plant Phase I" means phase I of the Inner Mongolia Plant, which commenced production in December 2006.

"Inner Mongolia Plant Phase II" means phase II of the Inner Mongolia Plant, which commenced production in the last quarter of 2008.

"Inner Mongolia Plant Phase III" means phase III of the Inner Mongolia Plant, which commenced production in the last quarter of 2009.

"IPO" means the initial public offering of the ordinary shares of HK$0.10 each in the share capital of the Company on February 8, 2007.

"Listing" means the listing of, and dealings in, our shares on the Hong Kong Stock Exchange.

"Listing Rules" means the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time.

"Motivator Enterprises" means Motivator Enterprises Limited, a company with limited liability incorporated in the BVI on March 23, 2004, which is wholly and beneficially owned by Mr. Li.

"Mr. Li Xuechun" or "Mr. Li" means Mr. Li Xuechun, the main founder, Chairman and the controlling shareholder of the Company.

"New EIT Law" means the new Enterprise Income Tax Law of the PRC, which first came into effect on January 1, 2008 and was subsequently amended and came into effect on February 24, 2017.

"Northeast China Fufeng" means Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd, our indirect wholly owned subsidiary.

"Northeastern Plant" means the production plant of the Group located in Hulunbeir, Inner Mongolia near the border with Heilongjiang Province.

"Northeastern Plant Phase I" means phase I of the Northeastern Plant, which commenced production in the second half of 2011.

"Northeastern Plant Phase II" means phase II of the Northeastern Plant which commenced construction by the end of 2011.

"Pre-IPO Share Option Scheme" means the share option scheme we adopted on January 10, 2007 for granting share options to certain of our Directors and employees before our IPO.

"Post-IPO Share Option Scheme" means the share option scheme we adopted on January 10, 2007 for granting share options to certain of our Directors and employees after our IPO.

"SAFE" means the PRC State Administration of Foreign Exchange (中國國家外滙管理局), the PRC government agency responsible for matters relating to foreign exchange administration.

"SFO" means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.

"Shandong Fufeng" means Shandong Fufeng Fermentation Co., Ltd., a company with limited liability established in the PRC on June 9, 1999 and an indirect wholly owned subsidiary of the Company.

"Shandong Plant" means the production plant of the Group located at Junan County, Shandong Province, the PRC, which commenced commercial production in November 2003.

"Shenhua Pharmaceutical" means Jiangsu Shenhua Pharmaceutical Co., Ltd., a company with limited liability established in the PRC on December 28, 2000 and an indirect wholly owned subsidiary of the Company.

"Tonnes" means metric tons.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes "forward-looking statements". All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "will", "may", "anticipate", "seek", "should", "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- the intensely competitive industries in which we operate;
- industry risks;
- general economic, political and social conditions and developments in China and other jurisdictions in which we sell our products;
- our financial condition;
- fluctuations of the prices of raw materials and our products;
- the achievement of our production capacity expansion plans;
- our ability to maintain our leading position in terms of production and sale of our products;
- market acceptance of our products; and
- risks associated with the introduction of new products.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this offering memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Bonds. You should read the entire offering memorandum, including the section entitled "Risk Factors" and our consolidated financial information and related notes thereto, before making an investment decision.

OVERVIEW

We are a global leading bio-fermentation products manufacturer with vertically integrated corn-based biochemical product lines. According to the China Fermentation Industry Association, we are the largest manufacturer of MSG in China based on production volume as of December 31, 2017, the largest manufacturer of xanthan gum in the world based on production capacity as of January 31, 2015 and the second largest manufacturer of threonine in the world based on production volume as of August 31, 2016. In June 2018, we were ranked 12th among the Top 50 Enterprises in China Food Industry and 34th among the Top 100 Enterprises in China Light Industry by China National Light Industry Council. We have a highly vertically-integrated production process along the entire corn-based biochemical product value chain, from wet milling and processing of corn into cornstarch and other refined corn products, to the production of corn-based biochemical products. Our diverse product offering includes the food additives segment (comprising MSG, chicken powder, starch sweetener and other related products), the animal nutrition segment (comprising threonine, tryptophan, corn-refined products and lysine), the high-end amino acid segment (comprising amino acid products and other related products) and the xanthan gum segment (comprising xanthan gum). Our products are widely used in the fast-growing food, beverage, cosmetics, pharmaceutical, shale gas and other industries. We believe our highly vertically-integrated production process allows us to diversify our product offering, lower our production costs and increase our competitiveness.

Our production facilities are strategically located in the major corn growing and/or coal mining reserve regions in Shandong Province, Shaanxi Province, Inner Mongolia and Xinjiang providing us with easy access to our major raw materials at relatively low prices. As at June 30, 2018, our annual production capacity of MSG, threonine, fertilizers and starch sweeteners was 1,330,000 tonnes, 243,000 tonnes, 1,080,000 tonnes and 420,000 tonnes, respectively. We plan to take advantage of our leading market position to further expand our production capacity, through the addition of new production lines at our existing plants, to meet the anticipated growth in demand for our products and to further increase the market share of our products. For example, the Longjiang Plant Phase II project is under construction as of the date of this offering memorandum and is expected to be officially put into operation within 2018.

We have developed and maintained strong and long-term relationships with our customers, some of them are domestically or internally renowned players in their industries, including, Ajinomoto, Evonik, Vedan and Haitian. Our cooperation with these companies has enabled us to enhance our market position. As of December 31, 2017, we had a total of over 5,000 customers.

We recognize the importance of using advanced technology to continually improve our production efficiency and to develop new products. As of December 31, 2017, we had a well-qualified and strong research and development team, comprising 360 members. Our research and development capabilities have played a key role in providing technical support facilitating our successful diversification from a glutamic acid and MSG manufacturer to one of the leading corn-based biochemical product manufacturers by broadening our product range to include products such as xanthan gum, starch sweeteners, fertilizers, threonine and high-end amino acid.

The majority of the products in our MSG segment are sold domestically in China, primarily to industrial manufacturers, trading companies and food additive distributors, and we export the majority of our xanthan gum. In the six months ended June 30, 2018, our sales to domestic and overseas markets accounted for approximately 73% and 27%, respectively, of our total sales. As of December 31, 2017, our sales and marketing team comprised approximately 473 personnel, serving more than 5,000 domestic customers spanning all municipalities, provinces and autonomous regions in China as well as overseas customers in over 115 countries and regions.

We have been listed on the Hong Kong Stock Exchange since February 8, 2007. We have been included as a constituent of the Morgan Stanley Capital International Global Small Cap Index since May 29, 2009 and the Hang Seng Composite Index since March 8, 2010. We have established a sponsored, unlisted ADR facility, which became effective on June 19, 2009. The ADRs are tradable in the United States in an over-the-counter market. Subsequent to our listing on the Hong Kong Stock Exchange, S&P upgraded our corporate rating from BB to BB+ in 2016 and further to BBB- in January 2018.

For the year ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our consolidated revenue was RMB11,225.7 million, RMB11,803.1 million, RMB13,033.5 million (US$1,969.7 million), RMB6,210.6 million and RMB6,610.2 million (US$999.0 million) respectively. As of December 31, 2015, 2016 and 2017 and June 30, 2018, our consolidated total assets were RMB13,850.2 million, RMB14,456.1 million, RMB15,966.5 million (US$2,412.9 million), and RMB17,744.9 million (US$2,681.7 million) respectively.

OUR STRENGTHS

We believe our rapid growth and strong market position are largely attributable to the following principal competitive strengths, which distinguish us from our competitors:

- Diversified product portfolio with leading market position;
- Vertically integrated operation and solid expansion to high value-added segments;
- Strategic locations of our production plants;
- Diversified customer base and long-term partnership with leading industrial players;
- Strong research and development capabilities;
- Prudent financial management policies; and
- Visionary and experienced management team

OUR BUSINESS STRATEGIES

Our goal is to become the leading corn-based biochemical manufacturer in the world. To achieve our goal, we intend to pursue the following strategies:

- Continue to expand our production capacity and consolidate our leading market position;
- Further enhance the degree of vertical integration of our production process and lower logistic and production cost;

- Continue to diversify our product offering;
- Continue to expand our marketing and distribution network and expand international cooperation;
- Continue to strengthen our brand recognition and consolidate our market position; and
- Continue to strengthen our research and development capabilities

GENERAL INFORMATION

Our Company was incorporated in the Cayman Islands on June 15, 2005 as an exempted company with limited liability with registration number CT-150296. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our principal place of business and headquarters in the PRC is located at Western section of Huaihai Road, Junan, Shandong, 276600, PRC. Our principal place of business in Hong Kong is Suite 1102, 11th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong. Our website is www.fufeng-group.com. Information contained on our website does not constitute a part of this offering memorandum.

THE OFFERING

The following summary sets forth certain basic information concerning the Bonds and is qualified in its entirety by the remainder of this Offering Memorandum. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see the section entitled "Terms and Conditions of the Bonds" of this Offering Memorandum.

Issuer	Fufeng Group Limited
Bonds	US$ per cent. Bonds due 20 (the "Bonds").
Issue Price	per cent.
Form and Denomination	The Bonds shall be issued in registered form in the denomination of US$200,000 each and in integral multiples of US$1,000 in excess thereof.
Interest	The Bonds will bear interest from and including 2018 at the rate of per cent. per annum, payable semi-annually in arrear on and in each year. At any time (i) if the Bonds are not rated by either Rating Agency, (ii) if the Bonds are rated by one Rating Agency only and the rating of the Bonds by the one Rating Agency is BB+ or lower or (iii) if the Bonds are rated by two Rating Agencies and the rating of the Bonds by both Rating Agencies is BB+ or lower, the Bonds shall bear interest at % per annum.
Interest Payments Dates	and of each year, commencing 20 .
Issue Date	2018.
Maturity Date	20 .
Status	The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4 of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4 of the Terms and Conditions of the Bonds, as applicable, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Negative Pledge	The Bonds will contain a negative pledge provision as further described in Condition 4 of the Terms and Conditions of the Bonds.

Cross-Default	The Bonds will contain a cross-default provision as further described in Condition 9 of the Terms and Conditions of the Bonds.
Events of Default	Upon the occurrence of certain events as described in Condition 9 of the Terms and Conditions of the Bonds, any holder of he Bonds may, by notice in writing given to the Trustee at its specified office, declare such Bonds to be immediately due and payable whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further formality.
Redemption for Taxation Reasons	With respect to the Bonds, the Issuer may redeem all and not some of the Bonds at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes affecting the taxes of the Cayman Islands or the PRC, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.
Redemption for Change of Control	With respect to the Bonds, at any time following the occurrence of a Change of Control Date, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds on the Change of Control Put Date at 101 per cent. of their principal amount, together with interest accrued but unpaid to the Change of Control Put Date (the foregoing defined terms as defined in the Terms and Conditions of the Bonds).
Redemption at the Option of the Issuer	The Issuer may at its option at any time redeem the Bonds, in whole but not in part, at a Make Whole Price (as defined in the Terms and Conditions of the Bonds) plus accrued and unpaid interest, if any, to (but excluding), the date fixed for redemption, as further described in Condition 6(d) of the Terms and Conditions of the Bonds.
Withholding Taxes	All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of the Cayman Islands or PRC withholding taxes, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject to certain exceptions, pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, as further described in Condition 8 of the Terms and Conditions of the Bonds.

Clearing Systems	The Bonds will be represented initially by beneficial interests in a global certificate (each a "Global Certificate"), which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in each Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in this Offering Memorandum, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificates.
ISIN	XS1834756063.
Common Code.	183475606
Further Issues	The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them). Further securities issued in such manner may be consolidated and form a single series with the previously outstanding Bonds or upon such terms as the Issuer may determine at the time of their issue.
Governing Law	The Bonds and the Trust Deed and the Agency Agreement relating to the Bonds are governed by and will be construed in accordance with English law.
Trustee	DB Trustees (Hong Kong) Limited.
Principal Paying Agent, Registrar and Transfer Agent	Deutsche Bank AG, Hong Kong Branch.
Listing	Application will be made to the HKSE for listing of, and permission to deal in, the Bonds by way of debt issue to Professional Investors only.
Rating	The Bonds are expected to be rated " " by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.
Use of Proceeds	See "Use of Proceeds".

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information as of and for the years ended December 31, 2015, 2016 and 2017 (except for EBITDA data) have been derived from our audited consolidated financial statements for the years ended December 31, 2016 and 2017, which have been audited by PricewaterhouseCoopers, our independent auditors, and are included elsewhere in this offering memorandum. The summary condensed consolidated financial information as of and for the six months ended June 30, 2017 and 2018 (except for EBITDA data) have been derived from our unaudited condensed consolidated financial information for the six months ened June 30, 2018, which have been reviewed by PricewaterhouseCoopers, our independent auditors, and are included elsewhere in this offering memorandum. Results for interim periods are not indicative of the results for the year. Our consolidated financial information has been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. Our financial results for any past period are not and should not be taken as an indication of our performance, financial position and results in future years.

SUMMARY CONSOLIDATED INCOME STATEMENT AND OTHER FINANCIAL DATA

	Year ended December 31,				Six months ended June 30,		
	2015	2016	2017		2017	2018	
	(RMB)	(RMB)	(RMB)	(US$) (unaudited)	(RMB) (unaudited)	(RMB) (unaudited)	(US$) (unaudited)
	(in thousands, except for percentages)						
Revenue	11,225,722	11,803,131	13,033,501	1,969,670	6,210,619	6,610,222	998,961
Cost of sales	(9,423,231)	(9,396,758)	(10,054,030)	(1,519,401)	(4,809,012)	(5,488,745)	(829,479)
Gross profit	1,802,491	2,406,373	2,979,471	450,268	1,401,607	1,121,477	169,482
Selling and marketing expenses	(708,931)	(816,603)	(981,508)	(148,329)	(489,830)	(534,920)	(80,839)
Administrative expenses	(512,997)	(516,315)	(506,556)	(76,553)	(228,201)	(254,304)	(38,431)
Other operating expenses	(47,375)	(29,252)	(17,249)	(2,607)	(20,992)	(17,801)	(2,690)
Other income	440,503	363,855	280,661	42,415	124,373	131,177	19,824
Other gains/(losses) – net	59,783	102,361	(40,033)	(6,050)	3,923	(10,332)	(1,561)
Operating profit	1,033,474	1,510,419	1,714,786	259,145	790,880	435,297	65,784
Finance income	14,412	9,466	46,414	7,014	22,410	1,911	289
Finance costs	(368,112)	(218,634)	(109,168)	(16,498)	(42,993)	(70,524)	(10,658)
Finance costs – net	(353,700)	(209,168)	(62,754)	(9,484)	(20,583)	(68,613)	(10,369)
Share of net profit of associates accounted for using the equity method	–	647	749	113	53	115	17
Profit before income tax	679,774	1,301,898	1,652,781	249,774	770,350	366,799	55,432
Income tax expenses	(163,513)	(209,386)	(270,401)	(40,864)	(127,790)	(51,801)	(7,828)
Profit for the year/period attributable to the Shareholders	516,261	1,092,512	1,382,380	208,910	642,560	314,998	47,604
Other Financial Data (unaudited)							
EBITDA(1)	1,799,568	2,364,499	2,608,433	394,196	1,248,497	918,756	138,846
EBITDA margin(2)	16.0%	20.0%	20.0%	20.0%	20.1%	13.9%	13.9%

Notes:

(1) We calculate EBITDA by adding depreciation and amortization expenses to operating profit. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. The table below reconciles our operating profit to our definition of EBITDA for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2015	2016	2017		2017	2018	
	(RMB)	(RMB)	(RMB)	(US$) (unaudited)	(RMB) (unaudited)	(RMB) (unaudited)	(US$) (unaudited)
	(in thousands, except for percentages)						
Operating profit	1,033,474	1,510,419	1,714,786	259,145	790,880	435,297	65,784
Add back：							
Depreciation	746,813	826,546	867,902	131,160	444,925	469,914	71,015
Amortisation of leasehold land payments	16,493	26,928	23,714	3,584	11,906	12,401	1,874
Amortisation of intangible assets	2,788	606	2,031	307	786	1,144	173
EBITDA	1,799,568	2,364,499	2,608,433	394,196	1,248,497	918,756	138,846
EBITDA Margin	16.0%	20.0%	20.0%	20.0%	20.1%	13.9%	13.9%

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

SUMMARY CONSOLIDATED BALANCE SHEET

	As of December 31,				As of June 30,	
	2015	2016	2017		2018	
	(RMB)	(RMB)	(RMB)	(US$) (unaudited)	(RMB) (unaudited)	(US$) (unaudited)
	(in thousands, except for percentages)					
ASSETS						
Non-current assets						
Leasehold land payments	1,510,060	1,413,942	1,393,941	210,657	774,958	117,114
Property, plant and equipment	7,566,778	7,858,775	9,234,061	1,395,485	9,958,091	1,504,903
Intangible assets	1,051	9,108	17,791	2,689	18,912	2,858
Investments accounted for using the equity method	–	30,647	31,396	4,745	31,511	4,762
Deferred income tax assets	143,072	184,396	182,447	27,572	183,788	27,775
Long-term bank deposits	–	20,100	–	–	–	–
	9,220,961	9,516,968	10,859,636	1,641,147	10,967,260	1,657,412
Current assets						
Inventories	2,191,849	2,481,911	3,229,895	488,113	2,963,527	447,859
Trade and other receivables	1,213,787	1,035,076	1,361,559	205,764	2,282,822	344,988
Other assets Cash and bank balances	1,019,069	1,422,147	515,444	77,896	822,155	124,247
	4,424,705	4,939,134	5,106,898	771,773	6,068,504	917,094
Assets of disposal group classified as held for sale	204,512	–	–	–	709,101	107,162
	4,629,217	4,939,134	5,106,898	771,773	6,777,605	1,024,256
Total assets	13,850,178	14,456,102	15,966,534	2,412,920	17,744,865	2,681,668
EQUITY						
Capital and reserves attributable to the Shareholders						
Share capital	207,222	207,222	244,436	36,940	244,436	36,940
Share premium	555,157	462,639	1,736,726	262,460	1,510,568	228,282
Other reserves	227,655	319,980	384,178	58,058	387,775	58,602
Retained earnings	4,817,025	5,826,023	7,094,765	1,072,186	7,410,669	1,119,927
Total equity	5,807,059	6,815,864	9,460,105	1,429,645	9,553,448	1,443,751
LIABILITIES						
Non-current liabilities						
Deferred income	752,287	707,501	721,936	109,102	808,579	122,195
Borrowings	1,992,221	1,923,185	560,265	84,669	570,517	86,219
Deferred income tax liabilities	16,650	16,650	16,650	2,516	16,650	2,516
	2,761,158	2,647,336	1,298,851	196,287	1,395,746	210,930
Current liabilities						
Trade, other payables and accruals	3,311,193	3,721,615	3,685,015	556,893	3,261,935	492,955
Contract liabilities	–	–	–	–	666,464	100,718
Current income tax liabilities	68,377	94,494	111,624	16,869	39,551	5,977
Borrowings	1,845,920	1,176,793	1,410,939	213,226	2,826,522	427,154
	5,225,490	4,992,902	5,207,578	786,988	6,794,472	1,026,805
Liabilities of disposal group classified as held for sale	56,471	–	–	–	1,199	181
	5,281,961	4,992,902	5,207,578	786,988	6,795,671	1,026,986
Total liabilities	8,043,119	7,640,238	6,506,429	983,275	8,191,417	1,237,916
Total equity and liabilities	13,850,178	14,456,102	15,966,534	2,412,920	17,744,865	2,681,668

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before investing in the Bonds. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Bonds, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

We may not be able to maintain our leading position.

We are a global leading bio-fermentation products manufacturer with vertically integrated corn-based biochemical product lines. According to the China Fermentation Industry Association, we are the largest manufacturer of MSG in China based on production volume as of December 31, 2017, the largest manufacturer of xanthan gum in the world based on production volume as of January 31, 2015 and the second largest manufacturer of threonine in the world based on production volume as of August 31, 2016. In the six months ended June 30, 2018, we produced 488,405 tonnes of MSG and 25,252 tonnes of xanthan gum. We have increased our share in China's MSG market in recent years and have also increased our market share in the xanthan gum market globally. We cannot assure you that we can maintain or increase our competitiveness and market position. Should we fail to maintain our leading position in terms of production of MSG and/or xanthan gum relative to other manufacturers in the industry, our financial condition and results of operations may be adversely affected.

Our leading market position has enabled us to benefit from comparatively stronger bargaining power in procuring raw materials, determining product pricing and responding effectively to changing market conditions and competition pressures, which in turn have contributed to our significant growth and stable profit margin. We have further expanded our production capacity through the construction of our Northeastern Plant and the expansion of our existing production plants. We cannot assure you that such anticipated expansion of production capacity can be achieved or that such anticipated expansion will lead to an increase in output, and we cannot assure you that we can maintain our position as a leading manufacturer of our core products or that our leading position may enable us to maintain our profitability or revenue growth.

In addition, we face competition from companies offering similar products in China and elsewhere and such competitive pressures could have an adverse impact on the supply and pricing of our products, reduce our market share and have an adverse impact on our financial performance or profitability. In particular, the recent demand for xanthan gum and the potential for further growth in the xanthan gum market may lead to new entrants and increased competition in the sector. There is no assurance that we can maintain or grow our market share in the face of such increased competition.

We are subject to the volatility of prices of corn and rely heavily on a sufficient supply of corn for our business.

Corn is one of the major raw materials for our products and accounted for 58.4%, 52.4%, 48.6%, 47.0% and 42.9%, respectively, of our total cost of production in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018. In the same periods, our average unit cost of corn was

RMB1,811 per tonne, RMB1,408 per tonne, RMB1,307 (US$198) per tonne, RMB1,272 per tonne and RMB1,417 (US$214) per tonne. Our average unit cost of corn is closely related to the market price of corn in China, which is affected by factors including market demand and supply, domestic government policy and the occurrence of climatic and other natural disasters such as droughts, floods or earthquakes, most of which are beyond our control. We cannot assure you that we will be able to adjust the prices of our products to pass on any increase in the price of corn to our customers. Any failure to pass on any significant increase in the price of corn to our customers, or any significant increase in the price of corn may have an adverse effect on our financial condition and results of operations. We may not be able to achieve the same level of profitability in 2018 or any future period as in previous years.

Our operations rely heavily on a sufficient supply of corn. Historically, we have purchased corn directly from local farmers and National Grain Trade Center, and have not entered into any long term procurement agreements with any of them. We cannot assure you that we will continue to be able to procure a sufficient supply of corn from local farmers at a price acceptable to us in the future or at all. Any interruption in the supply of corn may have an adverse effect on our financial condition and results of operations.

Fluctuations in the prices of our products may have an adverse effect on our financial condition and results of operations.

Our main products are MSG, xanthan gum, threonine, starch sweetener and other related products. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, revenues from the sale of MSG accounted for 57.2%, 54.4%, 48.7%, 48.3% and 50.3%, respectively, of our total revenue. For the year ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, the average selling price of our MSG was RMB6,744 per tonne, RMB5,910 per tonne, RMB5,522 (US$835) per tonne, RMB5,475 per tonne and RMB5,838 (US$882) per tonne, respectively. We believe that fluctuations in the price of our MSG reflected changes in the supply and demand dynamics in the market which is, in turn, subject to many factors relating to the industry for corn-based biochemical products and the wider economy, which are beyond our control. We cannot assure you that the price of MSG can remain at the selling prices achieved in the past and any reduction in the market price of MSG in the future may have an adverse effect on our financial condition and results of operations. We continue to look for opportunities to increase our market share and strengthen our leading position, and therefore may set different prices for our products compared to market prices from time to time. For example, despite an increase in the prices of raw materials, in particular corn kernels, in the three months ended March 31, 2018, we decided to lower the average selling price of MSG, which had a negative impact on our profitability in the six months ended June 30, 2018. Subsequently, we increased the average selling price of MSG in the three months ended June 30, 2018 to offset the increase in the prices of corn kernels. We may or may not take similar actions in the future in similar situations, and our business, results of operations and profitability may be negatively affected as a result of the actions taken.

In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, revenues from the sale of xanthan gum accounted for 8.6%, 4.8%, 5.4%, 5.3% and 5.9%, respectively, of our total revenues. The average selling price of our xanthan gum in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018 was RMB15,013 per tonne, RMB10,738 per tonne, RMB13,289 (US$2,008) per tonne, RMB12,624 per tonne and RMB15,004 (US$2,267) per tonne, respectively. The xanthan gum price has seen recent fluctuations. There is no guarantee that the current demand or price levels for xanthan gum will be maintained. We cannot assure you that the market price of xanthan gum will remain at its current level, and any decrease in the market price of xanthan gum may have an adverse effect on our financial condition and results of operations.

In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, revenues from the sale of threonine accounted for 5.3%, 8.6%, 10.7%, 10.2% and 10.1%, respectively, of our total revenues. The average selling price of our threonine in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018 was RMB11,097 per tonne, RMB8,473 per tonne, RMB8,629 (US$1,304) per tonne, RMB8,319 per tonne for and RMB8,311 (US$1,256) per tonne, respectively. There is no guarantee that the current demand or price levels for threonine will be maintained. We cannot assure you that the market price of threonine will remain at its current level, and any decrease in the market price of threonine may have an adverse effect on our financial condition and results of operations.

In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, revenues from the sale of starch sweeteners accounted for 6.4%, 5.4%, 5.4%, 5.0% and 6.6%, respectively, of our total revenues. The average selling price of our starch sweetener in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018 was RMB2,954 per tonne, RMB2,486 per tonne, RMB2,660 (US$402) per tonne, RMB2,702 per tonne and RMB2,709 (US$409) per tonne, respectively. There is no guarantee that the current demand or price levels for starch sweetener will be maintained. We cannot assure you that the market price of starch sweetener will remain at its current level, any decrease in the market price of starch sweetener may have an adverse effect on our financial condition and results of operations.

Disruption in coal supply as well as increases in the coal price may adversely affect our financial condition and results of operations.

Coal is the primary energy source for our production process. In the six months ended June 30, 2018, the cost of coal accounted for 15.1% of our total cost of production. Our results of operations are sensitive to the fluctuation of the price of coal. Historically, we have obtained coal through purchases in the open market, and have not experienced any interruption in operations caused by inadequate coal supply. However, we cannot assure you that, in the event of coal supply shortfalls, we will be able to procure a sufficient supply of coal and that our financial condition and results of operations would not be adversely affected. In the event of increases in the price of coal, we cannot assure you that we will be able to adjust the prices of our products to pass on any increase in the price of coal to our customers. Any failure to pass on any significant increase in the price of coal to our customers, or any significant increase in the price of coal, may have an adverse effect on our financial condition and results of operations.

We may not be able to successfully implement our product diversification strategy.

As part of our strategy, we intend to leverage our position and reputation as a leading global manufacturer of MSG and xanthan gum and our vertically-integrated corn-based biochemical production business model to capitalize on new market opportunities presented by other biochemical and amino acid products. We manage to expand the production capacity of threonine products in 2016 which were developed in 2009 in response to market demand for higher value-added corn-based biochemical products. In addition, we have launched two new products in 2016, namely pectin and polyglutamic acid, and our high-end amino acid product portfolio has then been further diversified. However, we still rely on MSG and xanthan gum for a substantial portion of our revenue, and we cannot assure you that our product diversification strategy will be successfully implemented or that the new products will be commercially successful or would effectively improve our profitability. Failure to realize commercial benefits from the implementation of our product diversification strategy or to successfully bring to market new products may adversely affect our business and financial position.

The discontinuation of or reduction in any preferential tax treatments currently available to us in the PRC may have an adverse effect on our financial condition and results of operations.

Under the New EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a uniform 25.0% income tax rate. Furthermore, 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") "No. [2011] 58 Circular", companies set up in the western region and satisfying relevant requirements under the No. [2011] 58 Circular will be entitled to a preferential tax rate of 15% in respect of the enterprise income tax during the period from January 1, 2011 to December 31, 2020. Four subsidiaries of the Group including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and satisfy relevant requirements under the No. [2011] 58 Circluar and therefore they are entitled to the above said preferential tax rate of 15% in respect of the enterprise income tax. Furthermore, Shandong Fufeng, one subsidiary of the Group, is qualified as a high and new technology enterprise in Shandong and therefore enjoys the preferential tax rate of 15% for its income tax from 2016 to 2019.

Any discontinuation or reduction in preferential tax treatments may have an adverse effect on our financial condition and results of operations. In addition, we cannot assure you that any of our PRC subsidiaries will be able to obtain any further preferential tax treatments when existing preferential tax treatments expire.

The unavailability of government grants may affect our business adversely.

During the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, we received government grants in the amounts of approximately RMB557.7 million, RMB185.7 million, RMB507.4 million (US$76.7 million), RMB50.4 million and RMB45.7 million (US$6.9 million), respectively. Government grants include grants which are to be applied towards operational costs and grants which are to be applied towards capital investments on an amortized basis over a period of time depending on the nature of the asset. The form and amount of such grants vary according to government policies prevailing at that time with respect to the agricultural industry in China. The amounts of and conditions attached to such grants are determined at the sole discretion of the relevant government authorities. We cannot assure you that we will be eligible to continue to receive such government grants or that the amount of any such grants will not be reduced in the future, and even if we continue to be eligible, we cannot guarantee any conditions attached to the grants will be as favorable to us as they have historically been. In the event we are not able to receive future government grants, and are not able to arrange for alternative funding on similar terms, our financial condition and results of operations may be adversely affected.

We may not successfully manage our growth.

As the scale of our operations grows, we will have to continually improve our management, operational and financial systems and strengthen our internal procedures and controls. The expansion of our business operations may also require us to establish and develop new relationships with our customers, suppliers, research partners and other third parties. Our expansion plans may be affected by a number of factors which may not be within our control. These factors include fluctuations in domestic and international demand for our products, changes in consumer taste and preference, increasing competition in the industry, and our ability to obtain sufficient financing for our expansion efforts. Any unfavorable change in any of these factors may disrupt our expansion plans and have a material adverse effect on our business, results of operations and financial position. In addition, our new plants, particularly during their ramp-up periods, may suffer from variable quality of products. This may impact our relationship with customers and our profitability.

As we continue to expand, we will also need to improve our corporate governance standards and increase transparency of our communication with our security holders and the market. We cannot assure you that our existing or future management, operational and financial systems, procedures and controls (including those relating to corporate governance) will be adequate to support our expansion and future operations or that we will be able to establish or develop business relationships beneficial to our future operations. Further, we may not be able to obtain adequate financing to complete construction and commence commercial operations of new production bases and processing facilities. Failure to scale our business appropriately and to manage our growth effectively could have a material adverse effect on our business, results of operations and financial position.

Our results of operations of any historical period may not be representative of our future performance.

We experienced revenue growth in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our revenue was RMB11,225.7 million, RMB11,803.1 million, RMB13,033.5 million (US$1,969.7 million), RMB6,210.6 million and RMB6,610.2 million (US$999.0 million), respectively, and the profit attributable to our shareholders was RMB516.3 million, RMB1,092.5 million, RMB1,382.4 million (US$208.9 million), RMB642.6 million and RMB315.0 million (US$47.6 million), respectively. We cannot assure you that we will continue to grow at a stable rate, or at all, or that we will not experience a decrease in revenue. We have faced and will continue to face challenges including rising raw material costs and increasing competition for employees and future growth opportunities. Our consolidated net profit for the six months ended June 30, 2018 decreased significantly as compared to that for the same period in 2017. The decrease is primary due to the significant increase in raw material cost such as corn kernel costs and coal costs which was not passed on to our end customers. Consequently, our past results of operations may not be representative of our future performance.

We have a large and diversified customer base and the majority of the sales proceeds are received in cash or bank notes. As a result, there was limited provision for impairment of trade receivables historically. However, there may be situations where some customers are unable to make the payment timely due to their financial or liquidity difficulties, in which case we may need to make a larger provision for impairment of trade receivables. Such failure to pay by our customers or provision for impairment may have a negative impact on our results of operations. We had a balance of provision for impairment of RMB20.5 million as of June 30, 2018.

Changing tastes and preferences of MSG consumers may affect the sale of our MSG.

For the years ended December 31, 2015, 2016 and 2017 and the six months June 30, 2017 and 2018, our revenues derived from the sale of MSG accounted for approximately 57.2%, 54.4%, 48.7%, 48.3% and 50.3% of our total revenues, respectively. We expect the sale of MSG to continue to be a significant contributor to our revenues and profits in the future. Whether we can successfully maintain or expand our sale of MSG, however, is subject to product price, the availability of substitute products, changes in consumers' tastes and cooking and dining preferences, changes in demand for products of our customers which use MSG as an ingredient and many other factors which are beyond our control. We note that some anecdotal reports expressed food safety concerns in connection with the application of MSG as a food additive. Although we believe we have satisfied the requirements of food safety and other relevant laws and regulation in both the PRC and the overseas market where we export MSG, some consumers may change their tastes or cooking and dining preferences out of perceived food safety concerns and cease to use MSG as a food additive. We cannot assure you that MSG consumers will not change their consumption or cooking patterns under the influence of such reports regarding possible health effects of MSG or more authoritative or influential reports will not be published in the future. We also cannot assure you that the regulatory authorities in the PRC and the overseas market where we distribute MSG will not change their attitude towards the regulation of MSG's applications. If any of the above uncertainties are substantiated, the sale of our MSG may be adversely affected which may in turn adversely affect our financial condition and results of operations.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

We now have, and will continue to have after the offering of the Bonds, a substantial amount of indebtedness. As of December 31, 2015, 2016 and 2017 and June 30, 2018, our total borrowings amounted to RMB3,838.1 million, RMB3,100.0 million, RMB1,971.2 million (US$297.9 million) and RMB3,397.0 million (US$513.4 million), respectively.

Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Bonds and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

There may be substitute products for MSG and xanthan gum.

Substitute products which can provide similar or better qualities than MSG and xanthan gum may be developed in the future. If any such substitute product gains wider application and popularity than our products, our sales of MSG and/or xanthan gum may be adversely affected and our financial condition and results of operations may be adversely affected.

A material disruption to our production lines could adversely affect our ability to generate revenue.

Our production lines and facilities are all located in China. Our production facilities typically operate 24 hours a day with three shifts, and we conduct annual inspections, repairs and maintenance during which our facilities are closed temporarily for one to three weeks every year. We cannot assure you that there will be no disruption to the operations of our production lines. If operations at any of our facilities were to be materially disrupted as a result of equipment failure, natural disasters, work stoppages, power outages, explosions, government instructed relocation, adverse weather conditions or other factors, our financial condition and results of operations could be adversely affected. The occurrence of any of these significant events could also require us to make significant unanticipated capital expenditure.

Interruptions in production could increase our costs and delay our delivery of products. Production capacity limits caused by such disruptions could cause a reduction or delay in sales efforts. Lost sales or increased costs that we may incur due to such disruption of operations may not be recoverable under our existing insurance policies, and prolonged business disruptions could result in a loss of customers. If any one or more of the above risks were to materialize, our financial condition and results of operations may be adversely affected.

We may not be able to meet regulatory requirements imposed by the governments of our export destinations and governments may impose taxes or penalties on our export products.

Certain countries to which we export our products may impose technical, hygiene or environmental requirements on our products, which may be higher than the standards imposed by the PRC government. These countries may also require us to obtain various permits, licenses and approvals for our exported products. We cannot assure you that we will be able to meet the relevant standards or obtain the requisite permits, licenses and approvals. If we fail to reach the relevant standards adopted by these countries or obtain the requisite permits, licenses and approvals now or in the future, our ability to export to these markets could be materially and adversely affected.

Certain of our products, including xanthan gum, have been subject to anti-dumping actions in the United States. New anti-dumping or other actions may be taken against the Group or our products in the future. If these actions result in additional tariffs, penalties or taxes being charged on the export of our products, our financial condition and results of operations may be adversely affected. Historically, the Group received a notice from the United States Department of Commerce confirming that the Group was required to pay a tax rate which was the lowest among all PRC competitors in relation to exports of xanthan gum into the United States as the Group was deemed to genuinely possess a lower average cost of production. With the lowest tax rate in the Chinese xanthan gum industry, we currently have an advantage in the United States market. However, there can be no guarantee that this tax rate will remain lower than our competitors. If the tax rate is increased or we otherwise lose our current advantage in the United States market, our financial condition and results of operations may be adversely affected.

Our research and development efforts may be unsuccessful.

We believe our ability to develop new products in response to the changing market demands differentiates us from many of our competitors and is essential to the future development of our business, and we are committed to continually strengthen our research and development capability. We believe we have a strong research and development team, and we have made continuous efforts to upgrade our technological know-how, improve our production processes and expand our portfolio with new products. However, research and development activities require considerable amounts of human resources and capital investments. In the event that our research and development efforts fail to achieve the goals as planned, our financial condition and results of operations may be adversely affected.

Our products may be susceptible to product liability claims.

In line with industry practice, we do not currently maintain any third party liabilities or product liabilities insurance to cover any claims in respect of personal injury or defects in, or deterioration of, our products. We cannot assure you that we will not be subject to product liability claims in the future. Any product liability claim and any legal proceedings, arbitration or administrative sanctions or penalties arising therefrom could have an adverse effect on our financial condition, results of operations and reputation. Even if we are able to defend successfully any such claims, we cannot assure you that users will not lose confidence in our products as a result of the claims, which may adversely affect our future business and reputation. Furthermore, any product liability claim, even one without merit, could result in our management expending significant time and resources and us incurring significant expenses in defending such claim.

Our business requires significant and continuous capital investment.

Our business is capital intensive and we may be required to make significant capital investment to develop our business in the future. We cannot assure you that in the future we will be able to secure sufficient capital to fund planned capital expenditures. In particular, the availability of external funding is subject to various factors, some of which are beyond our control, including the obtaining of governmental approvals, prevailing capital market conditions, credit availability, interest rates and the performance of the businesses we operate. Our inability to arrange sufficient funding in a timely manner on terms that are satisfactory to us could adversely affect our business, results of financial condition and expansion plans.

We may not be able to successfully expand our marketing and distribution network.

As part of our strategy, we intend to expand our domestic and international marketing and distribution network through expanding our geographical coverage, as well as deepening the coverage of our existing markets. The expansion of our marketing and distribution network and the exploration of new markets will require significant capital expenditure as well as human resources. We cannot assure you that we can successfully implement the market expansion strategy or that such market expansion can successfully improve our profitability.

The interests of our controlling shareholder may conflict with the interests of the holders of the Bonds.

As of the date of this offering memorandum, our controlling shareholder, Mr. Li Xuechun, beneficially owned approximately 38.94% of our issued share capital. Subject to the Memorandum and Articles of Association and applicable laws and regulations, our controlling shareholder will continue to have the ability to exercise a controlling influence on our management, policies and business by controlling the composition of our board, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. We cannot assure you that our controlling shareholder will not cause us to enter into transactions or take, or fail to take, other actions or make decisions that may conflict with the best interests of the holders of the Bonds.

Our growth depends on our ability to continue to attract and retain qualified personnel, including our senior management members.

We rely on our employees, which include skilled workers, equipment operators, engineers and other technical personnel for daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be adversely affected. Additionally, a significant increase in the wages paid by competing employers could result in a reduction in our skilled labor force and/or increases in our rates of wages.

In addition, the industry expertise and extensive contributions of our executive directors and other members of our senior management are essential to our continuing success. As we continue to grow our business, we will increasingly require more employees and executives who have industry-related experience and expertise. We cannot assure you that we will not at any time lose the services of any of our senior management members or directors. If this occurs, we may not be able to recruit and retain replacement personnel with equivalent qualifications on a timely basis, the growth of our business may be adversely affected.

We may not be able to renew certain licenses, certificates and permits for our operations.

Under PRC law, we are required to obtain appropriate licenses, certificates and permits from relevant PRC governmental authorities. We believe we have obtained all necessary licenses, certificates and permits for the production and sale of our products. However, we cannot assure you that we will be able to renew such licenses, certificates and permits upon their expiration. In addition, eligibility criteria for these licenses, certificates and permits may change from time to time and additional licenses, certificates and permits may be required and higher compliance standards may have to be observed. In the event of the introduction of any new law or regulation, or change in the interpretation of any existing law or regulation that may increase compliance costs for us or make it more expensive for us to continue with the operation of any part of our business, our financial condition and results of operations may be adversely affected.

We might be susceptible to claims that our eubacteria material medicine products are not as effective as we claim.

Our marketing campaigns rely heavily on the assertions and implications that our eubacteria material medicine products will have particular effects. For example, we claim that our Liqing Capsule has curative effects to certain chemical liver damagers. If consumers or the media claim that our eubacteria material medicine products are not as effective as we claim them to be, we may incur legal and financial costs and liabilities and suffer damages to our brands and reputation. Furthermore, some of our competitors may aggressively use these claims against us. Defending such claims could be costly and time-consuming and may divert financial and other resources away from our business and operations. In addition, the medical effectiveness stated on our eubacteria material medicine products is subject to periodic regulatory review, and any changes in regulations concerning regulatory review standards, as well as any unfavorable new regulatory findings, may result in certain medical effectiveness assertions and implications not being recognized. As a result, our brand, reputation, business, financial condition and results of operations may be materially and adversely affected.

If our eubacteria material medicine products cause, or are perceived to cause, severe side effects, our revenue and profitability could be adversely affected.

Our eubacteria material medicine products may cause undesirable or unintended side effects as a result of a number of factors, many of which are outside our control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by end-users. Our eubacteria material medicine products may also be perceived to cause severe side effects when a conclusive determination as to the cause of the severe side effects is not obtained or is unobtainable.

In addition, our eubacteria material medicine products may be perceived to cause severe side effects if other companies' products containing the same or similar active ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects, or if one or more regulators, such as the CFDA, or an international institution, such as the World Health Organization, determines that products containing the same or similar ingredients as our eubacteria material medicine products' could cause or lead to severe side effects. As a result of these consequences, our sales and profitability could be adversely affected.

Our insurance coverage may be insufficient to cover all risks of loss associated with our business operations.

We maintain insurance policies that cover our fixed assets (including our buildings and machinery) and our current assets (including our inventory) against damage caused by, among other things, fire, explosions, thunderstorms, typhoons and landslides. We cannot, however, guarantee that our insurance polices will provide adequate compensation for all potential losses. Consistent with established practice in China, we do not carry any insurance for business interruption or loss of profit arising from accidents at any of our production facilities or other disruptions of our operations. Accidents or natural disasters may also result in significant property damage, disruption to our operations and personal injuries, and our insurance coverage may be inadequate to cover such losses. In the case of an uninsured loss or a loss in excess of insured limits, we could suffer from damage to our reputation or lose all or a portion of our production capacity as well as future revenue contribution from the relevant facilities.

Our products are or may be sold to countries, governments, entities, or persons targeted by United States economic sanctions.

The U.S. Government, including the State Department and the Department of the Treasury's Office of Foreign Assets Control, or OFAC, administers certain laws and regulations, or the U.S. Economic Sanctions Laws, that impose restrictions upon U.S. persons and, in some instances, non-U.S. persons, including foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of the U.S. Economic Sanctions Laws, or Sanctions Targets. Under the U.S. Economic Sanctions Laws, U.S. persons are generally prohibited from facilitating such activities or transactions. U.S. Economic Sanctions Laws targeting Iran also authorize extraterritorial sanctions against non-U.S. persons who engage in trade or other transactions involving Iranian individuals or entities designated by OFAC as specially designated nationals and blocked persons. In addition, on May 8, 2018, President Trump announced that he was terminating the United States' participation the Joint Comprehensive Plan of Action with Iran, and he directed his administration to begin the process of fully reimposing sanctions that target certain sectors in Iran, including its energy, petrochemical and financial sectors. Following certain wind-down periods, the later of which ends on November 4, 2018, non-U.S. persons engaged in such targeted activities involving Iran will face exposure to secondary U.S. sanctions. Further, with the withdrawal of the United States from the Joint Comprehensive Plan of Action (JCPOA), the United States is reinstating sanctions targeting persons who provide material assistance to Iranian persons or entities included on OFAC's Specially Designated Nationals List. In addition, U.S. dollar transfers in transactions with sanctioned countries may create heightened risks for non-U.S. persons.

We generated revenue and profit from the sale of our products to certain Sanctions Targets, including Iran, Syria, North Korea and Cuba in 2015, 2016 and 2017 and the six months ended June 30, 2018, which accounted for 0.02%, 0.06%, 0.10% and 0.04%, respectively, of our total revenue for the corresponding periods. We may further expand our business in other regions or areas in the world, such as the Middle East, and we cannot assure you that our current or future activities, including the sale of products, will not be subject to the U.S. Economic Sanctions Laws or similar sanctions regimes in other jurisdictions. Our sale of products to our customers with operations in Iran, Syria, North Korea and Cuba in 2015, 2016 and 2017 and the six months ended June 30, 2018, represented only an insignificant portion of our consolidated assets, revenue and net income. However, in the event that we are subject to sanctions, it would prevent us from engaging in certain trade transactions in the United States or obtaining certain types of financing from the United States or such other jurisdictions, and U.S. persons would be prohibited from engaging in any transactions related to the Bonds.

Compliance with environmental, health and production safety regulations can be costly, while non-compliance with such regulations may result in fines, other penalties or actions that could adversely affect our reputation.

As we operate mainly in China, we are required to comply with a variety of PRC national and local regulations on environmental protection, health and production safety. In order to maintain or renew our licenses, certificates and permits, we are subject to various periodic inspections, examinations, inquiries and audits by PRC regulatory authorities in accordance with applicable PRC laws and regulations. Any non-compliance or failure to obtain, maintain or renew the necessary licenses, certificates, permits or approvals in a timely manner could have a negative impact on our financial condition and results of operations.

As the PRC environmental, health and safety laws and regulations are continuously evolving, we cannot assure you that we have always complied with such regulations on a historical basis or will continue to be in compliance with the applicable laws, or that we will not incur additional costs to comply with such laws and regulations. Failure to comply with any of these laws and regulations could result in the untimely delivery of goods, loss of revenue and income, the accrual of substantial costs and fines and the suspension or termination of our contracts. Any limitation or cost incurred as a result of our non-compliance with environmental, health and safety laws and regulations may have an adverse effect on our financial condition and results of operations.

Disruptions in the global financial markets or any downturn in the global economy could have an adverse impact on our financial condition and results of operations.

Adverse economic conditions or an economic downturn in the PRC or the major countries to which we export our products will negatively impact our business. If we cannot take appropriate or effective action in a timely manner during any economic downturn, such as reducing our costs to sufficiently offset declines in demand for our products, our business and operating results may be adversely affected. A prolonged period of economic decline could have a material adverse effect on our results of operations. Economic uncertainty would also make it difficult for us to make accurate forecasts of revenue, gross margin and expenses.

The global financial markets have been affected by a general slowdown of economic growth globally, resulting in substantial volatility in global financial markets and tightening of liquidity in global credit markets. Since 2011, the tightening monetary policies and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas financial markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. In June 2016, the United Kingdom held a remain-or-leave referendum on its membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union, as well as whether the United Kingdom will be able to continue to benefit from the European Union's free trade and similar agreements. Given the lack of precedent, it is unclear how Brexit would affect the fiscal, monetary and regulatory landscape within the United Kingdom, the European Union and globally. This event has resulted in a downgrade of the credit ratings of the United Kingdom and the uncertainty before, during and after the period of negotiation may also create a negative economic impact and increase volatility in global markets. Furthermore, the United States and China have recently been involved in controversy over trade barriers that have threatened a trade war between the countries. Both countries have implemented or proposed to implement tariffs on certain imported products from the other. Sustained tension between the United States and China over trade policies could significantly undermine the stability of the global and China's economy. Any severe or prolonged slowdown or instability in the global or China's economy may materially and adversely affect our business, financial condition and results of operations.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow and outflow, or both. In the Middle East, Eastern Europe and Africa, political unrest in various countries has resulted in economic instability and uncertainty. China's economic growth may slow due to weakened exports and nationwide structural reforms. Moreover, as the PRC is transitioning to a consumption-based economy, the forecast growth rate of the PRC is expected to be significantly lower than its average growth rate over the past thirty years.

These and other issues resulting from the global economic slowdown or uncertainty and financial market turmoil have adversely affected, and may continue adversely affecting, homeowners and potential property purchasers, which may lead to a decline in the general demand for our products and erosion of their sale prices. In addition, any further tightening of liquidity in the global financial markets may negatively affect our access to capital and liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets continue, our business, financial condition and results of operations may be adversely affected.

Our failure to adequately protect our intellectual property may adversely affect our competitive position.

We rely on a combination of patents, trademarks and contractual rights to protect our intellectual property. We cannot guarantee that these measures will be sufficient to prevent any misappropriation of our intellectual property or that our competitors will not independently develop alternative technologies that are equivalent or superior to technologies based on our intellectual property. The legal regime governing intellectual property in the PRC is still evolving and the level of protection of intellectual property rights in the PRC differs from those in other jurisdictions. Our pending or future patent applications may not be approved or, if allowed, they may not be of sufficient strength or scope to protect our intellectual property. As a result, third parties may use the technologies and proprietary processes that we have developed and compete with us, which may negatively affect any competitive advantage we enjoy, dilute our brand and materially and adversely affect our business and results of operations. In addition, the policing the unauthorized use of our proprietary technology in the PRC can be difficult and expensive. Litigation may be necessary to enforce our intellectual property rights. However, in part due to the relative unpredictability of China's legal system and potential difficulties of enforcing a court's judgment in China, there is no guarantee that litigation would result in an outcome favorable to us. Furthermore, litigation may be costly and may divert our management's attention from our core business. An adverse determination in any lawsuit involving our intellectual property is likely to jeopardize our business prospects and reputation. We have no insurance coverage against litigation costs so we would be forced to bear all litigation costs if we cannot recover them from other parties. In the event that the steps that we have taken and the protection afforded by law do not adequately safeguard our proprietary technology, we could suffer losses due to the sales of competing products that exploit our intellectual property.

RISKS RELATING TO THE PRC

Certain facts and statistics in this offering memorandum relating to the PRC economy and the Issuer's industry in the PRC derived from published information may contain inaccuracies.

Some of the facts and statistics in this offering memorandum relating to the PRC, the global and PRC economy and Issuer's industry and related industry sectors are derived from various publications and obtained in communications with various agencies that we believe to be reliable. However, we cannot guarantee the quality or reliability of certain source materials. Such facts and statistics have not been independently verified by us or the Sole Lead Manager nor any of its affiliates or advisers and, therefore, neither we nor the Sole Lead Manager or its affiliates or advisers makes any representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this offering memorandum relating to the PRC economy and related industry sectors may contain inaccuracies. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

Changes in the economic and political policies of the PRC government could have an adverse effect on overall economic growth in China, which may adversely affect our business.

We conduct most of our business operations in the PRC. Accordingly, our financial condition, results of operations and prospects depend to a significant extent on economic developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including:

- extent of government involvement;
- level of development;
- growth rate;

- economic and political structure;
- control of foreign exchange;
- allocation of resources; and
- regulation of capital reinvestment.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy but may also have a negative effect on our operations. For example, our financial condition and operating results may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-orientated economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. There is no assurance that prospective changes in the PRC's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on our existing or future business, results of operations or financial condition.

In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed its outlook from stable to negative, citing concerns on the country's rising levels of debt and expectations of slower economic growth. In September 2017, S&P Global Ratings downgraded China's sovereign credit rating for the first time since 1999, citing similar concerns. The full impact of such actions by international rating agencies remains to be seen, but the perceived weaknesses in China's economic development model, if proven and left unchecked, would have profound implications. If China's economic conditions worsen, or if the banking and financial systems experience difficulties from over-indebtedness, businesses in China may face a more challenging operating environment.

Changes in PRC foreign exchange regulations may adversely affect our business operations.

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from SAFE while required to comply with certain procedural requirements, such as distribution of dividends, interest payments, trade and service-related foreign exchange transactions.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans denominated in foreign currencies.

The restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to this offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from this offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in China. Our choice of investment is affected by the relevant PRC foreign exchange regulations. Our investment decisions are additionally affected by various other measures taken by the PRC government relating to the PRC property market. In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries.

The value of Renminbi depends, to a large extent, on the PRC domestic and international economic, financial and political developments and governmental policies, as well as the currency's supply and demand in the local and international markets. From 1994 to 2005, the conversion of Renminbi into foreign currencies was based on exchange rates set and published daily by PBOC in light of the previous day's interbank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, PBOC revalued Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of Renminbi appreciated by more than 2% on that day. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. The PBOC doubled the width of US$-RMB onshore trading band to +/-2% from +/-1% on March 17, 2014, which further increased the volatility between US$-RMB exchanges. For the year ended December 31, 2014, Renminbi depreciated 0.36% against the U.S. dollar, the first depreciation since the Renminbi exchange reform in 2005. The PBOC announced on August 11, 2015 that it would improve the middle price quotation mechanism for determining the US$-RMB exchange rates. On the same day, the daily reference rate for Renminbi against U.S. dollars depreciated by 1.9% to 6.2298 compared with 6.1162 for August 10, 2015. The International Monetary Fund announced on September 30, 2016 that, effective from October 1, 2016, the Renminbi will be added to its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. We cannot assure you that such exchange rate will not fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our indebtedness denominated in foreign currencies.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the issuance of the Bonds, we may enter into foreign exchange or interest rate hedging arrangements in respect of our U.S. dollar-denominated liabilities under the Bonds. These hedging arrangements may require us to pledge or transfer cash and other collateral to secure our obligations under the arrangements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Sole Lead Manager and its affiliates may enter into such hedging arrangements permitted under our existing indebtedness, and these arrangements may be secured by pledges of our cash and other assets as permitted under the Existing Indentures. If we were unable to provide such collateral, it could constitute a default under such hedging arrangements.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on foreign laws against us, our directors and our senior management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, the substantial majority of our directors and senior management reside within China. As a result, it may not be possible for investors to effect service of process outside China upon the substantial majority of our directors and senior management. Moreover, China does not have treaties with the United States, the United Kingdom or many other countries providing for the reciprocal recognition and enforcement of the judgment of courts. As a result, recognition and enforcement in China of judgments of a court in any of these jurisdictions may be difficult.

Lower domestic demand in the PRC could adversely affect our financial condition.

We rely primarily on domestic demand to achieve growth in revenue. Such demand is materially affected by industrial development, the growth of private consumption and the overall economic growth in China as well as policy support for our target industries and for our financial services. Any deterioration of these industries in China resulting from a global economic downturn or the Chinese government's macroeconomic measures affecting these industries may have a material adverse impact on our financial performance and prospects. Furthermore, any deterioration in the financial condition of our customers in these industries or any industry-specific difficulties encountered by these customers could affect our business, thereby materially and adversely affecting its business, financial condition, results of operations and prospects.

Our PRC tax liabilities could increase if we are treated as a "resident enterprise" for PRC tax purposes or if certain tax benefits will no longer be available to our subsidiaries and/or affiliated entities.

On December 6, 2007, the State Council adopted the Implementing Rules of PRC EIT Law, effective as of January 1, 2008, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control with respect to the business operations, employees, accounts, assets and etc. of enterprises". Under the PRC EIT Law, an enterprise which is established under the law of a foreign country (region) whose "de facto management bodies" are located in the PRC is considered a "resident enterprise" and will be subject to a uniform 25% enterprise income tax rate on its global income.

We are not currently treated as a PRC resident enterprise by the relevant tax authorities. There is no assurance that it will not be considered a "resident enterprise" under the PRC EIT Law and not be subject to the enterprise income tax rate of 25% on its global income in the future.

Our PRC subsidiaries, jointly controlled entities and associates are entitled to certain exemption and reliefs from PRC income tax for a number of years. No assurance can be given that the tax benefits provided to these joint ventures, subsidiaries, jointly owned entities and associates will remain effective or will not change. If the tax advantages offered are abolished or materially reduced, our tax liability in the PRC would be increased accordingly.

If we are treated as a "resident enterprise" for PRC tax purposes, interest we pay to bondholders may be subject to PRC withholding tax and gains on dispositions of Bonds may be subject to PRC income tax.

Pursuant to the PRC EIT Law and the PRC Individual Income Tax Law as well as their respective implementing rules, if we are treated as a PRC resident enterprise by the relevant tax authorities as described above, we may be obligated to withhold PRC income tax from payments of interest on the Bonds to investors at the rate of 10% (to non-resident enterprises) and at the rate of 20% (to non-resident individuals), considering the interest might be regarded as derived from sources within the PRC. If we fail to do so, it may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investors and non-resident individual investors from the transfer of the Bonds may be regarded as derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10% and 20% respectively. Any PRC tax liability may be reduced under applicable tax treaties. However, it is unclear whether in the case we are treated as a "resident enterprise" investors will be able to obtain the benefits of any relevant tax treaty either in the PRC or their jurisdiction of tax residency. If we are required to withhold taxes from any payment on the Bonds, we will, subject to certain exceptions, will be required to pay additional amounts as will result in the receipt by the holders of the Bonds of the same amounts that would have been received by them absent such withholding. Any such requirement to pay additional amounts will increase our cost of satisfying the debt and could materially impact our cash flows. In addition, any applicable tax on disposition of the Bonds will reduce the investors' gain (if any) on the Bonds.

The PRC government's pilot plan to replace business tax with value-added tax ("VAT") may subject us to more taxes, which could adversely affect our business and future results of operations.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) issued on March 23, 2016 and implemented on May 1, 2016 ("Circular 36"), effective from May 1, 2016, PRC tax authorities have started imposing value added tax on revenues from various service sectors to replace the business tax that co-existed with value added tax. Since the issuance of Circular 36, the Ministry of Finance and SAT have subsequently issued a series of tax circulars to implement the collection of value added tax on revenues from construction, real estate, financial services and life services. The value added tax rates applicable to us may be generally higher than the business tax rate we were subject to prior to the implementation of Circular 36. Unlike business tax, the value added tax will only be imposed on added value. However, details of concrete measures are still being formulated in accordance with Circular 36. We are still in the process of assessing the comprehensive impact of the new value added tax regime on our tax burden, our revenues and results of operations, which remains uncertain.

Our prospects, financial condition and results of operations may be affected by events which are outside our control.

Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Certain areas in the PRC, including the areas in which the Group operates, may be prone to infectious diseases. Outbreaks of infectious diseases in the past have damaged the regional and national economies in the PRC. Over the past few decades, the PRC has suffered health epidemics related to the outbreak of Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). Any prolonged recurrence of avian influenza, SARS or other adverse public health developments in the PRC could materially and adversely affect domestic consumption, labour supply and, possibly, the overall gross domestic product growth of the PRC. In addition, if any our employees are affected by any severe communicable disease, it could adversely affect or disrupt production levels and operations and materially and adversely affect our business, financial condition and results of operations, which may also involve a closure of our facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which could materially and adversely affect our business, financial condition, and results of operations.

Natural disasters such as earthquakes, floods, severe weather conditions or other catastrophic events may severely affect us or our customers. For example, in May 2008, Sichuan Province experienced a strong earthquake, measuring approximately 8.0 on the Richter scale, which caused widespread damage and casualties. In March 2011, an earthquake measuring approximately 9.0 on the Richter scale occurred in Japan causing widespread damage such as radiation leakage from the damaged Fukushima nuclear plant. The risk of radiation exposure has affected Japan and certain parts of the region including the PRC. A serious earthquake and its successive aftershocks hit Sichuan Province in April 2013 and resulted in tremendous loss of lives and destruction of assets in the region. These natural disasters and consequential damages caused by such events could cause a material economic downturn in the region and may have an adverse effect on our business prospects, financial condition and results of operations.

Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response to such events, as well as geopolitical uncertainty and international conflict and tension may have an adverse effect. In addition, e may not be adequately prepared in terms of contingency planning or have recovery capabilities in place to deal with a major incident or crisis. As a result, our continuity of operation may be adversely affected and our reputation seriously harmed.

Interpretation and enforcement of laws in the PRC may involve uncertainties.

Our core business is conducted in the PRC and therefore substantially all of our operations are located in the PRC. Our business operations are regulated primarily by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law systems, past court judgments in the PRC have limited precedential value and may be cited only for reference. Furthermore, PRC written statutes often require detailed interpretations by courts and enforcement bodies for their application and enforcement. The PRC Government has been developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing business and commercial matters, such as in foreign investment, company organization and management, commercial transactions, tax and trade. The promulgation of changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on our business and prospects. In addition, as these laws and regulations are still evolving and because of the limited number and non-binding nature of published cases. The interpretation of PRC laws may be subject to political and policy changes.

PRC Labor Contract Law may result in increased labor costs.

On June 29, 2007, the PRC Government enacted the New Labor Contract Law, which became effective on January 1, 2008 and was subsequently amended on December 28, 2012 and became effective on July 1, 2013. The New Labor Contract Law establishes additional restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. Subject to other stipulations under the New Labor Contract Law, an employer is obligated to sign an unlimited term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed term labor contracts. The employer must also pay compensation to employees if the employer terminates an unlimited term labor contract and the employee does not demand the continuous fulfillment of the labor contract or if the continuous fulfillment of the labor contract is impossible. For the termination of a fixed-term labor contract according to Article 44 (i) of the New Labor Contract Law (except for the circumstance where the employee refuses to renew the contract even though the conditions offered by the employer are the same as or better than those stipulated in the current contract), the employer shall pay the employee compensation. Further, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on January 1, 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Where an employer can't give annual leave to an employee due to work needs, it is allowed to do so as long as it gets the consent of the employee. As for the annual leave time due and not taken by the employee, the employer shall pay the employee 300% of his daily wage income for each day of the annual leave due and not taken. As a result of these protective labor measures or any additional future measures, our labor costs may increase. We cannot give assurance that any disputes, work stoppages or strikes will not arise in the future.

PRC Anti-Monopoly Law may involve uncertainties and result in fines and penalties.

The PRC Anti-Monopoly Law, which attempts to prevent monopolistic activities and protect fair competition in the PRC, became effective on August 1, 2008. It prohibits business entities (including us) from engaging in monopolistic behavior, entering into monopolistic agreements, abusing a dominant market position or pursuing consolidations, which exclude, restrict or potentially inhibits competition. The PRC Anti-Monopoly Law does not prohibit any business entity from increasing its market share to achieve or maintain a dominant market position through fair competition, nor does it set limits on the market share that any one entity can achieve or maintain in the PRC.

Under the PRC Anti-Monopoly Law, an entity that enters into relevant monopolistic agreements or abuses its dominant market position may be subject to penalties, including confiscation of illegal gains and fines ranging from 1% to 10% of its total sales volume for the preceding year. Where the business operators implement the concentration in violation of the PRC Anti-Monopoly Law, the Anti-monopoly Law Enforcement Agency under the State Council shall order them to stop the concentration, to dispose shares or assets, transfer the business or adopt other necessary measures to restore the market situation before the concentration within a time limit, and may impose fine thereto. We cannot give assurances that the relevant authorities will not interpret the law in such a manner or announce specific rules such that the implementation of the PRC Anti- Monopoly Law will affect our business in general or will contradict the PRC Government's existing policies. In the event of non-compliance with the PRC Anti-Monopoly Law, we may be subject to substantial fines and other penalties. In the event of these circumstances, our business model and revenues may be adversely affected.

RISKS RELATING TO THE BONDS

We are a holding company and payments with respect to the Bonds are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. Our primary assets are loans to and ownership interests in our PRC subsidiaries. Accordingly, our ability to pay principal and interest on the Bonds will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries. Creditors, including trade creditors of our PRC subsidiaries and any holders of preferred shares in such entities, would have a claim on such subsidiaries, assets that would be prior to the claims of holders of the Bonds. As a result, our payment obligations under the Bonds will be effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our PRC subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Bonds. As of June 30, 2018, our PRC subsidiaries had indebtedness in the amount of RMB2,628.6 million (US$397.2 million) and capital commitments of approximately RMB206.1 million (US$31.1 million), respectively. See "Description of Other Material Indebtedness". The Bonds and the Trust Deed limit the ability of our subsidiaries, including our PRC subsidiaries, to incur debt. However, these limitations are subject to significant exceptions. In addition, our secured creditors would have priority as to our assets securing the related obligations over claims of holders of the Bonds to the extent such assets do not also secure such claims.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Bonds. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. See "Description of Other Material Indebtedness". In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Bonds. These restrictions could have a negative impact on the calculation of our EBITDA and could also reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Bonds. See "Description of Other Material Indebtedness".

According to the Company Law of the PRC, where a company distributes its after-tax profits of the current year, it shall draw 10 percent of the profits as the company's statutory common reserve. The company may stop drawing the profits if the aggregate balance of the common reserve has already accounted for over 50 percent of the company's registered capital. If the aggregate balance of the company's statutory common reserve is not enough to make up for the losses of the company of the previous year, the current year's profits shall first be used for making up the losses before the statutory common reserve is drawn according to the provisions aforementioned. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. According to a circular issued by the State Administration of Taxation in October 2009 which was further revised in April 2018, tax treaty benefits could be denied to "conduit" or shell companies without business substance. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Bonds, and there could be restrictions on payments required to redeem the Bonds at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Bonds. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to relevant requirements of local tax authorities (if applicable)) withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Bonds.

We may be able to redeem the Bonds in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC "resident enterprise".

In the event we are treated as a PRC "resident enterprise" under the EIT Law, we may be required to withhold PRC tax on interest payable to our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Bond of such amounts as would have been received by the holder had no such withholding been required. As described under "Terms and Conditions of the Bonds – Redemption for Taxation Reasons," in the event we are required to pay additional amounts as a result of changes in, or amendments to, the laws or regulations of the PRC, or any change in the application or official interpretation of, or the stating of an official position with respect to, such PRC laws or regulations, we may redeem the Bonds in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

The Bonds will be structurally subordinated to the existing and future indebtedness and other liabilities and commitments of our existing and future subsidiaries.

None of our subsidiaries will guarantee the bonds. Therefore, the Bonds will be structurally subordinated to any indebtedness and other liabilities and commitments, including trade payables and lease obligations, of our existing or future subsidiaries, whether or not secured. We may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to us. The ability of such subsidiaries to pay dividends or otherwise transfer assets to us is subject to various restrictions under applicable laws. Our subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Bonds or make any funds available to us for perform its obligations under the Bonds. As a result, all claims of our creditors of the existing and future subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such subsidiaries (if any) will have priority as to the assets of such subsidiaries over our claims and those of our creditors, including holders of the Bonds.

The Bonds are our unsecured obligations and are subordinated to our secured indebtedness, including offshore convertible or exchangeable bonds, to the extent of the value of the collateral securing such indebtedness.

The Bonds are our general and unsecured obligations and will (i) rank at least equally in right of payment with all our other present and future unsecured and unsubordinated obligations, (ii) be effectively subordinated to all of our present and future secured indebtedness, including convertible notes, to the extent of the value of the collateral securing such indebtedness, and (iii) be senior to all of our present and future subordinated obligations, subject in all cases to exceptions as may be provided by applicable legislation. Pursuant to Condition 4, if the Issuer issues outside of China secured convertible or exchangeable bonds, unlike other similar issuers, the Issuer is not obligated to ensure that the Bonds will be granted the same security, to the effect that the Bonds may be subordinated to such secured convertible or exchangeable bonds. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of our bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Nontholders rateably with all of our other unsecured and unsubordinated creditors, including trade creditors. If there are insufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

The Bondholders may not be able to receive definitive certificates with respect to their Bonds if they hold less than the minimum denomination.

The Bonds will be issued in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. Therefore, it is possible that the Bonds may be traded in amounts in excess of US$200,000 that are not integral multiples of US$200,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than US$200,000 will not receive a definitive certificate in respect of such holding (should definitive certificates be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more denominations.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Bonds, there could be a default under the terms of these agreements or the Bonds, which could cause the repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Bonds, or future financing and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the relevant debt could terminate their commitments to lend to us, accelerate the debt obligation and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, certain debt agreements, including the Bonds, may contain cross-acceleration or cross-default provisions. As a result, default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under other debt agreements. If any of these events should occur, there can be no assurance that the our assets and cash flow would be sufficient to repay in full all indebtedness, or that alternative financing could be obtained. Even if alternative financing can be obtained, there can be no assurance that it would be on terms that are favourable or acceptable to us.

The Issuer may not be able to repurchase or redeem the Bonds.

The Issuer may (and at maturity, will) be required to redeem all of the Bonds upon occurrence of certain events. See "Terms and Conditions of the Bonds". If any such event were to occur, the

Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by the Issuer would constitute an event of default under the Bonds, which may also constitute a default under the terms of its other indebtedness.

The Bonds are subject to optional redemption by us.

As set forth in "Terms and Conditions of the Bonds – Redemption and Purchase – Redemption at the Option of the Issuer", the Bonds may be redeemed at our option in the circumstances set out therein. An optional redemption feature is likely to limit the market value of the Bonds. During any period when we may elect to redeem the Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. This may also be the case prior to any redemption period. We may be expected to redeem the Bonds when the current financing cost is lower than the interest rate on the Bonds. In such case, a Bondholder generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to reinvest so at a significantly lower rate. It may therefore cause a negative financial impact on the Bondholders. Potential investors should consider reinvestment risk in light of other investments available at that time.

The definition of change of control may not be able to provide protection for the holders of the Bonds under certain circumstances.

We must offer to purchase the Bonds upon the occurrence of a change of control and an accompanied rating decline, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Terms and Conditions of the Bonds"

However, the definition of change of control does not necessarily afford protection for the holders of the Bonds in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control also includes a phrase relating to the direct or indirect sale of "all or substantially all" the consolidated assets. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition under applicable law. In addition, according to the definition, change of control will not be triggered when the Permitted Holders' total voting power drop below certain percentage of the Voting Stock of the Issuer. Accordingly, our obligation to make an offer to purchase the Bonds and the ability of a holder of the Bonds to require us to purchase its Bonds pursuant to the offer as a result of a highly-leveraged transaction, a sale of less than all of our assets or reduced ownership of the Permitted Holders may be uncertain.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Bonds depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Bonds.

The ratings of the Bonds or our corporate ratings may be downgraded or withdrawn; the interest rate of the Bonds may increase if the ratings of the Bonds fall below investment grade.

The Bonds are expected to be rated "   " by S&P. The rating represents the opinions of the rating agency and its assessment of the ability of the Issuer to perform its obligations under the Bonds and credit risks in determining the likelihood that payments will be made when due under the Bonds. In addition, we have been rated "BBB-" with a stable outlook by S&P. A rating is not a recommendation to buy, sell or hold securities. The ratings assigned to the Bonds and our corporate ratings can be lowered or withdrawn at any time and, the interest rates of the Bonds may increase if the ratings of the Bonds fall below investment grade. We are not obligated to inform holders of the Bonds if a rating is lowered or withdrawn. A reduction or withdrawal of the ratings may adversely affect the market price of the Bonds and our ability to access the debt capital markets.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Bonds are familiar.

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or other jurisdictions with which the holders of the Bonds are familiar.

The Bonds will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Bonds will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes will trade in book-entry form only, and Bonds in definitive registered form, or definitive registered notes, will be issued in exchange for book entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Bonds. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Bonds will be made to the paying agent which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global notes representing the Bonds and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights under the Bonds.

Unlike the holders of the Bonds themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Bonds. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Bonds, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds.

Whether a trading market for the Bonds will develop or how such market may develop is uncertain, and there are restrictions on resale of the Bonds.

The Bonds are a new issue of securities for which there is currently no trading market. Application will be made to the HKSE for listing of, and permission to deal in, the Bonds by way of debt issue to professional investors only. The Issuer has been advised that the Joint Bookrunners intends to make a market in the Bonds, but the Joint Bookrunners are not obligated to do so and may discontinue such market-making activity at any time without notice. The Issuer may also issue additional Bonds immediately after the Bonds contemplated hereunder have been issued, which in turn, may or may not affect whether a market may develop. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, the holders of the Bonds will only be able to resell the Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. We cannot predict whether an active trading market for the Bonds will develop or be sustained.

Certain facts and statistics are derived from publications that have not been independently verified by us, the Joint Bookrunners or our respective advisors.

Facts and statistics in this Offering Memorandum relating to the PRC economy and the industries in which we operate are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Joint Bookrunners or our respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to ineffective calculation and collection methods and other problems, investors should not place undue reliance upon the facts and statistics contained herein, which may be inaccurate or may not be comparable to facts and statistics produced for other economies.

Investment in the Bonds may subject investors to foreign exchange risks.

The Bonds are denominated and payable in U.S. dollars. If an investor measures its investment returns by reference to a currency other than U.S. dollars, an investment in the Bonds entails foreign exchange related risks, including possible significant changes in the value of the U.S. dollar relative to the currency by reference to which an investor measures its investment returns, due to, among other things, economic, political and other factors over which the Issuer has no control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign exchange gains resulting from any investment in the Bonds.

Developments in other markets may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the PRC securities is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the subprime mortgage crisis in 2008, international financial markets have experienced significant volatility. If similar developments occur in the future, the market price of the Bonds could be adversely affected.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the HKSE, which standards may be different and more limited from those applicable to companies in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Bonds to be listed on the HKSE. The disclosure standards imposed by the HKSE may be different and more limited from those imposed by securities exchanges in other countries or regions. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited only impose very limited disclosure requirements for issuing debt securities that are listed on the HKSE. As a result, the level of information that is available may not correspond to what investors in the Bonds are accustomed to.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US$ million, which we plan to use for refinancing certain of our existing offshore indebtedness and domestic business development.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds.

EXCHANGE RATE INFORMATION

CHINA

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
	Period end	Average[(1)]	High	Low
	(RMB per US$1.00)			
Period				
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018				
February	6.3280	6.3183	6.3471	6.2649
March	6.2726	6.3174	6.3565	6.2685
April	6.3325	6.2967	6.3340	6.2655
May	6.4069	6.3701	6.4175	6.3325
June	6.6171	6.4651	6.6235	6.3850
July (through July 20)	6.7659	6.6775	6.7701	6.6123

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of Hong Kong (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link within the current rate range or at all.

5The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
	Period end	**Average(1)**	**High**	**Low**
	(HKD per US$1.00)			
Period				
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
2017	7.8128	7.7926	7.8267	7.7540
2018				
February	7.8262	7.8221	7.8267	7.8183
March	7.8484	7.8413	7.8486	7.8275
April	7.8479	7.8482	7.8499	7.8432
May	7.8439	7.8487	7.8499	7.8439
June	7.8463	7.8471	7.8492	7.8452
July (through July 20)	7.8491	7.8479	7.8493	7.8439

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of June 30, 2018 on an actual basis and on an adjusted basis after giving effect to the issuance of the Bonds in this offering after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with our consolidated financial information and related notes included elsewhere in this offering memorandum.

	As of June 30, 2018			
	Actual		As adjusted	
	RMB	US$ (unaudited)	RMB (unaudited)	US$ (unaudited)
	(in thousands)			
Cash and cash equivalents[1] . . .	822,155	124,247		
Short-term borrowings				
Borrowings – due within one year	2,826,522	427,154	2,826,522	427,154
Total short-term borrowings . . .	2,826,522	427,154	2,826,522	427,154
Long-term borrowings[2]				
Borrowings – due after one year. .	570,517	86,219	570,517	86,219
Bonds to be issued.	–	–		
Total long-term borrowings	570,517	86,219		
Total equity	9,553,448	1,443,751	9,553,448	1,443,751
Total capitalization[3]	10,123,965	1,529,970		

Notes:

(1) Cash and cash equivalents exclude restricted bank deposits of RMB44.9 million (US$6.8 million).

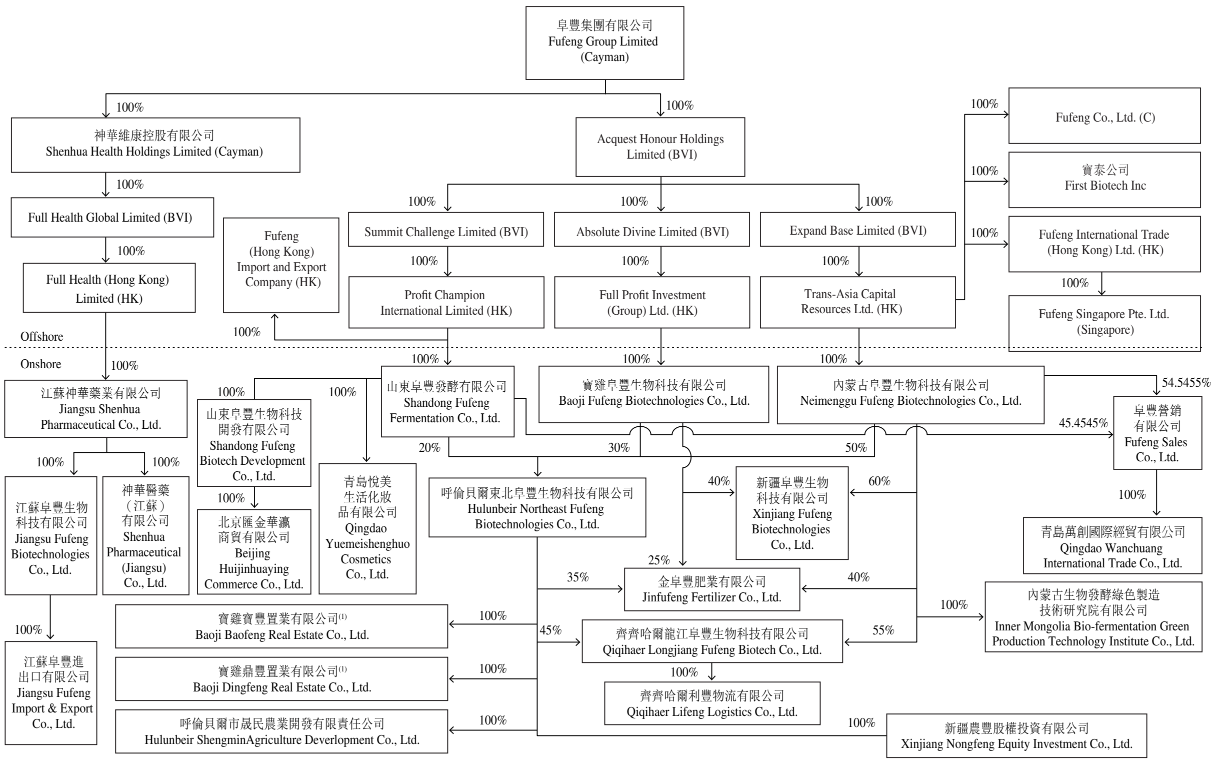
(2) Subsequent to June 30, 2018, we have, in the ordinary course of business, entered into additional financing arrangements for general corporate purposes. See "Description of Material Indebtedness and Other Obligations". These additional borrowings are not reflected in the table above. As of June 30, 2018, we had interest-bearing bank loans and corporate bonds of approximately RMB3,397.0 million (US$513.4 million).

(3) Total capitalization includes total long-term borrowings plus total equity.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since June 30, 2018.

CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure as of the date of this offering memorandum:



Note:

(1) We, through our subsidiary Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd., have entered into agreements on August 1, 2018 with independent purchasers to dispose of the entire issued share capital of each of these subsidiaries at an aggregate consideration of RMB1,792.3 million. The completion of the disposals is subject to the satisfaction of a few conditions.

OVERVIEW

We are a global leading bio-fermentation products manufacturer with vertically integrated corn-based biochemical product lines. According to the China Fermentation Industry Association, we are the largest manufacturer of MSG in China based on production volume as of December 31, 2017, the largest manufacturer of xanthan gum in the world based on production capacity as of January 31, 2015 and the second largest manufacturer of threonine in the world based on production volume as of August 31, 2016. We have a highly vertically-integrated production process along the entire corn-based biochemical product value chain, from wet milling and processing of corn into cornstarch and other refined corn products, to the production of corn-based biochemical products. Our diverse product offering includes the food additives segment (comprising MSG, chicken powder, starch sweetener and other related products), the animal nutrition segment (comprising threonine, tryptophan, corn-refined products and lysine), the high-end amino acid segment (comprising amino acid products and other related products) and the xanthan gum segment (comprising xanthan gum). Our products are widely used in the fast-growing food, beverage, cosmetics, pharmaceutical, shale gas and other industries. We believe our highly vertically-integrated production process allows us to diversify our product offering, expand to higher value-added segments lower our production costs and enhance our competitiveness.

Our production facilities are strategically located in the major corn growing and/or coal mining reserve regions in Shandong Province, Shaanxi Province, Inner Mongolia and Xinjiang providing us with easy access to our major raw materials at relatively low prices. As at June 30, 2018, our annual production capacity of MSG, threonine, fertilizers and starch sweeteners was 1,330,000 tonnes, 243,000 tonnes, 1,080,000 tonnes and 420,000 tonnes, respectively. We plan to take advantage of our leading market position to further expand our production capacity, through the addition of new production lines at our existing plants, to meet the anticipated growth in demand for our products and to further increase the market share of our products. For example, the Longjiang Plant Phase II project is under construction as of the date of this offering memorandum and is expected to be officially put into operation within 2018.

We have developed and maintained strong and long-term relationships with our customers, some of them are domestically or internally renowned players in their industries, including, Ajinomoto, Evonik, Vedan and Haitian. Our cooperation with these companies has enabled us to enhance our market position. As of December 31, 2017, we had a total of over 5,000 customers.

We recognize the importance of using advanced technology to continually improve our production efficiency and to develop new products. As of December 31, 2017, we had a well-qualified and strong research and development team, comprising 360 members. Our research and development capabilities have played a key role in providing technical support facilitating our successful diversification from a acid and MSG manufacturer to one of the leading corn-based biochemical product manufacturers by broadening our product range to include products such as xanthan gum, starch sweeteners, fertilizers, threonine and high-end amino acid.

The majority of the products in our MSG segment are sold domestically in China, primarily to industrial manufacturers, trading companies and food additive distributors, and we export the majority of our xanthan gum. In the six months ended June 30, 2018, our sales to domestic and overseas markets accounted for approximately 73% and 27%, respectively, of our total sales. As of December 31, 2017, our sales and marketing team comprised approximately 473 personnel, serving more than 5,000 domestic customers spanning all municipalities, provinces and autonomous regions in China as well as overseas customers in over 115 countries and regions.

We have been listed on the Hong Kong Stock Exchange since February 8, 2007. As of June 30, 2018, our market capitalization was approximately HK$8.99 billion (US$1.15 billion) based on the closing price of HK$3.53 per share as quoted on the Hong Kong Stock Exchange. We have been included as a constituent of the Morgan Stanley Capital International Global Small Cap Index since May 29, 2009 and the Hang Seng Composite Index since March 8, 2010. We have established a sponsored, unlisted ADR facility, which became effective on June 19, 2009. The ADRs are tradable in the United States in an over-the-counter market. Subsequent to our listing on the Hong Kong Stock Exchange, S&P upgraded our corporate rating from BB to BB+ in 2016 and further to BBB- in January 2018.

In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our consolidated revenue was RMB11,225.7 million, RMB11,803.1 million, RMB13,033.5 million (US$1,969.7 million), RMB6,210.6 million and RMB6,610.2 million (US$999.0 million), respectively. As of December 31, 2015, 2016 and 2017 and June 30, 2018, our consolidated total assets were RMB13,850.2 million, RMB14,456.1 million and RMB15,966.5 million (US$2,412.9 million) and RMB17,744.9 million (US$2,681.7 million), respectively.

OUR STRENGTHS

We believe our rapid growth and strong market position are largely attributable to the following principal competitive strengths, which distinguish us from our competitors:

Diversified product portfolio with leading market position

We are a global leading bio-fermentation products manufacturer with leading vertically integrated corn-based biochemical product lines. According to the China Fermentation Industry Association, we are the largest manufacturer of MSG in China based on production volume as of December 31, 2017, the largest manufacturer of xanthan gum in the world based on production volume as of January 31, 2015 and the second largest manufacturer of threonine in the world based on production volume as of August 31, 2016. In 2017, we produced 1,266,855 tonnes of MSG and 42,352 tonnes of xanthan gum. We have strong brand recognition in China. We believe our brands are associated with high-quality food products and trusted by consumers. We use the brands "Furui" ("福瑞"), "Uo Fresh" ("U鮮") and "Xuemei" ("雪梅") to market our MSG products. Our Furui MSG has maintained, since 2007, "Product Quality Exempted from State-level Inspection" status, which was awarded by the PRC General Administration of Quality Supervision, Inspection and Quarantine ("**AQSIQ**").

We believe that our leading market position has enhanced our ability to:

- benefit from increasing economies of scale with stronger purchasing power and a lower overall cost base, thereby maintaining a competitive cost structure to achieve sustainable growth and profitability. From 2013 to 2017, we recorded a CAGR of 0.1%, 43.7% and 42.8%, respectively, derived from the sale of our MSG, threonine and high-end amino acid;

- maintain long-term cooperation with internationally renowned companies, and our development direction is in line with the global environmental protection theme;

- benefit from strong growth of China' health products and nutritional products market and provide customers a one-stop experience via our integrated production and sales; and

- offset fluctuations in raw material costs by making corresponding adjustments to our selling prices.

Our leading market position has further enhanced our brand reputation and customer loyalty and enabled us to quickly expand into new products and new geographic market. We offer a wide range of products in the world, covering food additives, animal nutrition, xanthan gums and high-end amino acids in the corn-based biochemical market, along with the expansion of the food and beverage industry and the rising demand for dietary supplements.

In 2013, the results of an anti-dumping action against xanthan gum in the United States were decided in our favor. Given our legitimate economies of scale and vertically integrated business model, the United States Department of Commerce ruled that we must pay a tax rate of 12.9%, the lowest among all Chinese exporters of xanthan gum. Some of our other competitors must pay significantly higher tax rates. We believe this provides an advantage for us and we plan to use this advantage to increase our market share in the US market.

Vertically integrated operation and solid expansion to high value-added segments

We have a highly vertically-integrated operation along the entire corn-based biochemical product value chain. We produce a variety of products along different stages of the corn-processing process, ranging from corn-refined products, such as corn germ, corn fibers and corn gluten meal, to corn-based biochemical products. In addition, we produce our own corn starch for use in the production of our products and we own and operate power plants at each of our production facilities to generate steam and power needed for our production process. We believe our vertically-integrated business model brings us significant advantages over our competitors who are less vertically-integrated, including:

- **Stable supply**. Due to our internal production of glutamic acid, we reduce our reliance on external suppliers of this key ingredient, thereby helping to maintain a steady production stream of MSG;

- **Competitive cost structure**. As we produce the cornstarch that is used internally at all of our plants, we are able to lower our raw material costs and achieve savings on corresponding transportation costs. We are also using more internally produced glutamic acid to manufacture MSG which helps to further lower raw material costs. In addition, with power supplied by our own power plants, we are able to minimize our utility costs. As a result, we believe that our vertically-integrated model has improved our profit margins;

- **Sustainable development**. We endeavor to fully utilize the by-products and waste products from our manufacturing process. For example, we have developed, through our research and development efforts, a process to produce fertilizer using waste residue and excess heat generated from our production processes. This technology, for which we have obtained patent protection in the PRC, enables us to recycle waste products in compliance with environmental laws and regulations and maintain sustainable development throughout our production process. In addition, we successfully installed flue gas desulphurization facilities in our plants which we believe have alleviated the impact of flue gas released during our production process, a key problem that is encountered by MSG manufacturers in their production process;

- **Incremental revenues**. We are able to sell other corn-refined products such as corn germ, corn fibers and corn gluten meal, which are by-products in our production of cornstarch, to maximize efficiency of our corn usage and enhance our revenues and profits. We also produce compound seasoning from MSG, and corn oil from corn germ, to increase our profit margins. In addition, we sell the fertilizer produced from waste residue and excess heat to generate additional revenues; and

- **Flexible production planning**. Our integrated production facilities allow us to produce a broad range of corn-refined products and corn-based biochemical products across the production chain. Through effective controls, we are able to closely monitor and efficiently manage production volumes and product mix as well as optimize the efficiency of the overall production process.

Our vertically integrated operation has also enabled us to expand into high value-added segments and products, including pharmaceutical raw materials and high-end amino acids. These products generate relatively higher profit margin as compared to other corn products. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, the gross profit margin of high-end amino acids was 19.4%, 27.2%, 41.5%, 40.4% and 41.0%, respectively, and our overall gross profit margin was 16.1%, 20.4%, 22.9%, 22.6% and 17.0%, respectively. Expanding into the high value-ended products will not only diversify our product portfolio, but more importantly, further improve our profitability and enhance our market competitiveness.

Strategic locations of our production plants

Our production plants are located at Junan in Shandong Province, Baoji in Shaanxi Province, Hohhot and Hulunbeir in Inner Mongolia, Qiqihaer in Heilongjiang and Urumqi in Xinjiang. We started our production in Junan in 1999, a region with an abundant supply of corn and coal. In an effort to further lower our cost and improve our profit margins, we strategically expanded our production to Baoji in 2004, to Hohhot in 2006. We expanded further with our new plants situated in Hulunbeir in Inner Mongolia in 2011 and Urumqi in Xinjiang in 2012. The strategic locations of our plants in eastern China, northern China and western China also allow us to more effectively market our products in different regions throughout China. The direct connection between the Company's warehouses through the railway line can greatly reduce the Group's logistics costs. We believe that the strategic locations of our production plants provide us with a stable supply of raw materials at relatively low cost.

Diversified customer base and long-term partnership with leading industrial players

We have developed and maintained strong and long-term relationships with our customers all over the world. Most of our MSG customers are regional and local distributors, food additive manufacturers and food processors. Our industrial-grade xanthan gum is mostly sold to oil and gas services companies and our food-grade xanthan gum is mostly sold to multinational food processors. As of December 31, 2017, we had a total of over 5,000 customers, a diversified customer base comprising various some well recognized brands, which we believe have strong credit profiles and enjoy leading position in their respective industries. We have established business relationship with our ten largest customers for more than five years.

We have forged stable relationships with our key customers. For example, we have established cooperation with Ajinomoto Co., Inc. ("Ajinomoto") on threonine products, one of the top 10 food companies in the world since early 2011. In 2017, we established cooperation with Foshan Haitian Flavouring & Food Co. Ltd (海天) ("Haitian") on its soy sauce products, the largest soy sauce supplier in China and Vedan International (Holdings) Limited ("Vedan") on monosodium glutamate, one of the world's three largest monosodium glutamate manufacturers. Haitian and Vedan were among our five largest customers in 2017. We also began our cooperation with Evonik Industries ("Evonik") on threonine ThreAMIND®, the world's largest specialty chemical manufacturer based in Germany since January 2018. In the six months ended June 30, 2018, sales to our 10 largest customers accounted for approximately 14.9% of our total sales.

Strong research and development capabilities

We believe that our ability to develop new products in response to changing market demands differentiates us from many of our competitors and is essential to the future development of our business, and we are committed to continually strengthening our research and development capabilities. We have a well qualified and strong research and development team which comprises approximately 360 members. Our research and development center in Junan, which has been accredited with a national-grade laboratory qualification, houses a workstation for the fellows and a post-doctoral scientific research workstation. Our research and development team is responsible for developing new products as well as improving our production processes, and collaborates regularly with universities and research institutes to advance our research and development projects. Since 2008, our research and development center has been approved as a national post-doctoral research center.

In July 2013, our Shangdong Laboratory successfully obtained provincial level scientific admission for implementing a new amino acid production process, namely "A New Process for the production of Medical-level L-Arginine" (醫藥級L-精氨酸清潔生產新工藝). The new process can significantly improve the yield of arginine in fermentation, whilst also reducing the amount of waste water generated.

Our strong research and development capabilities allow us to expand and improve our product offering in response to market demand. For example, we successfully developed and commenced commercial production of xanthan gum in 2003 with our proprietary production technology and have now become the largest manufacturers of xanthan gum in the world. In addition, we commercialised a series of threonine products in 2010, which was developed in 2009 in response to market demand for higher value-added biochemical products. We currently have a number of new products under research and development which we expect to be able to commercialize within the next few years, such as branched-chain amino acids. In addition to generating additional revenues, our research and development capabilities also allows us to improve the environmental standards of our production processes which typically results in cost savings. We have received a total of 177 patents in the PRC, with 205 patent applications pending approval.

Our total expenditure for research and development amounted to RMB64.2 million, RMB48.0 million, RMB66.2 million and RMB39.9 million, respectively, in 2015, 2016 and 2017 and the six months ended June 30, 2018.

Prudent financial management policies

We have been able to maintain our financial performance through prudent financial management. We have implemented various financial policies to maintain adequate cash flow. Our cash flow from operations/total debt ratio as of 2015, 2016 and 2017 was 29.9%, 67.4% and 61.0%, respectively. We closely monitor our capital structure, assets and indebtedness, actively explore diversified financing sources, including bank loans, equity and debt financing, to control financing costs. In addition, we aim to maintain a prudent leverage ratio. As of December 31, 2015, 2016 and 2017 and June 30, 2018, our total debt/EBITDA ratio (calculated by dividing total debt by EBITDA for the last 12 months) was 2.1 times, 1.3 times, 0.8 times and 1.5 times, respectively, while our total debt/total capital (being the aggregate of total debt and total equity) ratio was 39.8%, 31.3%, 17.2% and 26.2% respectively.

We also take a prudent approach towards investment. We have established comprehensive investment management procedures. We set our budget for capital expenditure and submit our capital expenditure plan to our board of directors for review and approval. When making an investment decision, we consider various factors, including investment return, integration and synergies with our existing core business, improvement of overall business performance and management of potential risks.

We believe our multiple financing channels will provide us with flexibility to fund our operations and enhance our liquidity position. In fact, we have a high EBITDA-to-interest coverage ratio of 16.1 times as of June 30, 2018, 29.0 times as of June 30, 2017, 23.9 times in 2017, compared to 4.9 times and 10.8 times in 2015 and 2016, respectively. We believe that our prudent financial policies will enable us to further expand in our target markets, provide us with greater flexibility in capital management and help us achieve sustainable long-term growth.

Visionary and experienced management team

We have a visionary and experienced management team with extensive industry and operational expertise in China and an in-depth understanding of the production process of corn-based biochemical products and the corn-based biochemical industry. We believe our management team possesses vision surpassing that of our competitors, which has enabled us to rapidly develop from a local producer in 1999 to the largest MSG manufacturer in China and the largest manufacturer of xanthan gum in the world based on production capacity as of December 31, 2017. Mr Li Xuechun, our principal founder and Chairman, has approximately 37 years of experience in the fermentation industry. The majority of our executive Directors and senior management have been with us since our establishment in 1999 and have over 20 years of experience in the fermentation industry. We believe our experienced and stable management team has been a significant factor that has contributed to our past success.

OUR BUSINESS STRATEGIES

Our goal is to become the leading corn-based biochemical manufacturer in the world. To achieve our goal, we intend to pursue the following strategies:

Continue to expand our production capacity and consolidate our leading market position

We plan to further expand our production capacity and consolidate our leading market position through the construction of new production plants and new production lines at our existing plants, to meet anticipated growth in demand for our products. Our Longjiang Plant Phase II project is under construction and is expected to be officially put into operation within 2018. Upon completion, the Longjiang Plant Phase II will bring newly-added annual capacity of 300,000 tons of starch sweeteners and 200,000 tons of lysine.

China's economy was relatively less affected by the global economic downturn than other major economies, and achieved a GDP growth rate of 6.9% in 2017. We expect demand for our MSG to continue to rise as a result of the continued growth of China's economy in general and the food industry in particular. We also believe that the PRC government's current focus on restructuring the PRC economy towards domestic consumption will further increase demand for our MSG. In addition, we also expect demand for our xanthan gum, which is mostly exported to the international market, to increase with the gradual recovery of the global economy and as more applications for xanthan gum are developed.

We believe that we are well-positioned to meet the increased demand for our products through our increased production capacity. Our annual production capacity for MSG increased from 940,000 tonnes as of the end of 2015 to 1,280,000 tonnes as of the end of 2017; and our production capacity for MSG increased from 615,000 tonnes for the six months ended June 30, 2017, to 665,000 tonnes for the six months ended June 30, 2018. Our total production capacity for xanthan gum decreased from 87,500 tonnes as of the end of 2015 to 60,000 tonnes as of the end of 2017; and our production capacity for xanthan gum increased from 30,000 tonnes for the six months ended June 30, 2017, to 31,667 tonnes for the six months ended June 30, 2018.

Further enhance the degree of vertical integration of our production process and lower logistic and production cost

We believe that a highly vertically-integrated production process will enable us to increase our profitability and strengthen our leading position in the industry. In recent years, we have taken a number of measures to enhance vertical integration of our production process, including increasing consumption of internally produced glutamic acid to produce MSG in order to capture the higher profit margin of MSG, utilizing waste residue and excess heat generated from our production processes to produce fertilizers and bricks, and building production capacities of chicken powder and corn oil. We also built production capacity of 80,000 tonnes of synthetic ammonia, which is an important raw material for the fermentation of glutamic acid, at our Inner Mongolia Plant and are constructing further production capacity of 100,000 tonnes of synthetic ammonia at our Northeastern Plant Phase I. Going forward, with the increased vertical integration of our production process, we intend to develop a series of food flavor enhancers using our internally produced MSG as the primary raw material, in order to further improve our operational efficiency and reduce our production costs. Given suitable opportunities, we may also consider further vertically integrating our production process upstream, including, among others, obtaining access to coal and other raw materials used in our production process. Moreover, we believe the completion and operation of Hulunbeir and Longjiang Railway Lines can significantly reduce our logistic costs.

Continue to diversify our product offering

We intend to leverage our position as a leading manufacturer of MSG and xanthan gum, our vertically-integrated corn-based biochemical production chain and our strong research and development capabilities to capitalize on new market opportunities presented by other biochemical and amino acid products. For example, we commercialized a series of threonine products in 2010, which was developed in 2009 in response to market demand for higher value-added biochemical products and in 2013 we have began commercial sales of branched-chain amino acid products. We are also developing a series of additional amino acid and biomass-based polymer products in order to enhance our product mix and improve our profitability.

For the six months ended June 30, 2018, the annual production capacity of MSG reached 665,000 tonnes. We also built a production line of high-end amino acid products in the Xinjiang Plant, which was completed in 2013. Since then, the total annual production capacity of high-end amino acid products has reached 3,000 tonnes. Such amino acid products will increase our product mix and diversity. In addition, our Longjiang Plant is currently under construction. This will enable us to provide more diversified biochemical products, shifting our focus from production and sales of typical amino acid products for bulk trade to those of high-end amino acid products.

Continue to expand our marketing and distribution network and expand international cooperation

We intend to broaden our domestic and international marketing and distribution network through expanding our geographical coverage, as well as enhancing the coverage of our existing markets. We expect to continue to open new sales offices together with sales and logistics centers across China to cover those provinces where we do not currently have sales offices. Our sales and marketing headcount is expected to continue to grow along with the opening of our new sales offices. To enhance our overseas sales capabilities in relation to xanthan gum, which is mostly exported, and to a lesser extent, MSG and starch sweeteners, we have opened offices in South East Asia and plan to establish additional offices in key overseas markets.

Moreover, we plan to further increase our international market share by cooperating with leading bio-product companies. We have increased our efforts to develop the foreign MSG and xanthan gum market through cooperating with well-known multinational companies including Ajinomoto Co., Inc. which is based in Japan and Evonik Industries which is based in Germany.

Continue to strengthen our brand recognition and consolidate our market position

We believe successful branding is key to our business development and that our core brands have gained wide recognition and popularity in the biochemical products industry in recent years as a result of our successful marketing and promotional strategies. To further strengthen and capitalize on the established reputation and recognition of our brands, we have established a branding team to help devise strategies to further market and promote our brand in order to consolidate our market share. We intend to continue to strategically target our advertising and marketing efforts on selected cities or regions where there is higher average consumer spending and potential for growth.

Continue to strengthen our research and development capabilities

We believe technological advancement is one of the key factors to our continued success in the market place. In addition to improving production efficiency, we plan to actively pursue and enhance our research and development capabilities to develop new production techniques and products, such as the development of new amino acid products and new applications for xanthan gum. We intend to invest additional resources to further strengthen our existing research and development capabilities as well as to increase research collaboration with established research institutes in China.

OUR PRODUCTS

Our products are broadly categorized into four business segments: (i) food additives; (ii) animal nutrition; (iii) amino acid and (iv) colloid. The food additives segment represents the manufacture and sale of MSG, chicken powder, crystallized glucose, fructose, corn oil pectin, food-grade xanthan gum, gellan gum and welan gum. The animal nutrition segment represents the production and sale of threonine, tryptophan, corn-refined products and lysine for animal feed. The amino acid segment represents the production and sale of high-end amino acid products, valine, isoleucine, leucine, glutamine, hyaluronic acid, polyglutamic acid and branched-chain amino acid. The colloid segment represents the production and sale of industrial grade xanthan gum, gellan gum and welan gum.

The following table sets forth our revenues generated from and the percentage of our overall revenue contributed by each of our products for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2015		2016		2017		2017		2018	
	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)
							(unaudited)		(unaudited)	
Food additives segment										
MSG	6,418,049	57.2	6,415,119	54.4	6,341,730	48.7	2,998,000	48.3	3,322,145	50.3
Starch sweeteners	724,002	6.4	642,086	5.4	697,494	5.4	310,909	5.0	433,612	6.6
Compound seasoning	16,117	0.1	15,169	0.1	22,421	0.2	9,615	0.2	10,882	0.2
Corn oil	35,937	0.3	27,995	0.2	10,731	0.1	4,749	0.1	4,401	0.1
Subtotal	7,194,105	64.0	7,100,369	60.1	7,072,376	54.4	3,323,273	53.6	3,771,040	57.2
Animal nutrition segment										
Corn refined products	1,314,548	11.7	1,764,121[1]	14.9	1,965,283	15.1	988,587	15.9	844,380	12.8
Threonine	594,830	5.3	1,012,837	8.6	1,393,958	10.7	631,338	10.2	668,880	10.1
Subtotal	1,909,378	17.0	2,776,958	23.5	3,359,241	25.8	1,619,925	26.1	1,513,260	22.9
Amino acid segment										
High-end amino acid products	490,732	4.4	663,744	5.6	878,787	6.7	455,494	7.3	419,846	6.4
Glutamic acid	42,068	0.4	200,834	1.7	418,594	3.2	226,215	3.6	171,128	2.6
Fertilisers	483,257	4.3	324,637[1]	2.8	405,819	3.1	161,805	2.6	143,574	2.2
Pharmaceuticals	73,702	0.7	86,898	0.7	121,383	0.9	56,277	0.9	76,803	1.2
Others	63,202	0.6	87,225	0.8	73,847	0.5	35,607	0.6	126,556	1.6
Subtotal	1,152,961	10.4	1,363,338	11.6	1,898,430	14.4	935,398	15.0	937,907	14.0
Colloid segment										
Xanthan gum	969,278	8.6	562,466	4.8	703,454	5.4	332,023	5.3	388,015	5.9
Total	11,225,722	100.0	11,803,131	100.0	13,033,501	100.0	6,210,619	100.0	6,610,222	100.0

Note:

(1) Restated.

As one of the leading corn-based biochemical products manufacturers in China, we have a highly vertically-integrated production process along the entire corn-based biochemical product value chain, from wet milling and processing of corn into cornstarch and other refined corn products, to the production of corn-based biochemical products, such as MSG, glutamic acid and xanthan gum through fermentation. We have also commercialized a series of threonine products, a series of additional amino acid products and biomass-based polymer products in order to enhance our product mix and improve our profitability.

The Food Additives Segment

MSG

MSG is created by converting glutamic acid through a simple chemical reaction. MSG is commonly used as a flavor enhancer in the food industry, the restaurant sector and for domestic household use and can be found in many food and beverage products to enhance flavor and can also be found in dietary supplements, healthcare products and pharmaceutical products. Most of our MSG is sold to MSG distributors and traders, food manufacturers and food seasoning manufacturers.

For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our annual production volume of MSG was 954,700 tonnes, 1,120,396 tonnes, 1,266,855 tonnes and 488,405 tonnes, respectively, and our annual sales volume of MSG was 947,435 tonnes, 1,084,308 tonnes, 1,148,995 tonnes and 568,439 tonnes, respectively.

Starch sweeteners

Starch sweeteners are the hydrolyzed form of starch, which can be obtained from corn. Starch sweeteners are widely used as raw materials in the pharmaceutical, food and beverage industries. Our starch sweeteners are mainly sold to starch sweetener distributors and traders, as well as food and beverage manufacturers in China.

For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our annual production volume of starch sweeteners was 238,393 tonnes, 257,145 tonnes, 264,080 tonnes and 177,154 tonnes, respectively, and our annual sales volume was 244,741 tonnes, 256,964 tonnes, 261,059 tonnes and 159,478 tonnes, respectively.

Compound seasoning

Compound seasoning is a compound flavor enhancer principally made of MSG. We launched our product in 2008.

Corn oil

Corn oil is extracted from corn germ, a by-product in our production of cornstarch. Its main use is in cooking, where its high smoke point makes refined corn oil a valuable frying oil and is perceived to be a relatively healthy edible oil. We launched our corn oil product in 2008.

The Animal Nutrition Segment

Corn refined products

Our corn refined products include corn germ, corn fiber and corn gluten meal, which are by-products in our production of cornstarch. Corn germ refers to the nucleus or embryo of corn, which is commonly used for extraction of corn oil. Corn fiber is the remaining mixture of the endosperm and the hull of a corn which has passed through a series of grinding and screen processing and can be used in producing animal feed products. Corn gluten meal is typically characterized by its high protein and high energy content which results from the corn wet milling process. All of our corn refined products are sold to animal feed and corn oil manufacturers in China.

Threonine

Threonine is a colorless crystalline essential amino acid and is primarily used as a dietary supplement. We commercialized a series of threonine products in 2010, which were developed in 2009 in response to market demand for higher value-added biochemical products.

The Amino Acid Segment

High-end amino acid products

The high-end amino acid business is included in our MSG business segment. We are able to develop high-end amino acid products as we are able to develop different types of corn-based biochemical products with its fermentation technology. The high-end amino acid products included valine (纈氨酸), leucine (亮氨酸), isoleucine (異亮氨酸) and glutamine (穀氨醯胺).

The total sales amount of high-end amino acid products increased to approximately RMB878.8 million in 2017 compared with RMB663.7 million in 2016. We are striving to continuously develop these new products. Our objective is to strengthen our brand name and also continue developing new products for the industrial and retail markets, with a view to enhancing market recognition of our products and generating higher demand for such products.

The high-end amino acid products commenced production in our Xinjiang Plant at the end of 2017 with annual production capacity of high-end amino acid at 14,000 tonnes.

Glutamic acid

Glutamic acid is a type of amino acid produced from corn through a bio-fermentation process, and is the main precursor for the production of MSG. The glutamic acid produced by us is mainly used internally as a raw material for our MSG production. In recent years, as a result of our strategy of shifting our focus away from the sale of glutamic acid to third parties, we have increased the internal utilization of our glutamic acid to produce MSG in order to capture the higher profit margin of MSG.

For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our annual production volume of glutamic acid was 766,917 tonnes, 927,436 tonnes, 1,062,066 tonnes and 403,553 tonnes, respectively, and our annual sales volume of glutamic acid was 5,301 tonnes, 27,488 tonnes, 64,609 tonnes and 26,211 tonnes, respectively.

Fertilizer

Fertilizer is used to improve soil fertility. We produce our fertilizer from waste residue and excess heat generated from our production processes. The technology was developed by us with an aim to improve the environmental standards of our production process, and a PRC patent application was made in 2005 relating to such technology. In addition, our fertilizer contains a rich amount of amino acids which help the microorganisms in the soil to produce a significant amount of bio-enzymes that can raise the utilization rate of the fertilizer and as a result, can improve the soil structure and enhance the soil's ability to preserve fertility and nutrients. We produce both organic fertilizer and compound fertilizer. Our fertilizer is mainly sold to fertilizer distributors and manufacturers for the production of other types of fertilizers.

For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our annual production volume of fertilizer was 897,542 tonnes, 891,823 tonnes, 1,075,675 tonnes and 409,778 tonnes, respectively, and our annual sales volume was 1,149,029 tonnes, 972,603 tonnes, 1,067,044 tonnes and 387,118 tonnes, respectively.

Pharmaceutical products

Our wholly-owned subsidiary, Shenhua Pharmaceutical, is principally engaged in the manufacture and sales of eubacteria material medicine, preparations and food additives and other related products.

Bricks

We produce bricks using the waste residue and excess heat generated from our production processes. Bricks are used as building and paving material.

The Colloid Segment

Xanthan gum

Xanthan gum is a polysaccharide which is made from the fermentation and processing of cornstarch and can be used either as a food additive or rheology modifier. The unique properties of xanthan gum render it a very effective thickener, stabilizer or suspension agent, which can be tailored to the needs of petroleum drilling and exploration, fine chemicals, and the production of food, personal care and pharmaceutical products. Xanthan gum is soluble in both hot and cold water and in solutions with a wide range of acidity levels but is insoluble in most inorganic solutions.

The principal customers for our xanthan gum are oil and gas services companies, as well as food additive traders, manufacturers and distributors. The majority of our xanthan gum is exported and sold in over 104 countries around the world.

For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our annual production volume of xanthan gum was 84,162 tonnes, 53,000 tonnes, 42,352 tonnes and 25,252 tonnes, respectively, and our annual sales volume of xanthan gum was 63,517 tonnes, 50,762 tonnes, 52,822 tonnes and 26,041 tonnes, respectively.

RAW MATERIALS

We prefer to maintain flexibility in sourcing our raw materials. Our annual procurement of raw materials is based on an annual production plan. The annual production plan is prepared at the beginning of every year based on our annual budget and sales forecast. The production plan is further adjusted on a monthly and weekly basis at the end of the previous month or week based on our production capacity and monthly or weekly sales plans taking into account the actual production requirements and current inventory levels. We do not have long-term contracts with any of our suppliers. We believe that the relationship between our suppliers and us has been and will continue to be stable. All of our raw materials are sourced in China.

During the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we did not encounter any difficulty in sourcing any of our raw materials. We believe that, in terms of quantity and quality, there are sufficient raw materials suppliers within the areas surrounding our production facilities to meet the ongoing needs of our production.

Corn

Corn is one of the principal raw materials used in our production processes. For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30m 2017 and 2018, the cost of corn represented 58.4%, 52.4%, 48.6%, 47.0% and 42.9% of our total cost of production, respectively. For the same periods, our average unit cost of corn was RMB1,811 per tonne, RMB1,408 per tonne, RMB1,307 (US$198) per tonne, RMB1,272 per tonne and RMB1,417 (US$214) per tonne, respectively. Our average unit cost of corn is closely related to the market price of corn, which may be affected by market demand and supply, domestic government policy, climate and other natural disasters such as droughts, floods or earthquakes. All of our corn is purchased domestically directly from local farmers, and we have not entered into any long term procurement agreements with any of them.

All our plants are located in areas with an abundant supply of corn at comparatively low prices. Our production plants are strategically located in Shaanxi Province, Heilongjiang Province and Inner Mongolia, which rank among provinces with the highest corn production volumes in China. We believe that the close proximity of an ample supply of corn to our production facilities allows us to source our corn requirements at relatively low prices and effectively minimize transportation costs.

Coal

Coal is one of the principal costs in our production processes. For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, the cost of coal represented 9.4%, 10.7%, 14.5%, 13.6% and 15.1% of our total cost of production, respectively. For the same periods, our average unit cost of coal was RMB159 per tonne, RMB155 per tonne, RMB212 (US$32) per tonne, RMB200 per tonne and RMB231 (US$35) per tonne, respectively. Our average unit cost of coal is closely related to the market price of coal, which may be affected by market demand and supply, domestic government policy, climate and other factors.

Our production plants in Baoji City, Shaanxi Province and Hohhot, Inner Mongolia, and Xinjiang are strategically located in provinces with abundant coal reserves at prices lower than China's national average. This has allowed us to source our coal requirements at relatively low prices and effectively minimize transportation costs.

Other Chemical Ingredients

Liquid ammonia and sulphuric acid are the major chemical raw materials used in the production of our products. For each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, the cost of liquid ammonia accounted for 1.0%, 1.2%, 1.8%, 1.9% and 1.4% of our total cost of production, respectively, and the cost of sulphuric acid accounted for 1.0%, 1.0%, 1.0%, 0.8% and 0.9% of our total cost of production, respectively. For the same periods, our average unit cost of liquid ammonia was RMB2,021 per tonne, RMB1,853 per tonne, RMB2,275 (US$344) per tonne, RMB2,245 per tonne and RMB2,774 (US$419) per tonne, respectively, and our average unit cost of sulphuric acid was RMB240 per tonne, RMB213 per tonne, RMB246 (US$37) per tonne, RMB198 per tonne and RMB393 (US$59) per tonne, respectively.

INVENTORY CONTROL

We maintain overall inventory records to ensure proper procurement, usage and storage. To ensure the proper recording of our inventory, random physical stocktakes are performed from time to time and a full stocktake is performed every year. Our centralized inventory control system provides us with real-time inventory information to better manage our product delivery requirements among our sales and logistics centers.

Control over Raw Materials

Our annual procurement of raw materials is based on an annual production plan. The annual production plan is prepared at the beginning of every year based on our annual budget and sales forecast. The production plan is further adjusted on a monthly and weekly basis at the end of the previous month or week based on our production capacity and monthly or weekly sales plans, taking into account actual production requirements and current inventory levels.

An optimal storage level is set for the inventory of each type of raw material. If the storage level falls below the set minimum level, our procurement department sources additional raw materials from suppliers, as necessary.

Control over Finished Goods

The majority of our inventories are stored in separate warehouses located at our production sites. Records of finished goods inventories are kept at these warehouses and conformed to the records of our finance department at the end of each month. We maintain a centralized inventory control system that provides us with real-time inventory information to better manage our product delivery among our sales and logistics centers.

PRODUCTION FACILITIES

Since the commencement of our business, we have increased our production capacity by building new production plants and upgrading production facilities in order to satisfy the increasing demand for our products. We currently have seven production plants, namely the Shandong Plant, the Baoji Plant, the Inner Mongolia Plant, the Hulunbeir Plant, the Xinjiang Plant, the Longjiang Plant and our Shenhua Pharmaceutical Factory.

Our production sites are easily accessed through waterways, railways or roads. The Shandong Plant is located 50 kilometers away from Port Rizhao, 200 kilometers away from Port Qingdao and 90 kilometers away from Port Lianyungang, which are the principal water transfer ports for shipment. The Baoji Plant is located approximately 10 kilometers away from the railway transport system. The Inner Mongolia Plant is located five kilometers away from the railway transport system.

The following table sets forth the designed production capacity on a half-year pro-rata basis of our key products for the six months ended June 30, 2018:

	Production capacity
	(tonnes)
MSG	665,000
Xanthan gum	31,667
Fertilizers	540,000
Threonine	107,000
Starch sweeteners	175,000
High-end amino acid	8,500

Baoji Plant

We established the Baoji Plant Phase I and Baoji Plant Phase II in November 2004 and November 2005, respectively, in Baoji, Shaanxi Province, which is used for our factory, office, warehouse and supplementary uses.

Inner Mongolia Plant

We completed Inner Mongolia Plant Phase I in December 2006 in Hohhot, Inner Mongolia, which is used for our factory, office and warehouse uses.

We completed Inner Mongolia Plant Phase II and Inner Mongolia Plant Phase III in the last quarter of 2008 and 2009, respectively. The Inner Mongolia Plant produces glutamic acid, MSG, xanthan gum, starch sweetener, fertilizer and bricks.

Hulunbeir Plant

Hulunbeir Northeast Fufeng Biotechnology Co., Ltd (Northeast Fufeng) was established on May 14, 2010. The Hulunbeir Plant is situated at the Inner Mongolia Hulunbeir Lingdong Industrial Development Zone (Zhalantun). The scope of the Hulunbeir Plant's business includes production and sales of starch, starch sweeteners, high-end amino acids products, MSG, xanthan gum, food additives and fertilizers.

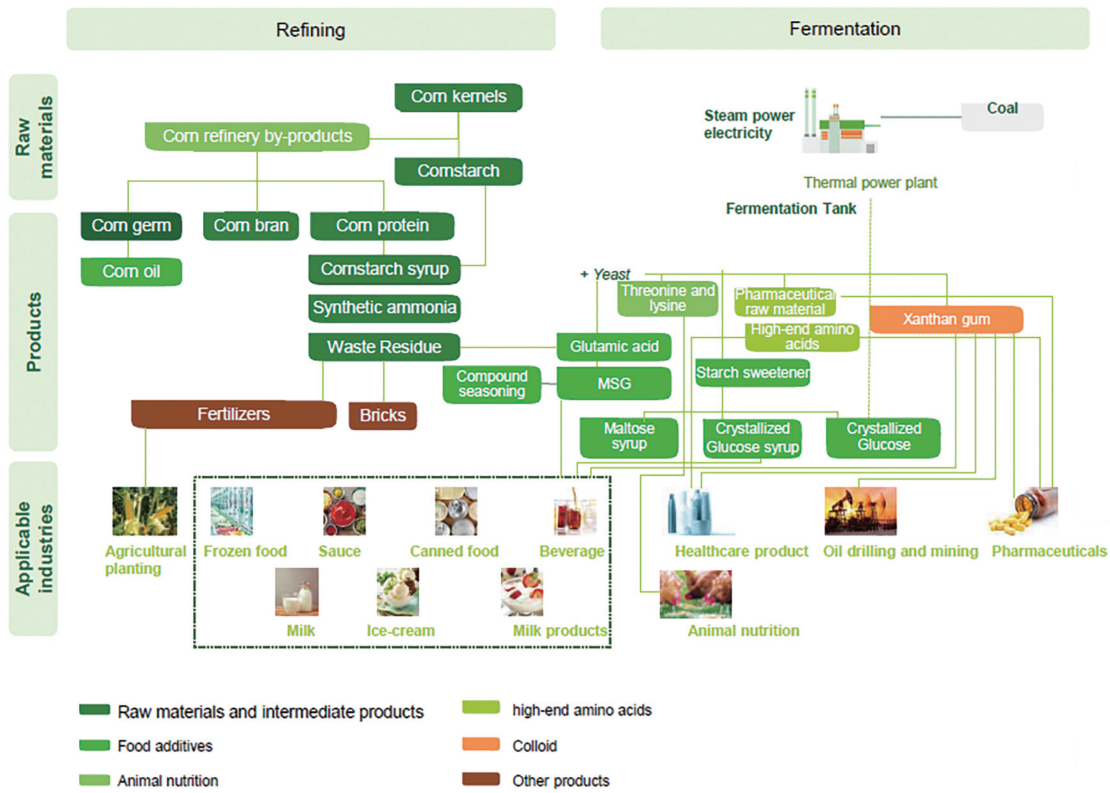
Xinjiang Plant

Xinjiang Fufeng Biotechnology Co., Ltd (Xinjiang Fufeng) was established on February 15, 2012. The plant is situated at Weitai South Road, Urumqi Economic and Technological Development Zone. The scope of the Xinjiang Plant's business includes production and sales of xanthan gum and high-end amino acids products.

Longjiang Plant

We established the Longjiang Plant Phase I in 2017 in Qiqihaer, Heilongjiang Province, which is used for the production of threonine and glucose. Our Longjiang Plant Phase II is currently under construction.

PRODUCTION PROCESS



The major production processes are described as follows.

Steeping. Steeping is a process of turning dry corn comprising 14% of water into wet corn comprising 42% of water.

Separation. After steeping, the soaked corn are separated from the steep water. The corn are ground coarsely to separate the corn germ from other components. Separators are then used to spin the corn germ out of the slurry. The corn germ is then screened and washed to remove any remaining starch. The corn germ is further dried and sold in the market. The residue steep water is used in the production of fertilizer.

Grinding. The remaining liquid enters the corn germ separator for a second time, but it is ground by a finer grinder to separate the fiber of the kernel from the starch and gluten suspension. The fiber of the kernel is then removed from the starch and gluten suspension by pouring the suspension through screens. The corn germs are finally washed and re-screened.

Starch separation. Starch separation is a process of separating the main product and the by-product through special washing and screening equipment after the process of grinding is completed.

Saccharification. Saccharification is a process of breaking a complex carbohydrate (as starch slurry) into its monosaccharide components, and preparing for syrup refining.

Syrup refining. Syrup refining is a process of refining starch syrup to enhance its purity.

Filtration. Filtration is a process of straining out contained substances. Such a process, when used in the production of MSG, is used to help to purify the glutamic acid and prepare for crystallisation.

Fermentation. Fermentation is a process where complex sugars are fermented as a result of the inclusion of additives such as microbial enzymes, oxygen and other chemicals.

Extraction. Extraction is a process where fermented mixture is processed with sulphuric acid or alcohol so as to extract glutamic acid or xanthan gum, respectively.

Separation. Separation is a process where the extracted products are further separated.

Neutralization. A certain amount of alkaline is added to the glutamic acid to adjust the pH value of the liquid to around 3.0 in preparation for the filtration of glutamic acid.

Crystallization and glucose separation. Crystallization is a process of crystallizing MSG from glutamic acid mixture.

Evaporation and concentration. Evaporation is a process of transforming water to water vapor, through which glucose syrup will be condensed.

Concentration. Concentration is a process used to enhance purity.

Isomerization. Isomerization is a process where glucose syrup is transformed into fructose syrup.

Alcoholic extraction. Alcoholic extraction is a process where a product is extracted from the fermented mixture after adding alcohol, making use of its alcohol-insoluble property.

Pressing. Pressing is a process where water is squeezed out through special equipment.

Drying. Drying is a process where water is removed by way of direct or indirect heating.

Pelletizing. Pelletizing is a process where concentrated waste water and excess stream is compressed into a pellet.

SALES AND MARKETING

Sales and Marketing

We have established a nationwide marketing and distribution network, which as of December 31, 2017 comprised approximately 473 full-time sales and marketing personnel. These personnel are responsible for the sales and marketing of our principal products, serving both the domestic and international markets. Furthermore, our plants are strategically located in eastern China, northern China and western China which enables us to access our customers more easily and market our products more effectively in different regions in China. In addition, to ensure timely delivery of customers' orders, we have also set up 14 sales and logistics centers to manage our sales and logistics operations. Our centralized inventory control system provides us with real-time inventory information to better manage our product delivery requirements and inventory allocation among our sales and logistics centers. We intend to broaden our domestic and international marketing and distribution network through expanding our geographical coverage, as well as enhancing the coverage of our existing markets.

We expect to continue to open new sales offices together with sales and logistics centers across China to cover those provinces where we do not currently have sales offices. Our sales and marketing headcount is expected to continue to grow along with the opening of our new sales offices. To enhance our overseas sales capabilities in relation to xanthan gum and to a lesser extent, MSG and starch sweeteners, which is mostly exported, we have opened offices in South East Asia and plan to establish additional offices in key overseas market to enhance market position, provide customers with better service, improve customer relationships, and enhance our reputation.

We have a diversified customer base. Some of our customers are household brands in China, such as Ajinomoto, Evonik, Vedan and Haitian. The majority of our MSG is sold domestically in China, primarily to industrial manufacturers, trading companies, food additive distributors and local distributors. We also sell our MSG directly to food additive manufacturers and food processors. With respect to xanthan gum, our industrial-grade xanthan gum is mostly sold to international oil and gas services companies and our food-grade xanthan gum is mostly sold to multinational food processors. Sales of xanthan gum are sometimes conducted through the tenders of auction bids in an open auction by customers in the food and oil industries. Such customers usually make a bulk order to fulfill the whole year's production requirement, and thus, enable us to secure orders for the coming 12 months. We are able to access information on auction bids through our agents in target markets.

Our sales and marketing strategies are developed by our senior sales management team. The senior sales management team is responsible for formulating strategies and coordinating sales personnel. The senior sales management team is based at our headquarters so as to enhance operational efficiency, especially with regard to internal communication with the production team. The sales personnel are assigned to designated regions, liaising with regional and local customers on a regular basis, who are also responsible for collecting local market information to facilitate our marketing and pricing strategies.

Pricing for our products is determined based on demand and supply dynamics, profitability, product quality, strategic considerations, among other factors. We continue to look for opportunities to increase our market share and strengthen our leading position, and therefore may set different prices for our products compared to market prices from time to time. For example, despite an increase in the prices of raw materials, in particular corn kernels, in the three months ended March 31, 2018, we decided to lower the average selling price of MSG, which had a negative impact on our profitability in the six months ended June 30, 2018. Subsequently, we increased the average selling price of MSG in the three months ended June 30, 2018 to offset the increase in the prices of corn kernels.

In line with our tailored approach to branding by customer segment, we market our products under several different brands. The table below sets forth our various consumer product brands.

Brand	Products	Logos
Fufeng (阜豐)	Threonine	
Uo Fresh (U鮮)	MSG, Compound seasoning	
Furui (福瑞)	MSG	
Xuemei (雪梅)	MSG	
Uo Fragrant (U香)	Corn oil	
Fufeng (阜豐)	Xanthan gum	
Golden Fufeng (金阜豐)	Fertilizer	
Friend Year (福瑞年)	Fertilizer	
Ka Fei Dou (卡非豆)	Fertilizer	
Fufeng (阜豐)	Starch sweeteners	
Wei Yi Duo (維益多)	Corn oil	

Pricing Policy

The prices of our products are determined based on their respective prevailing market prices. There are currently no legal or regulatory controls which regulate the prices of our products. In general, we set prices for our products on the basis of market demand for such products in both domestic and overseas markets.

As corn and coal are the key raw materials for our production processes and account for a substantial portion of our cost of production, fluctuations in the supply or price of either would have an impact on our pricing determinations. We generally aim to mitigate any adverse effect of fluctuations in the prices of our raw materials by adjusting our sales prices, and we aim to maintain our gross margins at a consistent level.

Our management convenes for monthly meetings at which pricing is discussed. The Chairman and senior personnel from the sales department, the raw material procurement department and the financial department participate in the meeting and the price of any of our products will be adjusted if considered necessary.

QUALITY CONTROL

We recognize the importance of stringent quality control in the production of our products and have established departments responsible for implementing and monitoring quality-control measures and procedures. As of December 31, 2017, the quality control department had approximately 246 staff, stationed at the microbiological laboratory at each of our production facilities.

Some of our production facilities have been accredited with IS09001:2000 (quality management systems), ISO22000 (food safety management systems), ISO14001 (environment management systems) and ISO18001 (occupational health and safety management systems) certifications. These recognitions confirm that our quality control management systems are consistent with national standards.

Quality Control of Raw Materials

Each of our quality-control departments conduct on-site inspections when raw materials are delivered to the production plants to ensure that the raw materials meet the required standards. Any raw materials which are identified as defective are returned immediately to the suppliers.

Production Quality Control

Quality-control measures are in place throughout the production process to ensure that the finished products meet the standards of quality expected from our customers. Quality-control staff monitor and inspect the products during the production process. We adopt a cross-check quality assurance system. This includes the testing of raw materials and half-finished products at the factory sites as well as by the quality control department at the laboratories. We also send product samples to independent testing institutions such as the Shandong Provincial Institute of Product Quality Supervision and Inspection if so requested by our customers. The local environmental protection bureau has real-time access to our environmental records to monitor emissions.

REPAIR AND MAINTENANCE

We have a regular repair and maintenance program and will periodically review whether our production plants need to be shut down temporarily for annual maintenance work. The repair and maintenance department is responsible for overseeing the progress of the maintenance projects in order to ensure that day-to-day maintenance and repairs of the machinery are carried out properly.

COMPETITION

We are the largest manufacturer of MSG in China. We compete primarily with a few manufacturers with lower capacities. As a leading manufacturer of MSG with low production cost, quality products and a stable customer base, we were able to take advantage of the industry consolidation and enlarge our market share through increase in production capacity and sales. We believe that our large scale of production has enabled us to take advantage of economies of scale.

We consider our major competitors in the production of MSG to be Hebei Meihua Monosodium Glutamate Group Co., Ltd. and Ningxia Eppen Bio-tech Co. Ltd.

We are the largest manufacturers of xanthan gum in the world. The overall market for xanthan gum has dropped in volume over the years, driven primarily by decreased use in the oil and gas services sector. There are an increasing number of global players in the xanthan gum industry in China and in the international market. As supply of xanthan gum exceeds demand in the PRC market, we believe that xanthan gum manufacturers in China have to establish overseas markets for their products and accordingly, we also face competition from overseas manufacturers. However, with the improving quality of our xanthan gum, coupled with our price advantage, we expect to be able to maintain and increase our competitiveness in the future.

We consider our major competitors in the production of xanthan gum to be CP Kelco, Deosen Corporation Ltd and Heibei Meihua Monosodium Glutamate Group Co., Ltd.

RESEARCH AND DEVELOPMENT

We recognize the importance of using advanced technology to continuously improve our production efficiency and to develop new products. As of December 31, 2017, our well-qualified and strong research and development team comprised 360 members. Our research and development center in Junan, which has been accredited with national-grade laboratory qualification, houses a workstation for the fellows and a post-doctoral scientific research workstation. Since 2008, our research and development center has been approved as a national post-doctorate research center. In addition, we were named a Model Sustainable and Environmental Enterprise (全國發酵行業循環經濟示範企業) by the China Fermentation Industry Association in 2008.

Our research and development team also collaborates regularly with universities and research institutes in China to advance our research and development projects. We have established long-term and stable cooperation programs with a number of universities and institutions in China to jointly conduct research and develop technologies. In addition, a number of our research and development results reports have been accredited by the provincial government.

Our research and development capability allows us to expand and improve our product offering in response to market demand. For example, we successfully developed and commenced commercial production of xanthan gum in 2003 with our proprietary production technology and have now become one of the largest manufacturers of xanthan gum in the world. In 2010, we commercialized a series threonine products, which was developed in 2009 in response to market demand for higher value-added biochemical products. Our research and development capability also enables us to improve the environmental standards of our production processes. For example, we successfully developed a technology that utilizes waste residue and excess heat generated from our production processes to produce fertilizer and a PRC patent application was made in 2005 with regard to such technology. In addition, we successfully installed flue gas desulphurization facilities at our plants which have alleviated the impact of flue gas released during our production process, a key problem that is encountered by MSG manufacturers in their production process. In recent years, we have also improved our production technology for MSG to further reduce consumption of electricity and steam in the production process which has led to increased unit productivity and decreased production costs. Waste residue and excess heat generated from our production processes are also recycled for the production of bricks. Our current research and development initiatives include the development of hyluronic acids for uses in cosmetic products in order to enhance our product mix and improve our profitability.

SAFETY MATTERS

Our business and operations are subject to the Production Safety Law of the PRC, which sets out the legal standard for safety measures in relation to the establishment, modification and expansion of production facilities. In case of any non-compliance, the relevant governmental body has the right to order any company to remedy such non-compliance within a given period of time, failing which it may be subject to an order for cessation of production and penalty charges, and if it amounts to a criminal offense, such company will be prosecuted under criminal laws.

We have implemented comprehensive occupational health and safety procedures and measures for our operations. Our management examined and scrutinized the internal industrial safety control measures and safety awareness of the workforce and supervisors in all plants and within all workstations.

Safety-related training and education were provided periodically to promote safety awareness among our management and employees. Examinations on safety related matters were conducted to reinforce the safety awareness of the management and the staff in the workplace. Workers were sent in different groups to the Local Quality and Technology Supervision Bureau for training and for certification of Specialized Equipment Operator Qualification, and to the Local Safety Production Supervision and Management Bureau for training and for certification of Specialized Operation Qualification.

We were accredited with OHSAS 18001:2007 and GB/T28001-2011 certification by the CQC Center on May 31, 2005. OHSAS 18001 is an internationally recognized certification which demonstrates that a safety-oriented approach has been integrated into a company's processes, and further demonstrates a company's commitment to a safe working environment and to protecting employees against injury at work. GB/T28001-2001 is a nationally recognized certification which demonstrates a company's commitment to industrial health and safety management pursuant to nationally recognized occupational health and safety management standards. To maintain such accreditation, we are required to conduct safety reviews semi-annually to ensure that safety measures are in place and are observed by our employees. In addition, we are required to engage an independent qualified safety assessment company to conduct annual reviews of our safety measures.

We have also rewritten the internal safety operating manual and risk approval procedures to ensure strict compliance with internal rules and regulations by our employees and have taken various proactive measures to strengthen our production safety in the workplace. Our management and employees are trained under continued reassessment so as to comply with all the required procedures and the relevant operating guidelines.

ENVIRONMENTAL MATTERS

Our business and operations are governed by relevant environmental laws and regulations, including the Environmental Protection Law of the PRC, the Law on Prevention of Air Pollution of the PRC, the Law on Prevention of Water Pollution of the PRC and the Law on Prevention Solid Waste Pollution of the PRC.

We have adopted a number of environment protection and safety measures and pollution controls throughout our production process, brief details of which are set out below:

- as part of our production process, we discharge pollutants such as waste residue, excess heat and dust. The waste discharge is subject to applicable state or local discharge limits. We have installed a range of waste management systems to cater for the proper management of pollutants throughout the production process;

- we have developed a technology that utilizes waste residue and excess heat generated from our production processes to produce fertilizers and a PRC patent application was made in 2005 with regard to such technology. Furthermore, solid waste from coal burning is in the form of cinders, and such cinders are sold by us as by-products and therefore minimizes pollution;

- environmental control is carried out by our production department. We have pollution control systems in relation to our waste water discharge installed in all of our production plants. These systems are connected directly to the local environmental bureaus so that the local environmental bureaus can monitor whether our waste water discharges are in compliance with the relevant environmental standards; and

- we also provide training to our staff regarding environmental protection rules and regulations. We also invite qualified advisers to visit our plants from time to time to assess whether environmental protection measures are up to standard and to make recommendations for further improvements.

We believe we comply with applicable laws and regulations on environmental protection in all material respects.

INTELLECTUAL PROPERTY

We have registered, or have applied for registration of, our material patents and trademarks in the PRC. We have been granted 177 patents and have an additional 205 patent applications pending approval in the PRC. We have registered a number of trademarks and brand names which are widely used to market our products in China and overseas. In addition, technology is protected through strict internal controls such as requiring employees involved in the production technology development and production processes to sign confidentiality agreements with us and restricting personnel that can enter our research and development and restricted production areas. We are entitled to initiate civil proceedings to seek compensation for loss and damages arising from any third parties' unauthorized disclosure or misappropriation of our proprietary technology and processes under applicable PRC laws and regulations.

During the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we were not exposed to any infringement claims and have not experienced any third party infringement of our intellectual property rights.

INSURANCE

We maintain insurance policies that cover our fixed assets (including our buildings and machinery) and our current assets (including our inventory) against damage caused by, among other things, fire, explosions, thunderstorms, typhoons and landslides. In accordance with established practice in China, the insurance policies maintained by us do not cover any indirect losses such as loss of profits caused by any suspension or termination of business. According to statutory requirements, we have maintained insurance schemes which cover accident, unemployment, retirement and medical expenses.

We do not have any product liability insurance to cover any liability arising from any defect in our products. PRC laws do not mandatorily require us to maintain insurance covering any such liability. We also believe that all our products meet the quality standards set by the PRC supervision authorities and are therefore of the view that insurance coverage for product liability is not necessary. During the three years ended December 31, 2017 and up to the date of this offering memorandum, no legal claims or complaints have been made against us by any of our customers in relation to any products provided by us.

EMPLOYEES

As of December 31, 2017, we employed a total of approximately 9,500 staff in China and Hong Kong. A breakdown of our employees by function is shown below:

Employee Function	Number of Employees
Quality inspection	246
Sales	473
Research and Development	360
Production	8,102
Administration	319
Total	9,500

Our employees' remuneration is paid in accordance with the relevant PRC policies, and the benefits of our employees include salary, bonus, pension, unemployment insurance and housing allowance. We believe our relationship with our employees has been cordial. There has not been any material dispute between us or any of our subsidiaries and any of our respective employees during the three years ended December 31, 2017.

COMPLIANCE

During the three years ended December 31, 2017, we were in possession of all of the necessary approvals and qualification certificates required under PRC laws and regulations in order to conduct our businesses in all material respects.

We have implemented comprehensive internal control and corporate governance systems. The internal control and corporate governance systems aim to achieve operational, financial reporting and compliance targets as defined in the framework of the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Each of our subsidiaries has adopted such systems for internal control purposes. We have a designated management team assigned to oversee the systems. In accordance with the COSO framework, we have engaged an external institution to conduct annual assessment of our internal controls, identified corrective actions after such assessment and implemented new controls.

LEGAL PROCEEDINGS

We are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. We believe that there were no material legal proceedings or disputes which were of material importance or which have adversely affected us during the three years ended December 31, 2017 and up to the date of this offering memorandum.

This section summarises the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to our glutamic acid, MSG, xanthan gum and fertiliser production and sales in the PRC and other relevant laws and regulations. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

RELEVANT LAWS AND REGULATIONS

The businesses of the Group, in particular, the production and sale of its principal products are primarily regulated by the following regulations and measures:

Production Safety Law of the PRC

The Production Safety Law of the PRC (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress on 29 June 2002 and amended on 27 August 2009 and on 31 August, 2014 which lays down the framework for the requirement, supervision and enforcement of safety standards in production.

It imposes prime responsibility on the primary person in charge of production entities for ensuring a comprehensive safety accountability within the entity, the organizing of the development of policies, rules and operating procedures for work safety, the supervising and inspecting the work safety of the business entity to eliminate hidden risks of work safety accidents in a timely manner. The law safeguards certain interests of workers injured from industrial accidents and at the same time penalise not only the production entities for non-observance of its provisions, but the relevant safety supervisory administration departments for its lack of proper supervision or for approving the production without adequate inspection of the entity's safety measures.

In addition, other relevant PRC laws and regulations on safety requirements applicable to the Group include: Measures to Punish the Illegal Action on Safety Production (安全生產違法行為行政處罰辦法), Fire Protection Law of the People's Republic of China (中華人民共和國消防法), Special Equipment Safety Supervisory Rules (特種設備安全監察條例) and Work-related Injury Insurance Regulations (工傷保險條例).

Regulations on the Administration of Permit for Production of Industrial Products and its implementing rules

The Regulations on the Administration of Permits for the Production of Industrial Products of the PRC (中華人民共和國工業產品生產許可證管理條例), which took effect on 1 September 2005, and the Implementing Rules for the Administration of Permits for Production of Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法), which were promulgated on 21 April 2014 and took effect on 1 August, 2014. These laws are applicable to industrial product manufacturing enterprises and manufacturing operations conducted without the proper permit being issued may subject the producer to an order of suspension of operations, confiscation of unauthorised products and fines.

The Food Safety Law

The Food Safety Law of the PRC (中華人民共和國食品安全法) promulgated by the Standing Committee of the National People's Congress and effective on 1 June 2009 and subsequently amended on April 24 , 2015 and came into effective on 1 October 2015, and the Implementing Rules for the Food Safety Law (中華人民共和國食品安全法實施條例) issued by the State Council on 20 July 2009 and revised on 6 February 2016 regulated the production and trading of food (including food additives) through various mechanisms such as risk assessment, licensing, standardisation and inspection. Under the Food Safety Law, those intending to engage in the production of food additives shall have the sites, production equipment or facilities, professional technicians, and management rules suitable for the varieties of food additives produced, and shall obtain a permit for the production of food additives under the procedure as set out in Food Safety. Production of food additives without such permit may subject the producer to confiscation of unauthorised products, illegal income, tools, equipment and raw materials used for illegal production and fines.

Fertiliser Registration Administration Methods

Fertiliser Registration Administration Methods Law (肥料登記管理辦法) issued by the PRC Ministry of Agriculture (農業部) and taking effect on 23 June 2000 and amended on 30 November 2017 requires that any import, manufacture, sales and use of fertilisers are subject to the registration procedures specified by the law. It provides detailed requirements regarding the packaging label and product specification of fertilisers and the penalties for breaching its provisions. In addition, it exempts certain products from the registration requirements.

The Environmental Protection Laws

All manufacturers in the PRC must comply with environmental laws and regulations including the Environmental Protection Law of the PRC (中華人民共和國環境保護法), Prevention and Control of Water Pollution Law of the PRC (中華人民共和國水污染防治法), Prevention and Control of Air Pollution Law of the PRC (中華人民共和國大氣污染防治法) and Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC (中華人民共和國固體廢物污染環境防治法), and relevant environmental regulations such as provisions regarding the treatment and disposal of pollutants and sewage, discharge of polluted fumes and the prevention of industrial pollution. Depending on the circumstances and the seriousness of the violation of the environmental regulations, the local authorities are authorised to impose various types of penalties on relevant persons or entities in violation of the environmental regulations. The penalties which could be imposed include ordering to adopt measures such as restricting production or suspending business or terminate business or close down. Fines could also be levied together with these penalties. The persons or entities in violation of the applicable laws and regulations may also be liable to pay damages to the victims and/or result in criminal liability.

Other environmental protection laws applicable to the Group include: Regulations of Environmental Management on Project (建設項目環境保護管理條例), Regulations of Environmental Protection Acceptance Inspection on Projects Completion (建設項目竣工環境保護驗收管理辦法) and Environmental Impact Evaluation Law of the PRC (中華人民共和國環境影響評價法).

PERMITS, APPROVALS, CERTIFICATES AND BUSINESS LICENSES

For food additive production

The following is a summary of the required certificates, permits and/or licenses required to be obtained from the relevant supervisory bodies before an enterprise can manufacture or distribute food additive products:

(i) Hygiene Permit (衛生許可證) issued prior to 1 June 2009 in respect of each food additive product produced by the enterprise being inspected by the relevant health bureau. After 1 June 2009, the Hygiene Permit was no longer required for food additive product as the Food Hygiene Law of the PRC was abolished on the effective date of the Food Safety Law of the PRC;

(ii) Industrial Products Manufacturing License (工業產品生產許可證) issued by the relevant administrative bureau of quality supervision, inspection and quarantine (質量監督檢驗檢疫部門); and

(iii) Business License (營業執照) issued by the relevant administrative bureau of industry and commerce.

For fertiliser production and sales

Enterprises engaged in the production and sales of fertilisers in the PRC have to additionally obtain the following certificate, approvals and licenses from the relevant government authorities:

(i) for the manufacture and sales of fertilisers, the Industrial Products Manufacturing License (全國工業產品生產許可證) issued by the relevant administrative bureau of quality supervision, inspection and quarantine (質量監督檢驗檢疫部門);

(ii) for the manufacture and sale of fertilisers, a Fertiliser Registration Certificate (肥料登記證) issued by the relevant administrative bureau of agriculture; and

(iii) filing with each of the relevant administrative bureau of agriculture for the sale of fertilisers outside of the province where the manufacturing operation is based.

For special manufacturing processes and equipment

In accordance with the Production Safety Law of the PRC (中華人民共和國安全生產法) and the Special Equipment Safety Supervision Regulations (特種設備安全監察條例), manufacturing entities which employ hazardous equipment or apparatus or present significant danger source must obtain the following permits or registration for its use or operation:

(i) Special Equipment Safety Certificate (特種設備安全使用證) issued by the relevant State Bureau of Quality and Technical Supervision (國家質量技術監督局)；and

(ii) registration with the State Administration of Work Safety (國家安全生產監督管理局) and submit to periodic review and maintenance program.

DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our Board of Directors as of the date of this offering memorandum:

Name	Age	Position
LI Xuechun	66	Executive Director, Chairman and Authorized Representative
ZHAO Qiang . . .	50	Executive Director and Chief Executive Officer
LI Deheng	49	Executive Director
PAN Yuehong . . .	53	Executive Director
LI Guangyu	39	Executive Director
XIAO Jianlin . . .	50	Independent Non-executive Director
ZHENG Yu	50	Independent Non-executive Director
QI Qingzhong . . .	63	Independent Non-executive Director

Executive Directors

Mr. LI Xuechun (李學純), 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 Shandong Institute of Light Industry (山東輕工業學院) in 1982. Mr. Li is a member of the Shandong Province 12th People's Congress (山東省第十二屆人大代表), 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 Shandong Furui Brewery Group (山東福瑞酒廠) 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 Mr. Li Guangyu (an Executive Director) and the brother-in-law of Mr. Li Deheng (an Executive Director).

Mr. ZHAO Qiang (趙強), aged 50, is the executive Director and 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 is responsible for the Group's operation management and business strategy, implementing decisions and plans approved by the Board of Directors, making day-to-day operational and management decision and coordinating overall business operations. Mr. Zhao was granted an option to subscribe for 5,000,000 shares of the Company pursuant to the post-IPO share option scheme approved on January 10, 2007 (the "Post-IPO Share Option Scheme"), representing 0.20% of the issued share capital of the Company.

Mr. LI Deheng (李德衡), 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 Shandong Liaocheng Teacher's College (山東聊城師範學院) 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.

Mr. PAN Yuehong (潘悅洪), aged 53, is a executive Director and Vice General Manager of the Group. Mr. Pan graduated from Shandong Institute of Light Industry (山東輕工業學院) in 1988, majoring in Fermentation. Mr. Pan joined Shandong Furui Brewery Group (山東福瑞酒廠) 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 the 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.

Mr. LI Guangyu (李廣玉), aged 39, is an Executive Director and a Vice General Manager of the Group who is responsible for the operation and export business management of the Baoji Fufeng. Mr. Li has over 12 years of experience in the fermentation industry. Mr. Li graduated from East China University of Political Science and Law Graduate School (華東政法大學研究生院) 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 SFO.

Independent Non-executive Directors

Mr. XIAO Jianlin (肖建林), aged 50, was appointed as an independent non-executive Director on September 26, 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.

Ms. ZHENG Yu (鄭豫), 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 SFO.

Mr. QI Qingzhong (齊慶中), aged 63, was appointed as an Independent Non-Executive Director on November 1, 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 SFO.

SENIOR MANAGEMENT

Mr. Chen Yuan (陳遠), aged 49, is a chief financial officer of the Group who was appointed on July 10, 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 November 9, 2010 and the CFO on May 13, 2011, until January 1, 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.

Mr. LAI Fengtang (來鳳堂), aged 49, is a general manager of Shandong Fufeng who is currently in charge of the operation of Shandong Fufeng. Mr. Lai graduated from Northwest University of China (中國西北大學) 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.

Mr. TANG Yongqiang (唐永強), aged 43, is the general manager of Longjiang Fufeng responsible of the operation of Longjiang Fufeng. Mr. Tang graduated from Northwestern Polytechnical University (西北工業大學) in 1997, majoring in machinery manufacturing industry and equipment. Mr. Tang joined Shandong Furui Brewery Group (山東福瑞酒廠) 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.

Mr. ZHAO Lankun (趙蘭坤), aged 45, is a General Manager of Hulunbeir Fufeng who is currently in charge of the operation of Hulunbeir Fufeng. Mr. Zhao graduated from Institute of Chemical Technology of Qingdao (青島化工學院) 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

Mr. LEE Wai Yin (李偉然), 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.

BOARD COMMITTEES

Remuneration Committee

We established the Remuneration Committee pursuant to a resolution of our Directors passed on January 10, 2007. The Remuneration Committee is mainly responsible for making recommendation to the board on the policy and structure of our Company's remuneration for all Directors and senior management, reviewing and approving the terms of executive Directors' service contracts and reviewing and recommending to the board on the remuneration packages of individual executive Director and senior management based on the duties, responsibilities, experience and qualifications of each candidate.

The Remuneration Committee currently has four members, comprising of Mr. XIAO Jianlin, Mr. LI Xuechun, Ms. ZHENG Yu and Mr. QI Qingzhong. Other than Mr. LI Xuechun who is our Executive Director, the other three members are all being our Independent Directors. The Remuneration Committee is chaired by Mr. XIAO Jianlin.

Audit Committee

We established the Audit Committee pursuant to a resolution of our Directors passed on January 10, 2007. The Audit Committee is responsible for monitoring the integrity of our Group's financial statements and reports and reviewing significant financial reporting judgments contained in them, exercising independent judgments in reviewing and supervising our Company's financial reporting process and internal control procedures, providing recommendations to the board for the improvements of our Group's financial reporting system and internal control procedures and system, overseeing the independence and performance of the external auditors of our Company and providing recommendations to the Board for the appointment and renewal of external auditors.

The Audit Committee has three members, comprising of Mr. XIAO Jianlin, Ms. ZHENG Yu and Mr. QI Qingzhong, all being our Independent Directors. The Audit Committee is chaired by Mr. XIAO Jianlin.

Nomination Committee

We established the Nomination Committee pursuant to a resolution of our Directors passed on March 20, 2017. The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the board at least annually, making recommendations on any proposed changes to the board to complement the Company's corporate strategy, making recommendations to the board on the nominees for appointment as Directors and senior management of our Group based on the experience and qualification of each candidate and monitoring the implementation of the board's diversity policy and reviewing the policy as appropriate.

The Nomination Committee has four members, comprising of Mr. XIAO Jianlin, Mr. LI Xuechun, Ms. ZHENG Yu and Mr. QI Qingzhong. Other than Mr. LI Xuechun who is our Executive Director, the other three members are all being our Independent Directors. The Remuneration Committee is chaired by Mr. LI Xuechun.

PRINCIPAL SHAREHOLDERS

As of June 30, 2018, the following persons had interests or short positions in the shares or underlying shares which were recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance[(1)]:

Name	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
LI Xuechun[1]	Interest of controlled corporation	991,638,461 Shares	38.94%
Motivator Enterprises Limited[2]. . .	Beneficial interests	991,638,461 Shares	38.94%
SHI Guiling[3]	Interests of spouse	991,638,461 Shares	38.94%
Treetop Asset Management SA. . .	Beneficial interests	408,929,314 Shares	16.06%

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 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.

3. 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, as of the date of this offering memorandum, 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.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain "connected transactions" with "connected persons" be approved by a company's independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

Material related party transactions identified during the periods and balances with these related parties at those dates are summarized as follows:

(a) Key management compensation

	Year ended December 31,				Six months ended June 30,		
	2015	2016	2017		2017	2018	
	(RMB)	(RMB)	(RMB)	(US$) (unaudited) (in thousands)	(RMB) (unaudited)	(RMB) (unaudited)	(US$) (unaudited)
Salaries and allowances	18,859	17,564	20,726	3,132	9,371	7,048	1,065
Pension costs – defined contribution plan . . .	733	684	829	125	337	475	72
Share options granted to key management[1] . .	9,317	4,191	10,191	1,540	5,354	3,597	544
	28,909	22,439	31,746	4,798	15,062	11,120	1,680

Note:

1. 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.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness. As of June 30, 2018, our total interest-bearing bank loans and corporate bonds amounted to RMB3,397.0 million (US$513.4 million). We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

LOAN AGREEMENTS IN THE PRC

Some of our PRC subsidiaries have entered into loan agreements with a number of PRC banks such as relevant branches of China Construction Bank, China CITIC Bank and Agricultural Bank of China. These loans are typically used for daily operations, working capital and general corporate purposes.

Interest

The principal amounts outstanding under the majority of the PRC bank loans bear interest at fixed rates ranging between 4.13% and 4.80% per annum. A few bank loans are subject to floating interest rates calculated by reference to the PBOC's benchmark interest rate per annum. Floating interest rates generally are subject to review monthly.

Covenants

Under centain PRC bank loans, our subsidiary borrowers have agreed, among other things, not to grant guarantees to any third parties that may adversely affect its ability to repay its loans without first notifying the lender and/or obtaining the lenders' prior consent.

Pursuant to a number of PRC bank loans, our subsidiary borrowers also agreed to keep their debt ratio at or below a certain percentage.

Guarantee and security

Certain of our PRC subsidiaries have entered into guarantee and security agreements with the lenders in connection with the bank loan agreements, pursuant to which such PRC subsidiaries have provided guarantees and security.

OFFSHORE FINANCING AGREEMENTS

BOC Loans

We have entered into two loan agreements with Bank of China (Hong Kong) Limited. These loans are used to refinance our existing indebtedness and for general working capital purposes. As of June 30, 2018, an aggregate principal amount of RMB570.5 million (US$86.2 million) remained outstanding.

Interest

The principal amounts outstanding under these loans bear an interest rate of 1.45% below CNY Prime and 0.8% over HIBOR, respectively.

Covenants

Under these loans, we have agreed, among other things, not to take the following actions without first notifying the lender and/or obtaining the lenders' prior consent:

- borrow money that would be in priority ranking with these facilities
- create encumbrances on any part of properties or assets or deal with assets in a way that may adversely affect its ability to repay its loans;
- grant guarantees to any third parties that may adversely affect its ability to repay its loans;
- prepay the loan; and
- make material change to the nature of principal business of the Group.

Events of Default

The loan agreements contain certain customary events of default, including failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires the latter's approval, failure to give prompt notice of any material change to the article of association, business scope, financial status or accounting methods and material breach of the terms of the loan agreement. The bank is entitled to terminate the agreement and/or demand immediate repayment of the loan and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

The loan agreements are secured by some of our offshore subsidiaries.

HSBC Loans

We have entered into a revolving facility agreement with HSBC. The loan is used for dividend payment. As of June 30, 2018, an aggregate principal amount of HKD234.8 million (US$29.9 million) remained outstanding.

Interest

The principal amounts outstanding under the bank bear an interest rate of 2% over HIBOR or LIBOR.

Covenants

Under these loans, we have agreed, among other things, to maintain certain financial ratios.

Events of Default

The loan agreements contain certain customary events of default, including failure to pay the amount payable on the due date or material breach of the terms of the loan agreement. The bank is entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

The loan agreements are secured by the same nine corporate guarantors (Absolute Divine Limited, Acquest Honour Holdings Limited, Expand Base Limited, Fufeng (Singapore) Pte. Ltd, Full Profit Investment (Group) Limited, Profit Champion International Limited, Summit Challenge Limited, Trans-Asia Capital Resources Limited).

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions substantially in the form in which they (subject to amendments and completion and other than the texts in italics) will be scheduled to the Trust Deed and endorsed on the Certificate issued in respect of the Bonds and referred to in the global certificate relating to the Bonds.

The issue of US$ in aggregate principal amount of per cent. Bonds due (the "Bonds", which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 14 and consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of Fufeng Group Limited (the "Issuer") passed on 2018. The Bonds are constituted by a trust deed dated 2018 (as such may be amended, restated, supplemented or modified from time to time, the "Trust Deed") will be entered into in relation to the Bonds between the Issuer and DB Trustees (Hong Kong) Limited as trustee (the "Trustee"). An agency agreement dated 2018 (as such may be amended, supplemented or modified the "Agency Agreement") will be entered into in relation to the Bonds between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "Principal Paying Agent"), the registrar (the "Registrar"), the transfer agents (the "Transfer Agent") and any other agents named in it. The Registrar, the Transfer Agent and the Principal Paying Agent any other Paying Agent are referred to below together as the "Agents". The Trust Deed includes the form of the Bonds. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified offices of the Principal Paying Agent. The Bondholders (as defined below) are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1 Form, Denomination and Title

(a) **Form and denomination**: The Bonds shall be issued in registered form, without coupons attached, in the denomination of US$200,000 each and in integral multiples of US$1,000 in excess thereof. A certificate (each, a "Certificate") will be issued to each holder of the Bonds in respect of its registered holding of Bonds. Each Certificate shall be numbered serially and shall have an identifying number which shall be recorded on such Certificate and in the register of holders of the Bonds (the "Register"), which the Issuer shall procure to be kept by the Registrar.

(b) **Title**: Title to the Bonds shall pass only by transfer and registration of title in the Register. The holder of any Bond shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on (other than the endorsed form of transfer), or the theft or loss of, the Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, "holder of the Bonds", "holder" and "Bondholder" in relation to a Bond shall mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

Upon issue, the Bonds will be represented by the Global Certificate deposited with a common depositary for, and representing Bonds registered in the name of a nominee of such common depositary for, Euroclear and Clearstream. These Conditions are modified by certain provisions contained in the Global Certificate. See "Summary of Provisions Relating to the Bonds in Global Form".

2 Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Transfers of Bonds and Issue of Certificates

(a) **Register**: The Issuer will cause the Register to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

(b) **Transfers**: Subject to the Agency Agreement and Conditions 3(e) and 3(f) herein, a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer endorsed on such Certificate duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or, as the case may be, the Transfer Agent during usual business hours. No transfer of title to a Bond will be valid unless and until entered on the Register.

(c) **Delivery of new Certificates**: Each new Certificate to be issued upon a transfer of Bonds will, within seven Business Days of receipt by the Registrar or, as the case may be, any Transfer Agent of the Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds but free of charge to the holder and at the Issuer's expense to the address specified in the form of transfer. The form of transfer is available during usual business hours at the specified offices of the Transfer Agents.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred or exchanged, a new Certificate in respect of the Bonds not so transferred or exchanged will, within seven Business Days of delivery of the original Certificate to the Registrar or Transfer Agent, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred or exchanged (but free of charge to the holder and at the Issuer's expense) to the address of such holder appearing on the Register.

In this Condition 3, "Business Day" shall mean a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in the city in which the specified office of the Registrar or (as the case may be) such Transfer Agent with whom a Certificate is deposited in connection with a transfer or exchange, is located.

(d) **Formalities free of charge**: Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity or security as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the relevant Agent (after consultation with the Issuer if so required) being satisfied that the regulations concerning transfer of Bonds have been complied with.

(e) **Closed periods**: No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven Payment Business Days (as defined in Condition 7(f)) ending on (and including) the due date for any payment of principal in respect of that Bond, (ii) during the period of ten days ending on (and including) any Record Date (as defined in Condition 7(a)), (iii) during the period of seven days ending on (and including) any date of redemption pursuant to Condition 6(b) or Condition 6(d) and (iv) after a Put Exercise Notice (as defined in Condition 6(c)) has been deposited in respect of such Bond pursuant to Condition 6(c).

(f) **Regulations**: All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Bondholder and at the Issuer's expense) by the Registrar to any Bondholder upon request and is available during usual business hours at the specified offices of the Transfer Agent.

4 Negative Pledge and Other Covenants

(a) **Negative pledge**: So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and the Issuer will ensure that none of its Subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge, encumbrance, other security interest or anything analogous to any of the foregoing under the laws of any applicable jurisdiction upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds (i) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (ii) such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) **NDRC post-issue filing**: The Issuer undertakes to file or cause to be filed with the NDRC within the applicable time period any requisite information and documents required after the issuance of the Bonds.

(c) **Other covenants**: So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer undertakes that the Issuer will file with the Trustee as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Issuer's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Issuer ceases to be listed for trading on a recognized stock exchange, the Issuer shall file with the Trustee: (i) as soon as they are available, but in any event within 180 calendar days after the end of each fiscal year of the Issuer and any change of which the Issuer will notify in writing to the Trustee, a true and correct copy of its consolidated audited financial statements in respect of such financial year (including an income statement, balance sheet and cash flow statement) and English translation thereof and (ii) as soon as they are available, but in any event within 90 calendar days after the end of each semi-annual period ending 30 June, a true and correct copy of its consolidated reviewed financial statements in respect of such semi-annual period (including an income statement, balance sheet and cash flow statement) and English translation thereof.

In these Conditions:

(i) "Exchangeable Debt" means any indebtedness incurred outside the PRC which is in the form of, or represented or evidenced by, bonds, notes, or other securities, and the terms of such indebtedness provide that the holders of such indebtedness shall have the right to exchange such indebtedness for shares of a company;

(ii) "Relevant Indebtedness" means any indebtedness outside the PRC (as defined below) which is in the form of, or represented or evidenced by, bonds, notes or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market without regard but excludes any Exchangeable Debt, however, to whether such securities are sold through public offering or private placements (which for the avoidance of doubt shall not include any indebtedness under any transferrable loan facilities or agreements, bilateral loans or syndicated bank loan (including any drawing down of any existing credit line or facility of the Issuer or any of the Issuer's Subsidiaries)).

(iii) A "Subsidiary" of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

5 Interest

The Bonds bear interest on their outstanding principal amount from and including 2018 at the rate of per cent. per annum, payable semi-annually in arrear in equal instalments of US$ per Calculation Amount (as defined below) on and in each year (each an "Interest Payment Date") commencing 2018.

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event, and in any other case where the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, such Bonds shall bear interest at [1] (both before and after judgment, if applicable) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

1 Default Rate to be higher than the interest rate.

In these Conditions, the period beginning on and including 2018 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "Interest Period".

Interest in respect of any Bond shall be calculated per US$1,000 in principal amount of the Bonds (the "Calculation Amount"). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the amount of interest payable per Calculation Amount and shall not be liable to the Bondholders or any other person for not doing so.

At any time that (i) if the Bonds are not rated by either Rating Agency, (ii) if the Bonds are rated by one Rating Agency only and the rating of the Bonds by the one Rating Agency is BB+ or lower or (iii) if the Bonds are rated by two Rating Agencies and the rating of the Bonds by both Rating Agencies is BB+ or lower, the Bonds shall bear interest at % per annum.

If at any time the interest rate on the Bonds has been adjusted and the Bonds subsequently are rated by at least one Rating Agency and the rating of the Bonds is not equivalent to the rating set forth in the table above, the Bonds shall bear interest at the interest rate payable on the Bonds on the date of their issuance.

Any interest rate increase or decrease described above will take effect from the first day of the interest period during which a rating change requires an adjustment in the interest rate subject to the required Trustee notification period described below. In the event notice of an interest rate increase or decrease is received by the Trustee and the Principal Paying Agent less than thirty (30) business days prior to an interest payment date, the required adjustment will become effective at the beginning of the next interest rate period. The Issuer shall promptly give written notice to the Trustee and the Principal Paying Agent upon the occurrence of any rating adjustment, but in no event later than ten (10) business days thereafter; *provided* that, if the Issuer fails to promptly notify the Trustee and the Principal Paying Agent of any rating change and any holder of the Bonds notifies the Trustee to such effect, (a) any interest rate increase or decrease shall nonetheless take effect in accordance with this paragraph as if the Issuer had given notice ten (10) business days after the occurrence of such rating change (but subject to notice being provided at least 30 Business Days prior to an interest payment date) and (b) any such interest rate increase or decrease may occur retroactively.

If the interest rate payable on the Bonds is increased as described above the term "interest," as used with respect to the Bonds, will be deemed to include any such additional interest unless the context otherwise requires.

None of the Trustee or the Agents will have any duty or obligation to investigate and monitor the rating of the Bonds and the Issuer will inform the holders of all or any series of Bonds (with a copy to the Trustee and the Principal Paying Agent) of any interest rate adjustment pursuant to this Condition 5 30 Business Days prior to an interest payment date.

For the purposes of this Condition 5, references to ratings include only those ratings on the Bonds provided by Rating Agencies solicited by the Issuer.

6 Redemption and Purchase

(a) **Final redemption**: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on (the "Maturity Date"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) **Redemption for taxation reasons**: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 15 (which notice shall be irrevocable), the Principal Paying Agent and the Trustee, at their principal amount, together with accrued but unpaid interest to the date of redemption, if:

(i) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or the People's Republic of China (the "PRC" and for the purpose of these Conditions, excluding Hong Kong, Macau and Taiwan) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of official position with respect to, such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after [*Issue Date*] 2018; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee (A) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (B) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment or any such change in the application or official interpretation or stating of official position (as the case may be).

All Bonds in respect of which any notice of redemption is given under this Condition 6(b) shall be redeemed on such date, in such place and in such manner as specified in such notice in accordance with this Condition 6(b).

(c) **Redemption for Change of Control Triggering Event**: At any time following the occurrence of a Change of Control Triggering Event, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds on the Put Date at 101 per cent. of their principal amount, together with accrued but unpaid interest to (but excluding) the Put Date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable during the usual business hours from the specified office of any Paying Agent (a "Put Exercise Notice"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a

Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 15. The "Put Date" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which are the subject of Put Exercise Notices delivered as aforesaid on the Put Date.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and will not be responsible or liable to Bondholders for any loss arising from any failure by it to do so.

The Issuer shall give notice to Bondholders (in accordance with Condition 15) and the Trustee by not later than 14 Calendar days following the first day on which it becomes aware of the occurrence of a Change of Control Triggering Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

For the purposes of these Conditions:

a "Change of Control" occurs when:

(i) the merger, amalgamation or consolidation of the Issuer with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Issuer, or the direct or indirect sale of all or substantially all the consolidated assets of the Issuer to another Person (other than one or more Permitted Holders);

(ii) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Issuer greater than such total voting power held beneficially by the Permitted Holders;

(iii) individuals who on the Original Issue Date constituted the board of directors of the Issuer, together with any new directors whose election to the board of directors of the Issuer was approved by a vote of at least two-thirds of the directors then still in office who were either directors on the Original Issue Date or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Issuer then in office; or

(iv) the adoption of a plan relating to the liquidation or dissolution of the Issuer;

provided that, for the purposes of this definition, any temporary change in beneficial ownership due to the lending or borrowing of Voting Stock or other similar arrangements shall be disregarded.

a "Change of Control Triggering Event" means the occurrence of a Change of Control and, *provided* that the Bonds are rated by at least one Rating Agency, a Rating Decline.

"Affiliate" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child, parent, brother, sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

a "Person", as used in this Condition 6(c), includes any individual, company, corporation, firm, partnership, joint venture, unincorporated organization or government or any agency or political subdivision thereof.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"Common Stock" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Trust Deed, and includes, without limitation, all series and classes of such common stock or ordinary shares.

"Fitch" means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns, or a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Issuer as having been substituted for S&P, Moody's or Fitch or two or three of them, as the case may be.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Original Issue Date" means the date on which the Bonds are originally issued.

"Permitted Holders" means any or all of the following: (1) (a) Mr. Li Xuechun and (b) current employees of the Issuer or its Subsidiaries; (2) any Affiliate (other than an Affiliate as defined in clause (2) of the definition of Affiliate) of the Persons specified in clause (1); and (3) any Person both the Capital Stock and the Voting

Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1) and (2).

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Rating Agencies" means (1) S&P and (2) Fitch; *provided* that if S&P, Fitch, or both of them shall not make a rating of the Bonds publicly available, one or more nationally recognized statistical rating organizations (as defined in Rule 436 under the Securities Act), as the case may be, selected by the Company, which shall be substituted for S&P, Fitch, or both of them, as the case may be.

"Rating Category" means (1) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (2) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Fitch used by another Rating Agency. In determining whether the rating of the Bonds has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P and Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"Rating Date" means in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Issuer or any other Person or Persons to effect a Change of Control.

"Rating Decline" means in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Issuer or any Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Bonds is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

(a) in the event the Bonds are rated by both of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by either of the Rating Agencies shall be below Investment Grade;

(b) in the event the Bonds are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Bonds by such Rating Agency shall be below Investment Grade; or

(c) in the event the Bonds are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Bonds by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"S&P" means S&P Global Ratings and its successors.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

(d) **Redemption at the option of the Issuer**: On giving not less than 30 nor more than 60 days' notice (an "Optional Redemption Notice") to the Trustee, the Principal Paying Agent and the Bondholders in accordance with Condition 15, the Issuer may at any time redeem the Bonds, in whole but not in part, at a Make Whole Price as of, and accrued and unpaid interest, if any, to (but excluding), the redemption date (the "Optional Redemption Date") specified in the Option Redemption Notice.

Neither the Trustee nor the Agents shall be under any duty to determine, calculate or verify the Make Whole Price payable under this Condition and will not incur any liability or be responsible to Bondholders for any loss arising from any failure by it to do so.

In this Condition 6(d):

"Adjusted Treasury Rate" means, with respect to any Optional Redemption Date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date;

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to ;

"Comparable Treasury Price" means, with respect to any Optional Redemption Date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the Issuer obtains fewer than three such Reference Treasury Dealer Quotations, the average of all quotations obtained.

"Make Whole Price" means, with respect to a Bond at the Optional Redemption Date, the amount calculated by the Quotation Agent that is the greater of (1) the present value of the principal amount of the Bonds, assuming a scheduled repayment thereof on the Maturity Date plus all required remaining scheduled interest payments due on such Bond through (but excluding accrued and unpaid interest to the Optional Redemption Date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, and (2) the principal amount of such Bonds;

"Quotation Agent" means the Reference Treasury Dealer selected by the Issuer;

"Reference Treasury Dealer" means each of any three investment banks of recognised standing that is a primary U.S. Government securities dealer in New York City, selected by the Issuer in good faith; and

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Issuer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the third Business Day preceding such Optional Redemption Date.

(e) **Notices of redemption**: If more than one notice of redemption is given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and Condition 6(d) and any Change of Control Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

(f) **Purchase**: The Issuer and its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds purchased pursuant to this Condition 6(f) will be surrendered to the Registrar for cancellation and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

7 Payments

(a) **Method of payment**:

(i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a)(ii) below.

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the "Record Date"). Payments of interest on each Bond shall be made in US dollars by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Paying Agent before the Record Date, such payment of interest may be made by transfer to the Registered Account of the Bondholder.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or an Alternative Clearing System (as defined in the Trust Deed), each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except January 1 and December 25.

(b) **Payment initiation**: Where payment is to be made by wire transfer to a US dollar registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated, and where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed the request of the Bondholder otherwise than by ordinary mail, expense of the holder), on the due date for payment (or, if that date is not a Payment Business Day, on the first following day which is a Payment Business Day), or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of the Registrar or any Paying Agent, on a day on which the Registrar or such Paying Agent is open for business and on which the relevant Certificate is surrendered.

(c) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(d) **Appointment of Agents**: The Trustee, the Registrar and the Transfer Agent initially appointed by the Issuer and its respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the Transfer Agent or any of the other Agents and to appoint additional or other Agents, *provided* that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any stock exchange on which the Bonds may be listed.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders.

(e) **Delay in payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if such delay is solely due to the fact that the due date is not a Payment Business Day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 7 arrives after the due date for payment.

(f) **Non-Payment Business Days:** If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition 7, "Payment Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in New York City, Hong Kong, the place in which the specified office of the Registrar and the Principal Paying Agent is located and (if surrender of the relevant Certificate is required) the relevant place of presentation; and

"Registered Account" of a Bondholder means the United States dollar account maintained by or on behalf of such Bondholder with a bank in New York City, details of which appear on the Register at the close of business on the fifth Payment Business Day before the due date for payment.

8 Taxation

All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Cayman Islands or the PRC or any authority therein or thereof having power to tax, or the jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. If any such withholding or deduction is required, the Issuer will pay such additional amounts ("Additional Amounts") that will result in the receipt by bondholders of the same amounts that would have been received had no such withholding or deduction been required, provided that no Additional Amounts shall be payable with respect to any withholding or deduction in respect of any Bond:

(a) **Other connection**: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Cayman Islands, or the PRC other than the mere holding of the Bond; or

(b) **Surrender more than 30 days after the Relevant Date**: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days (as if such last day were a Payment Business Day); or

(c) **Tax declaration**: to a holder (or to a third party on behalf of a holder) who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(d) **FATCA**: any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA"), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA.

For the avoidance of doubt, the Issuer's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, premium (if any) or interest on the Bonds.

"Relevant Date" means, in respect of any Bond, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date falling seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, *provided* that payment is in fact made upon such surrender.

Any reference in these Conditions to principal, premium (if any) and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 8.

9 Events of Default

(1) If any of the events in clauses (f), (g) and (k) below occurs, the Bonds shall be become immediately due and payable at their principal amount together with accrued interest without further formality; and (2) if any of the events in clauses (a), (b), (c), (d), (e), (h), (i) and (j) occurs and the Trustee receives notice in writing at its corporate trust office from holders of at least 25% in principal amount of the Bonds or is directed to do so by an Extraordinary Resolution, the Trustee shall (subject to receiving indemnity, security and/or prefunding to its satisfaction) give written notice to the Issuer that the Bonds are, and shall, be declared immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further formality:

(a) **Non-payment**: the Issuer fails to pay (i) the principal of any of the Bonds on the due date or (ii) any interest on any of the Bonds within 15 days of the due date; or

(b) **Breach of other obligations**: the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or under the Trust Deed or under the Agency Agreement (where applicable) which default (i) is incapable of remedy or (ii) if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Trustee at its corporate trust office by any Bondholder; or

(c) **Cross-default**: (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual default, event of default or the like (howsoever described) (after giving effect to the expiration of any applicable grace period therefor), or (ii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised (as extended by any applicable grace period), *provided* that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds US$50 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

(d) **Enforcement proceedings**: a distress, attachment, execution after final judgment by a court of competent jurisdiction or other legal process is levied, enforced or sued out on or against all or a material part of the property, assets or revenues of the Issuer or any of its Principal Subsidiaries and is not discharged or stayed within 60 days; or

(e) **Security enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Principal Subsidiaries over all or a material part of the assets of the Issuer or the relevant Principal Subsidiary, as the case may be, becomes enforceable pursuant to a final judgment by a court of competent jurisdiction and any step is taken to enforce it (including the taking of possession or the appointment of a receiver manager or other similar person) and is not discharged within 60 days; or

(f) **Insolvency**: the Issuer or any of its Principal Subsidiaries (i) is (or is, deemed by law or a court of competent jurisdiction to be) insolvent or bankrupt or unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, or (ii) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Principal Subsidiaries *provided* that, for the avoidance of doubt, this sub-clause (ii) shall not apply to an assignment, arrangement or composition with creditors entered into by the Issuer or any Principal Subsidiary on a solvent basis with respect to the indebtedness of any Principal Subsidiary (or any guarantee thereof granted by the Issuer) and on terms as notified to the Trustee through a notice to be delivered on or before the commencement of such assignment, arrangement or composition, which notice should confirm that such assignment, arrangement or composition is conducted on a solvent basis and will not affect the Issuer's ability to perform their obligations under the Bonds; or

(g) **Winding-up**: an administrator is appointed, an order is made by any court of competent jurisdiction or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Principal Subsidiaries, or the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer or another of its Principal Subsidiaries; or

(h) **Nationalization**: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries; or

(i) **Authorisation and consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds admissible in evidence in the courts of England is not taken, fulfilled or done; or

(j) **Illegality**: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds; or

(k) **Analogous events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs 9(f) and 9(g) above.

For the purposes of this Condition 9:

"Principal Subsidiaries" means the subsidiaries (i) that contributed more than 5% of the revenue of the Issuer for the last fiscal year for which audited financial statements are available; (ii) the total assets of which represented more than 5% of the consolidated assets of the Issuer as of December 31 of the last fiscal year for which audited financial statements are available, or (iii) the total liabilities of which represented more than 5% of the consolidated liabilities of the Issuer as of December 31 of the last fiscal year for which audited financial statements are available. Any group of subsidiaries would be considered a Principal Subsidiary if, when taken together, they would constitute a Principal Subsidiary.

10 Prescription

Claims in respect of principal and interest shall be prescribed and will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Transfer Agent, subject to all applicable laws or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and Registrar or Transfer Agent may require (*provided* that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders and Modification

(a) **Meetings of Bondholders**: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer or by Bondholders holding not less than 10 per cent. in aggregate principal amount of theBonds for the time being outstanding. The quorum at any such meeting an for passing Extraordinary Resolution will be two or more persons holding or representing a clear majority in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the amount of principal, premium or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a written resolution passed (i) by way of electronic consents by holders of not less than 90 per cent. in aggregate principal amount of the Bonds outstanding through the relevant clearing system in accordance with the Trust Deed, or (ii) in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Modification, Waiver, Authorisation and Determination**: The Trustee may (but shall not be obliged to) agree, without the consent of the Holders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, or any failure to comply with any of these Conditions or any of the provisions of the Trust Deed or the Agency

Agreement which in its opinion is not materially prejudicial to the interest of the holders of the Bonds, or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with any mandatory provision of applicable law or where such error is, in the opinion of the Trustee, proven. Any such modification, waiver or authorisation shall be binding on the holders of the Bonds and, unless the Trustee agrees otherwise, such modification shall be notified to the Holders as soon as practicable thereafter in accordance with Condition 15.

13 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such actions, steps or proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and/or the Bonds, but it need not take any such proceedings unless a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds outstanding, and b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them and certain temporary securities law transfer restrictions) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds.

15 Notices

Notices to Bondholders will be valid if made in writing in English and mailed to them by uninsured mail at the Issuer's expense at their addresses which appear in the Register maintained by the Registrar. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any notice shall be deemed to have been given on the second day after being mailed or, as the case may be, on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is held on behalf of Euroclear Bank SA/NV or Clearstream Banking S.A. or an Alternative Clearing System, notices to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV or Clearstream Banking S.A. or an Alternative Clearing System, for communication by it to entitled accountholders, in substitution for notification as required by the Conditions. Any such notice shall be deemed to have been given on the date of its publication.

16 Currency Indemnity

United States dollars is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than United States dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by the Trustee and/or any Bondholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the United States dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that United States dollar amount is less than the United States dollar amount expressed to be due to the recipient under any Bond, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Trustee and/or any Bondholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgment or order.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999 but this should not affect any right or remedy which exists or is available apart from such Act.

18 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer (including any of their affiliates) without accounting for any profit to the Bondholders or any other person.

19 Governing Law

(a) **Governing Law**: The Trust Deed, the Agency Agreement, the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds, the Trust Deed and the Agency Agreement (including any disputes relating to any non-contractual obligations arising out of or in connection with them) and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Trust Deed and the Agency Agreement (including any legal action or proceedings relating to any non-contractual obligations arising out of or in connection with them) ("Proceedings") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Service of Process**: The Issuer irrevocably appoints Cogency Global (UK) Limited as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds. If for any reason the Issuer does not have such an agent in England, the Issuer will promptly appoint a substitute process agent and notify in writing the Bondholders and the Trustee of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) **Waiver of immunity**: The Issuer hereby waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

TAXATION

The following summary of certain Cayman Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Bonds.

THE CAYMAN ISLANDS

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty, and accordingly payments and gains on the Bonds are not subject to Cayman Islands taxation.

Pursuant to the Tax Concessions Law (Revised) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet; (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking is for a period of twenty years from June 28, 2005. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

HONG KONG

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Bonds) and interest in respect of the Bonds.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Bonds where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

- a corporation carrying on a trade, profession or business in Hong Kong; or

- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale, redemption or disposal of the Bonds where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue, redemption or transfer of the Bonds as the Bonds are not denominated in H.K. dollars and not redeemable in H.K. dollars.

PRC

Under the EIT Law and the Implementation Rules, enterprises established under the law of a foreign country (region) whose "de facto management bodies" are located in China are considered as "PRC resident enterprises". The Implementation Rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, production, personnel, accounts, properties and etc. of an enterprise.

The Company holds its shareholders' meeting and board meetings outside China and keeps its shareholders' list outside China. However, most of the Company's directors and senior management are currently based inside China and the Company keeps its books of account inside China. The above elements may be relevant for the tax authorities to determine whether the Company is a PRC resident enterprise for PRC tax purposes.

Although it is unclear under PRC tax law whether the Company has a "de facto management body" located in China for PRC tax purposes, the Company intends to take the position that it is not a PRC resident enterprise for PRC tax purposes. The Company cannot assure you that tax authorities will respect its position. As of the date of this offering memorandum, we have not been notified or informed by the PRC tax authorities that we are considered as a PRC resident enterprise for the purpose of the EIT Law and its implementation regulations. If the Company is deemed to be a PRC resident enterprise for enterprise income tax purpose, among other things, the Company would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income excluding equity investment income such as dividend and bonus between the Company and its PRC subsidiaries if they are each deemed qualified PRC resident enterprises. Pursuant to the PRC EIT Law and the PRC Individual Income Tax Law as well as their respective implementing rules, if the Company is treated as a PRC resident enterprise by the relevant tax authorities, the Company may be obligated to withhold PRC income tax from payments of interest on the Bonds to investors at the rate of 10% (to non-resident enterprises) and at the rate of 20% (to non-resident individuals), if such interest would be regarded as derived from sources within the PRC. If the Company fails to do so, it may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investors and non-resident individual investors from the transfer of the Bonds may be regarded as derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10% and 20% respectively. Any PRC tax liability may be reduced under applicable tax treaties.

However, it is unclear whether in the case that the Company is treated as a "resident enterprise" investors could obtain the benefits of any relevant tax treaty either in the PRC or their jurisdiction of tax residency.

SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited and UBS AG Hong Kong Branch as the Joint Bookrunners dated , 2018 (the "Subscription Agreement"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Sole Bookrunner, and the Joint Bookrunners have agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Bonds indicated in the following table:

Managers	Principal Amount of Bonds to Be Subscribed
Deutsche Bank AG, Singapore Branch	US$
The Hongkong and Shanghai Banking Corporation Limited	US$
UBS AG Hong Kong Branch	US$
Total	US$

The Subscription Agreement provides that the Issuer will indemnify the Joint Bookrunners and its respective affiliates against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Bookrunners are subject to certain conditions precedent and entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer has agreed that, for a period of 30 days from the date on which the Bonds are issued, neither the Issuer nor any person acting on its behalf will, without the prior written consent of the Joint Bookrunners, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise transfer or dispose of (or publicly announce any such issue, sale, offer, agreement for sale, grant of option, transfer or disposal or otherwise make public an intention to do so), either conditionally or unconditionally, directly or indirectly, any other debt securities of or guaranteed by the Issuer or securities of the Issuer that are convertible into, or exchangeable for, the Bonds or such other debt securities outside the PRC.

The Joint Bookrunners and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("Banking Services and/or Transactions"). The Joint Bookrunners and its affiliates may have, from time to time, performed, and may in the future perform, various Banking Services and/or Transactions with the Issuer for which they have received, or will receive, fees and expenses.

In connection with the offering of the Bonds, the Joint Bookrunners and/or its affiliates, or affiliates of the Issuer, may place orders, receive allocations and purchase Bonds for their own account (without a view to distributing such Bonds). Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the Offering. Accordingly, references herein to the Bonds being "offered" should be read as including any offering of the Bonds to the Joint Bookrunners and/or its affiliates, or affiliates of the Issuer for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds and an active trading market for the Bonds may not develop. See "Risk Factors — Risks Relating to the Bonds — A trading market for the Bonds may not develop, and there are restrictions on resale of the Bonds". The Issuer and the Joint Bookrunners are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

The Joint Bookrunners and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer. The Joint Bookrunners have received, or may in the future receive, customary fees and commissions for these transactions.

In the ordinary course of their various business activities, the Joint Bookrunners and its affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer, including the Bonds.

The Joint Bookrunners and its affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

In connection with the issue of the Bonds, Deutsche Bank AG, Singapore Branch (the "Stabilising Manager") or any person acting on behalf of the Stabilising Manager may, to the extent permitted by applicable laws and directives, over-allot the Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager or any person acting on behalf of the Stabilising Manager shall act as principal and not as agent of the Issuer. However, there is no assurance that the Stabilising Manager or any person acting on behalf of the Stabilising Manager will undertake stabilisation action. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Sole Boookrunner.

GENERAL

Neither the Issuer nor the Joint Bookrunners makes any representation that any action will be taken in any jurisdiction by the Joint Bookrunners or the Issuer that would permit a public offering of the Bonds, or possession or distribution of Offering Memorandum (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Joint Bookrunners will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes the Offering Memorandum (in preliminary, proof or final form) or any such other material, in all cases at its own expense. The Issuer will have no responsibility for, and the Joint Bookrunners will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Joint Bookrunners are not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in the Offering Memorandum (in final form) or any amendment or supplement to it.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Joint Bookrunners represents and warrants that it has not offered or sold, and agrees that it will not offer or sell, any of the Bonds except in accordance with Rule 903 of Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds an offer or sale of the Bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each of the Joint Bookrunners represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by the Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer or the Joint Bookrunners to publish a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression (i) an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, (ii) "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and (iii) "2010 PD Amending Directive" means Directive 2010/73/EU.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

Each of the Joint Bookrunners has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

(b) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each of the Joint Bookrunners represents, warrants and agrees that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Borrower; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

The People's Republic of China

Each of the Joint Bookrunners represents, warrants and agrees that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Hong Kong

Each of the Joint Bookrunners represents, warrants and agrees that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("SFO") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

British Virgin Islands

No invitation shall be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Bonds.

Singapore

Each of the Joint Bookrunners acknowledges that the Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Bookrunners represents and agrees that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased in reliance on an exemption under Sections 274 or 275 of the SFA, the Bonds shall not be sold within the period of six months from the date of the initial acquisition of the Bonds, except to any of the following persons:

(a) an institutional investor (as defined in Section 4A of the SFA);

(b) a relevant person (as defined in Section 275(2) of the SFA); or

(c) any person pursuant to an offer referred to in Section 275(1A) of the SFA, unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore ("SFR").

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

    (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

    (2) where no consideration is or will be given for the transfer;

    (3) where the transfer is by operation of law;

    (4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the SFR.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "FIEL"), and disclosure under the FIEL has not been made with respect to the Bonds. Accordingly, the Bonds may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for re-offering or resale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Cayman Islands

No invitation shall be made to the public in the Cayman Islands to subscribe for any of the Bonds.

RATINGS

The Bonds are expected to be rated "   " by Standard & Poor's. The rating reflects the rating agency's assessment of the likelihood of timely payment of the principal of and interest on the Bonds. The rating does not constitute recommendations to purchase, hold or sell the Bonds inasmuch as such rating does not comment as to market price or suitability for a particular investor. In addition, we have been rated "BBB-" with a stable outlook by Standard & Poor's. We cannot assure you that the rating will remain in effect for any given period or that the rating will not be revised by such rating agency in the future if in its judgment circumstances so warrant. Such rating should be evaluated independently of any other rating on the Bonds (if any), on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for us by Sidley Austin LLP as to matters of English law, Li & Partners as to matters of Hong Kong Law, Conyers Dill & Pearman as to matters of Cayman Islands law, and King & Wood Mallesons as to matters of PRC law. Certain legal matters will be passed upon for the Joint Lead Managers by Davis Polk & Wardwell as to matters of English law and Jingtian & Gongcheng as to matters of PRC law.

INDEPENDENT AUDITOR

Our consolidated financial information as of and for each of the three years ended December 31, 2015, 2016 and 2017 included in this offering memorandum have been extracted from the audited consolidated financial statements for the years ended December 31, 2016 and 2017, which have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong. Our consolidated financial information as of and for each of the six months ended June 30, 2017 and 2018 included in this offering memorandum have been extracted from the unaudited condensed consolidated financial information for the six months ended June 30, 2018, which have been reviewed by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands in connection with the issue and performance of the Bonds. The entering into of the Trust Deed governing the Bonds and the issue of the Bonds have been authorized by a resolution of our Board of Directors dated July 31, 2018.

LITIGATION

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Bonds.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since June 30, 2018 that is material in the context of the issue of the Bonds.

DOCUMENTS AVAILABLE

For so long as any of the Bonds are outstanding, copies of the Trust Deed governing the Bonds may be inspected free of charge during normal business hours on any weekday (except public holidays) upon prior written notice and satisfactory proof of holding at the corporate trust office of the Trustee.

For so long as any of the Bonds are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the registered office of the Company.

CLEARING SYSTEM AND SETTLEMENT

The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Bonds is set forth below:

	ISIN	Common Code
Global Bonds.	XS1834756063	183475606

Only Bonds evidenced by a Global Certificate have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE BONDS

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only as described in this offering memorandum. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the correctness of any statements made on opinions or reports contained in this offering memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED JUNE 30, 2018

AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

Note:

(1) The unaudited condensed consolidated interim financial information set out herein has been reproduced from the Company's interim report for the six months ended June 30, 2018, and page references refer to pages set forth in such report.

(2) The audited consolidated financial statements set out herein have been reproduced from the Company's annual reports for the years ended December 31, 2016 and 2017, and page references refer to pages set forth in such reports.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

pwc

羅兵咸永道

To the Board of Directors of Fufeng Group Limited
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 30 to 68, which comprises the interim condensed consolidated balance sheet of Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

REPORT ON
REVIEW OF INTERIM FINANCIAL INFORMATION

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 August 2018

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2018 RMB'000	31 December 2017 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	7	**774,958**	1,393,941
Property, plant and equipment	7	**9,958,091**	9,234,061
Intangible assets	7	**18,912**	17,791
Investments accounted for using the equity method		**31,511**	31,396
Deferred income tax assets		**183,788**	182,447
		10,967,260	10,859,636
Current assets			
Inventories		**2,963,527**	3,229,895
Trade and other receivables	8	**2,282,822**	1,361,559
Cash and bank balances	9	**822,155**	515,444
		6,068,504	5,106,898
Assets of disposal group classified as held for sale	10	**709,101**	–
		6,777,605	5,106,898
Total assets		**17,744,865**	15,966,534
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	11	**244,436**	244,436
Share premium	11	**1,510,568**	1,736,726
Other reserves		**387,775**	384,178
Retained earnings		**7,410,669**	7,094,765
Total equity		**9,553,448**	9,460,105

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2018 RMB'000	31 December 2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	12	**570,517**	560,265
Deferred income		**808,579**	721,936
Deferred income tax liabilities		**16,650**	16,650
		1,395,746	1,298,851
Current liabilities			
Trade, other payables and accruals	13	**3,261,935**	3,685,015
Contract liabilities		**666,464**	–
Current income tax liabilities		**39,551**	111,624
Borrowings	12	**2,826,522**	1,410,939
		6,794,472	5,207,578
Liabilities of disposal group classified as held for sale	10	**1,199**	–
		6,795,671	5,207,578
Total liabilities		**8,191,417**	6,506,429
Total equity and liabilities		**17,744,865**	15,966,534

The notes on pages 37 to 68 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Revenue	6	**6,610,222**	6,210,619
Cost of sales		**(5,488,745)**	(4,809,012)
Gross profit		**1,121,477**	1,401,607
Other income	14	**131,177**	124,373
Selling and marketing expenses		**(534,920)**	(489,830)
Administrative expenses		**(254,304)**	(228,201)
Other operating expenses		**(17,801)**	(20,992)
Other (losses)/gain – net		**(10,332)**	3,923
Operating profit	15	**435,297**	790,880
Finance income		**1,911**	22,410
Finance costs		**(70,524)**	(42,993)
Finance costs – net	16	**(68,613)**	(20,583)
Share of profit of investments accounted for using the equity method		**115**	53
Profit before income tax		**366,799**	770,350
Income tax expense	17	**(51,801)**	(127,790)
Profit for the period and attributable to the Shareholders		**314,998**	642,560

F-6

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Note	**2018** **RMB'000**	2017 RMB'000
Other comprehensive income for the period		**–**	–
Total comprehensive income for the period		**314,998**	642,560
Total comprehensive income attributable to the Shareholders		**314,998**	642,560
Earnings per share for profit attributable to the Shareholders during the period (expressed in RMB cents per share)			
– Basic	18	**12.37**	27.98
– Diluted	18	**12.35**	27.93

The notes on pages 37 to 68 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the shareholders				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	207,222	462,639	319,980	5,826,023	6,815,864
Total comprehensive income for the period ended 30 June 2017	–	–	–	642,560	642,560
Transactions with Shareholders, recognised directly in equity					
Employees share option scheme:					
– Value of employee services	–	–	6,512	–	6,512
– Expiration of options issued	–	–	(1,158)	1,158	–
Conversion of convertible bonds	24,807	904,513	–	–	929,320
Issuance of ordinary shares	12,407	666,737	–	–	679,144
Dividends	–	(176,815)	–	–	(176,815)
Total transactions with Shareholders, recognised directly in equity	37,214	1,394,435	5,354	1,158	1,438,161
Balance at 30 June 2017	244,436	1,857,074	325,334	6,469,741	8,896,585
Balance at 1 January 2018	**244,436**	**1,736,726**	**384,178**	**7,094,765**	**9,460,105**
Total comprehensive income for the period ended 30 June 2018	**–**	**–**	**–**	**314,998**	**314,998**
Transactions with Shareholders, recognised directly in equity					
Employees share option scheme:					
– Value of employee services	**–**	**–**	**4,503**	**–**	**4,503**
– Expiration of options issued	**–**	**–**	**(906)**	**906**	**–**
Dividends	**–**	**(226,158)**	**–**	**–**	**(226,158)**
Total transactions with Shareholders, recognised directly in equity	**–**	**(226,158)**	**3,597**	**906**	**(221,655)**
Balance at 30 June 2018	**244,436**	**1,510,568**	**387,775**	**7,410,669**	**9,553,448**

The notes on pages 37 to 68 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 June	
	Note	**2018** **RMB'000**	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations		**377,300**	292,479
Interest paid		**(29,780)**	(18,137)
Income taxes paid		**(125,215)**	(142,933)
Net cash flows generated from operating activities		**222,305**	131,409
Cash flows from investing activities			
Purchases of property, plant and equipment		**(993,957)**	(484,989)
Payments of leasehold land		**(108,390)**	(3,713)
Purchase of intangible assets		**(2,265)**	(28)
Payments of plant relocation expenses		**(5)**	(153)
Proceeds from disposal of property, plant and equipment		**494**	1,976
Proceeds from disposal of leasehold land payments		**11,790**	–
Assets-related government grants received		**24,024**	56,711
Interest received		**1,911**	4,526
Proceeds from term deposits		**22,100**	–
Payment for term deposits		**(22,000)**	(5,000)
Net cash used in investing activities		**(1,066,298)**	(430,670)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 June	
	Note	**2018 RMB'000**	2017 RMB'000
Cash flows from financing activities			
Net proceeds from shares issued		**–**	679,143
Proceeds from bank borrowings	12	**2,050,824**	697,235
Repayments of bank borrowings	12	**(644,900)**	(311,035)
Dividends paid to the Company's shareholders	19	**(226,158)**	(176,815)
Net cash generated from financing activities		**1,179,766**	888,528
Net increase in cash and cash equivalents		**335,773**	589,267
Cash and cash equivalents at beginning of the period		**419,488**	959,686
Transferred to disposal group classified as held for sale		**(19)**	–
Cash and cash equivalents at end of the period		**755,242**	1,548,953

The notes on pages 37 to 68 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General Information

Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") manufacture and sell fermentation-based food additive and 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.

This condensed consolidated interim financial report is presented in RMB, unless otherwise stated, and was approved for issue on 10 August 2018 by the Board of Directors.

This condensed consolidated interim financial report has not been audited.

Significant events and transactions

The Group is constructing a new corn processing project in Qiqihar City, Heilongjiang Province to sustain the development of businesses of animal nutrition and food additive. The first phase of the new plant was completed in the first half year of 2018, and the second phase is expected to be completed by the end of 2018.

As at 30 June 2018, the Group's significant capital expenditure contracted for but not yet incurred was approximately RMB206,110,000.

2. Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with HKAS 34, "Interim Financial Reporting". The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017, which have been prepared in accordance with HKFRS.

3. Accounting Policies

The accounting policies in this condensed financial report applied are consistent with those of the annual financial statements for the year ended 31 December 2017 except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The following new or amended standards became applicable for the current reporting period:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3(c) below.

(b) New standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019 i)
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Amendment to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendment to HKFRS 28	Long-term interests in Associates and Joint Ventures	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3. Accounting Policies *(Continued)*

(b) New standards and interpretations not yet adopted *(Continued)*

i) HKFRS 16, *Leases*

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.

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 RMB1,875,000. 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.

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.

3. Accounting Policies *(Continued)*

(c) Changes in accounting policies

i) HKFRS 9 *Financial Instruments – Impact of adoption*

HKFRS 9 was generally adopted without restating any comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognized in the opening balance sheet on 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no 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

There is 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 which are subject to HKFRS 9.

3. Accounting Policies *(Continued)*

(c) Changes in accounting policies *(Continued)*

i) HKFRS 9 *Financial Instruments – Impact of adoption* *(Continued)*

The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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

The Group has trade receivables and notes receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group revised its impairment methodology under HKFRS 9 for these receivables.

Based on the assessments undertaken, the Group does not identify material change to the loss allowance for trade debtors.

3. Accounting Policies *(Continued)*

(c) Changes in accounting policies *(Continued)*

ii) HKFRS 9 *Financial Instruments – Accounting policies applied from 1 January 2018*

Financial assets – impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and notes receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

While cash and cash equivalents, restricted bank deposits and other receivables are also subject to the impairment requirements of HKFRS 9, no material impairment loss was identified.

iii) HKFRS 15 *Revenue from Contracts with Customers – Impact of adoption*

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as of 1 January 2018 and that comparatives was not be restated.

The Group is engaged in manufacture and sales of fermentation-based food additive, biochemical products and starch-based products.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognized. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The Group did not introduce any customer loyalty programme or volume discounts based on aggregate sales over a period time.

3. Accounting Policies *(Continued)*

(c) Changes in accounting policies *(Continued)*

iii) HKFRS 15 *Revenue from Contracts with Customers – Impact of adoption* *(Continued)*

The Group does not incur costs to fulfil a contract which should be capitalized as they relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered.

The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any net impact on the profit for the period as the timing of revenue recognition on sales of products is not changed.

The following adjustment was made to the amounts recognized in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 carrying amount 31 December 2017	Reclassification	HKFRS 15 carrying amount 1 January 2018
	RMB'000	RMB'000	RMB'000
Trade, other payables and accruals	3,685,015	(346,937)	3,338,078
Contract liabilities	–	346,937	346,937

3. Accounting Policies *(Continued)*

(c) Changes in accounting policies *(Continued)*

iv) HKFRS 15 *Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018*

Revenue Recognition

The Group manufactures and sells a range of fermentation-based food additive, biochemical products and starch-based products in the market.

Sales are recognised when control of the products has transferred, being when the 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.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract Liability

Cash or bank acceptance notes collected from certain customers before product delivery is recognised as contract liabilities.

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Other than those impacts by adopting HKFRS9 and HKFRS 15, in preparing this condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

5. Financial Risk Management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management department since 2017 year end or in any risk management policies except that the risk management policies on credit risk was changed since 1 January 2018.

5.2 Credit risk

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivables arising from sales of products due from them is not significant.

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade and other receivables.

To measure the expected credit losses of the trade receivables, the Group considered trade receivables on credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 30 June 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

5. Financial Risk Management *(Continued)*

5.2 Credit risk *(Continued)*

On that basis, the loss allowance as at 30 June 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables:

	Within 3 months RMB'000	3 to 12 months RMB'000	Over 12 months RMB'000	Total RMB'000
Gross carrying amount	**369,998**	**108,486**	**51,006**	**529,490**
Expected loss rate	**0.14%**	**3.31%**	**32.19%**	
Loss allowance provision	**502**	**3,591**	**16,416**	**20,510**

The closing loss allowances for trade receivables as at 30 June 2018 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000
31 December 2017	20,258
Provision for loss allowance recognised in consolidated statements of comprehensive income	252
At 30 June 2018	20,510

For notes receivables, management makes periodic collective assessment and did not identity material impairment loss.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In view of the history of the sound collection history of receivables, management believes that the credit risk inherent in the Group's outstanding other receivable balance is not significant.

5. Financial Risk Management *(Continued)*

5.3 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 RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000
The Group			
At 30 June 2018			
Borrowings	2,826,522	252,930	333,083
Interests payments on borrowings	78,956	12,613	4,762
Trade and other payables (excluding non-financial liabilities)	2,803,111	–	–
Total	5,708,589	265,543	337,845
At 31 December 2017			
Borrowings	1,410,939	250,773	326,710
Interests payments on borrowings	59,872	15,352	10,090
Trade and other payables (excluding non-financial liabilities)	2,875,253	–	–
Total	4,346,064	266,125	336,800

5. Financial Risk Management *(Continued)*

5.4 Fair value estimation

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents and short-term bank deposits) and short term liabilities (including trade and other payables and short-term borrowings) are assumed to approximate 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.

6. 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 executive directors have 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 Amino acid segment and Xanthan gum segment. The products of the business segment are:

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

– manufacturing and sales of xanthan gum.

Approximately 73% (30 June 2017: 70%) of the Group's revenue are generated from sales to the customers in the PRC.

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

6. Segment Information *(Continued)*

The revenue of the Group for the six months ended 30 June 2018 and 2017 are set out as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
MSG	**3,322,145**	2,998,000
Corn refined products	**844,380**	988,587
Threonine	**668,880**	631,338
Starch sweeteners	**433,612**	310,909
High-end amino acid products	**419,846**	455,494
Xanthan gum	**388,015**	332,023
Glutamic acid	**171,128**	226,215
Fertilisers	**143,574**	161,805
Corn oil	**4,401**	4,749
Others	**214,241**	101,499
	6,610,222	6,210,619

6. Segment Information *(Continued)*

The segment information for the six months ended 30 June 2018 is as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Revenue	6,222,207	388,015	–	6,610,222
Segment results	347,337	101,856	(13,896)	435,297
Finance costs – net				(68,613)
Share of profit of investments accounted for using the equity method				115
Profit before income tax				366,799
Income tax expense				(51,801)
Profit for the period				314,998

Other segment items included in the income statement are as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Depreciation of property, plant and equipment	439,576	29,851	487	469,914
Amortisation of leasehold land payments	11,076	1,282	43	12,401
Amortisation of intangible assets	1,144	–	–	1,144
Reversal of impairment charges for property, plant and equipment (Note 7(a))	56,513	–	–	56,513
Gain on disposal of leasehold land payments	5,900	–	–	5,900
Gain on disposal of property, plant and equipment	379	–	–	379

6. Segment Information *(Continued)*

The segment assets and liabilities at 30 June 2018 are as follows:

	Amino acid RMB'000	**Xanthan gum RMB'000**	**Unallocated RMB'000**	**Group RMB'000**
Total assets	**12,854,755**	**4,106,911**	**783,199**	**17,744,865**
Total liabilities	**6,234,387**	**1,058,955**	**898,075**	**8,191,417**

The segment information for the six months ended 30 June 2017 is as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Revenue	5,878,596	332,023	–	6,210,619
Segment results	766,576	48,783	(24,479)	790,880
Finance costs – net				(20,583)
Share of profit of investments accounted for using the equity method				53
Profit before income tax				770,350
Income tax expense				(127,790)
Profit for the period				642,560

6. Segment Information *(Continued)*

Other segment items included in the income statement are as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Depreciation of property, plant and equipment	411,233	33,055	637	444,925
Amortisation of leasehold land payments	10,622	1,241	43	11,906
Amortisation of intangible assets	786	–	–	786
Gain on disposal of property, plant and equipment	1,291	–	–	1,291
Loss on disposal of property, plant and equipment	228	–	–	228

The segment assets and liabilities at 30 June 2017 are as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Total assets	9,786,329	4,106,802	1,670,490	15,563,621
Total liabilities	4,173,230	1,202,621	1,291,185	6,667,036

7. Leasehold Land Payments, Property, Plant and Equipment and Intangible Assets

	Leasehold land payments RMB'000	Property, plant and equipment RMB'000	Intangible assets RMB'000	Total RMB'000
Six months ended 30 June 2018				
Opening net book amount at 1 January 2018	**1,393,941**	**9,234,061**	**17,791**	**10,645,793**
Additions	**108,390**	**1,137,546**	**2,265**	**1,248,201**
Disposals	**(5,890)**	**(115)**	**–**	**(6,005)**
Depreciation and amortisation	**(12,401)**	**(469,914)**	**(1,144)**	**(483,459)**
Reversal of impairment charge (a)	**–**	**56,513**	**–**	**56,513**
Transferred to assets of disposal group classified as held for sale (Note 10)	**(709,082)**	**–**	**–**	**(709,082)**
Closing net book amount at 30 June 2018	**774,958**	**9,958,091**	**18,912**	**10,751,961**
Six months ended 30 June 2017				
Opening net book amount at 1 January 2017	1,413,942	7,858,775	9,108	9,281,825
Additions	3,713	488,689	28	492,430
Disposals	–	(913)	–	(913)
Depreciation and amortisation	(11,906)	(444,925)	(786)	(457,617)
Closing net book amount at 30 June 2017	1,405,749	7,901,626	8,350	9,315,725

7. Leasehold Land Payments, Property, Plant and Equipment and Intangible Assets *(Continued)*

(a) Due to the increase of sulphuric acid market purchase price, the Group has put an idle workshop back into the production of sulphuric acid for its own use since January 2018. Although the sulphuric acid is used internally as a raw material of MSG, the group of assets in the sulphuric acid workshop, reported under Amino acid segment, has been identified as one cash-generating unit because there is an active market exists for sulphuric acid. This group of assets in the sulphuric acid work had been fully impaired in prior years. The Group reassessed its recoverable amount using the value in use method to be RMB56,513,000 as at 30 June 2018. Therefore, of the total impairment provision of RMB83,686,000 set aside in prior years, RMB56,513,000 was reversed (six months ended 30 June 2017: nil) during the six months ended 30 June 2018, which was credited to "Cost of sales" in the consolidated income statement.

The value in use calculation used pre-tax cash flow projections based on the financial budgets approved by management. The pre-tax discount rate used in the calculations was 13%.

8. Trade and Other Receivables

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade receivables (a)	**529,490**	509,204
Less: provision for impairment of trade receivables	**(20,510)**	(20,258)
Trade receivables, net	**508,980**	488,946
Notes receivables (b)	**716,706**	562,423
Deposits and others	**130,966**	46,553
Loans to employees	**2,301**	2,299
– Loans to key management	**–**	–
– Loans to other employees	**2,301**	2,299
Value-added tax for future deduction	**249,824**	193,258
Trade and other receivables excluding prepayments	**1,608,777**	1,293,479
Prepayments for raw materials	**674,045**	68,080
	2,282,822	1,361,559

8. Trade and Other Receivables *(Continued)*

(a) At 30 June 2018 and 31 December 2017, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**369,998**	402,822
3–12 months	**108,486**	60,765
Over 12 months	**51,006**	45,617
	529,490	509,204

The Group sells its products to customers and received settlement either in cash or in form of bank acceptance notes upon delivery of goods. The bank acceptance notes are usually with maturity dates within six months. Major customers with good payment history are normally offered credit terms for no more than three months.

(b) As at 30 June 2018, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB615,218,000 (31 December 2017: RMB509,926,000) applied for settling the amounts payable to the Group's suppliers.

9. Cash and Bank Balances

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Cash and cash equivalents		
– Cash on hand	**892**	472
– Cash in bank	**754,350**	419,016
	755,242	419,488
Term deposits over 3 months and within one year	**22,000**	22,100
Cash and bank balances	**777,242**	441,588
Restricted bank deposits	**44,913**	73,856
Total cash and bank balances	**822,155**	515,444

NOTES TO THE
CONDENSED FINANCIAL STATEMENTS

10. Assets/Liabilities of Disposal Group Held for Sale

In January 2018, the Group decided to sell the leasehold land owned by two of its subsidiaries, namely Baoji Dingfeng Properties Co., Ltd. ("Baoji Dingfeng") and Baoji Baofeng Properties Co., Ltd. ("Baoji Baofeng"), and initiated the plan to locate a buyer. In June 2018, a third-party buyer has been located and the Group was in the process of actively negotiating with the buyer the principal terms of transfer of all the equity interests in the two subsidiaries. The sale was expected to be completed within one year from 30 June 2018. Therefore, the assets and liabilities of the two aforementioned subsidiaries were classified as held for sale at 30 June 2018 under the unallocated segment.

In August 2018, the Group signed the final sales and purchase agreements with the buyer. The Group estimated the consideration of the sale to be approximately RMB1,792.3 million, which will result in a gain of approximately RMB1 billion to be recognized in the second half year of 2018.

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

	2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Leasehold land payments	**709,082**	–
Current assets		
Cash and bank balances	**19**	–
Total assets	**709,101**	–

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

	2018 RMB'000	2017 RMB'000
LIABILITIES		
Current liabilities		
Trade, other payables and accruals	**1,199**	–
Total liabilities	**1,199**	–

11. Share Capital and Share Premium

			Amount		
	Number of authorised shares '000	Number of issued and fully paid shares '000	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Opening balance at 1 January 2017	10,000,000	2,126,685	207,222	462,639	669,861
Conversion of convertible bonds	–	280,049	24,807	904,513	929,320
Issuance of ordinary shares	–	140,000	12,407	666,737	679,144
Dividends	–	–	–	(176,815)	(176,815)
At 30 June 2017	10,000,000	2,546,734	244,436	1,857,074	2,101,510
Opening balance at 1 January 2018	**10,000,000**	**2,546,734**	**244,436**	**1,736,726**	**1,981,162**
Dividends	**–**	**–**	**–**	**(226,158)**	**(226,158)**
At 30 June 2018	**10,000,000**	**2,546,734**	**244,436**	**1,510,568**	**1,755,004**

12. Borrowings

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Non-current		
– Bank borrowings, unsecured	**570,517**	560,265
	570,517	560,265
Current		
– Bank borrowings, unsecured	**1,828,146**	415,000
– Corporate bonds	**998,376**	995,939
	2,826,522	1,410,939
	3,397,039	1,971,204

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

	Carrying amount As at		Fair value As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000	**30 June 2018 RMB'000**	31 December 2017 RMB'000
Bank borrowings, unsecured	**570,517**	560,265	**574,945**	569,034

12. Borrowings *(Continued)*

Movements in borrowings were analysed as follows:

	RMB'000
Six months ended 30 June 2017	
Opening amount as at 1 January 2017	3,099,977
New borrowings	697,235
Repayments of bank borrowings	(311,035)
Conversion of convertible bonds	(931,944)
Amortisation of transaction cost:	
– Corporate bonds	2,332
Exchange differences	(17,823)
Closing amount as at 30 June 2017	2,538,742
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	**1,971,204**
New borrowings	**2,050,824**
Repayments of bank borrowings	**(644,900)**
Amortisation of transaction cost:	
– Corporate bonds	**6,412**
Exchange differences	**13,499**
Closing amount as at 30 June 2018	**3,397,039**

Interest expenses on borrowings for the six months ended 30 June 2018 were RMB57,025,000 (30 June 2017: RMB42,993,000).

13. Trade, Other Payables and Accruals

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Trade payables (a)	**1,219,079**	1,451,471
Advances from customers	**–**	346,937
Payables for property, plant and equipment	**1,219,052**	1,013,726
Bank acceptance notes payable	**11,320**	83,795
Government compensation related to property, plant and equipment disposal received in advance	**61,980**	62,281
Salaries, wages and staff welfares payables	**382,315**	398,098
Interest payables	**23,663**	9,227
Government grants received in advance	**2,041**	2,039
Dividends payable	**407**	407
Other payables and accruals	**342,078**	317,034
	3,261,935	3,685,015

(a) The ageing analysis of the trade payables was as follows:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Within 3 months	**735,124**	1,014,534
3 to 6 months	**243,281**	218,759
6 to 12 months	**161,825**	151,949
1 to 2 years	**49,358**	44,024
Over 2 years	**29,491**	22,205
	1,219,079	1,451,471

14. Other Income

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of waste products	**58,638**	48,985
Amortisation of deferred income	**36,829**	38,731
Government grants relating to expenses	**21,414**	16,879
Others	**14,296**	19,778
	131,177	124,373

15. Operating Profit

An analysis of the amounts presented as operating items in the financial information is given below.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Amortisation of leasehold land payments	**12,401**	11,906
Amortisation of intangible assets	**1,144**	786
Depreciation of property, plant and equipment	**469,914**	444,925
Reversal of provision for impairment charges for property, plant and equipment (Note 7(a))	**(56,513)**	–
Value on employee services for the share option schemes	**4,503**	6,512
Reversal of inventory write-down – net	**(1,610)**	–
Plant relocation expenses	**5**	153

16. Finance Costs – Net

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest expense	**57,025**	42,993
Foreign exchange losses on financing activities	**13,499**	–
Finance costs	**70,524**	42,993
Interest income	**(1,911)**	(4,526)
Foreign exchange gains on financing activities	**–**	(17,884)
Finance income	**(1,911)**	(22,410)
Net finance costs	**68,613**	20,583

17. Income Tax Expense

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	**48,050**	110,737
– Hong Kong enterprise income tax	**89**	1,135
– U.S. enterprise income tax	**5,002**	528
– Singapore enterprise income tax	**1**	–
Deferred income tax	**(1,341)**	15,390
	51,801	127,790

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.

17. Income Tax Expense *(Continued)*

Hong Kong enterprise income tax is calculated based on the effective tax rate on assessable profit of subsidiaries established in Hong Kong in accordance with Hong Kong tax laws and regulations.

PRC enterprise income tax is calculated based on the effective tax rate on assessable profit of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

Singapore enterprise income tax is calculated based on the assessable profit of the subsidiary established in Singapore in accordance with Singapore tax laws and regulations.

The U.S. enterprise income tax is calculated based on the assessable profit of the subsidiary established in the U.S. in accordance with the U.S. tax laws and regulations.

18. Earnings Per Share

	Six months ended 30 June	
	2018	2017
Earnings per share for profit attributable to the Shareholders (RMB cents per share)		
– basic	**12.37**	27.98
– diluted	**12.35**	27.93

Basic earnings per share is calculated by dividing the profit attributable to the Shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming the conversion of all dilutive potential ordinary shares.

Earnings per share – basic and diluted for the first half of 2018 was RMB12.37 cents and RMB12.35 cents respectively (equivalent to HK14.73 cents and HK14.71 cents) (1H 2017: RMB27.98 cents and RMB27.93 cents respectively (equivalent to HK32.24 cents and HK32.18 cents)).

19. Dividends

On 27 March 2018, the Board proposed a final dividend in respect of the year ended 31 December 2017 of HKD280,141,000 (equivalent to RMB226,158,000), representing HK11.0 cents (equivalent to RMB8.88 cents) per share. The final dividend was paid in June 2018.

At a meeting held on 10 August 2018, the Board proposed an interim dividend of HKD106,963,000 (equivalent to RMB93,379,000) (1H2017: HKD224,113,000 (equivalent to RMB191,298,000)), representing HK4.2 cents (equivalent to RMB3.67 cents) (1H2017: HK8.8 cents (equivalent to RMB7.51 cents)) per share. This interim dividend has not been recognized as a dividend payable in this interim financial information, but will be recognized as an appropriation of share premium for the year ending 31 December 2018.

20. Contingent Liabilities

As at 30 June 2018 and 31 December 2017, the Group had no material contingent liabilities.

21. 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

	Six months ended 30 June	
	2018 **RMB'000**	2017 RMB'000
Services purchased from a related party*	**40,942**	–

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

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

(a) Transactions with related parties *(Continued)*

(2) Continuing connected transaction

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of products to a related party*	**36,217**	–

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

(b) Key management compensation

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**7,048**	9,371
Pension costs-defined contribution plan	**475**	337
Share options granted	**3,597**	5,354
	11,120	15,062

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

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

(c) Period-end/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

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
– A company controlled by a close family member of the controlling shareholder	**–**	7,604

(2) Advance from a related party

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
– A company controlled by a close family member of the controlling shareholder	**1,375**	–

(3) Other payables to a related party

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
– A company controlled by a close family member of the controlling shareholder	**36,700**	27,726

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

(d) Terms and conditions

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

22. Events Occurring After the Balance Sheet Date

Details of the asset disposal and the interim dividend proposed are described in Note 10 and Note 19 respectively.

Independent Auditor's Report

羅兵咸永道

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

Opinion

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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report *(Continued)*

Key Audit Matters

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

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Revenue recognition *Refer to note 2.24 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.

Independent Auditor's Report *(Continued)*

Other Information

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

Independent Auditor's Report *(Continued)*

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

		Years ended 31 December	
		2017	2016
	Note	*RMB'000*	*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

	Note	As at 31 December 2017 RMB'000	2016 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

		As at 31 December	
		2017	2016
	Note	*RMB'000*	*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

	Note	Years ended 31 December 2017 RMB'000	2016 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

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

		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.

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.

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 (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.

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)

(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.

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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.

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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.

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).

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

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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.

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

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 *RMB'000*	2016 *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 *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Total contractual cash flows *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.

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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

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.

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

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.

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.

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

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 *RMB'000*	2016 *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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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	Share premium RMB'000	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).

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).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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).

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

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2017

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 *RMB'000*	2016 *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 *RMB'000*	2016 *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.

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

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**

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

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

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	Borrowings due after 1 year	Total
	RMB'000	*RMB'000*	*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

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

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

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.

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

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.

Independent Auditor's Report

羅兵咸永道

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

Opinion

We have audited

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

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

Our opinion

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

Basis for Opinion

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

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

Independence

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report *(Continued)*

Key Audit Matters

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

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

Independent Auditor's Report *(Continued)*

Other Information

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

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

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

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

Responsibility of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

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

Independent Auditor's Report *(Continued)*

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

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

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

Consolidated Balance Sheet

As at 31 December 2016

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

Consolidated Balance Sheet *(Continued)*

As at 31 December 2016

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

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

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

Li Xuechun
Director

Li Deheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2016

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. General Information

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

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

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

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

2. Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

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

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.2 Subsidiaries

(a) Consolidation

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

(b) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.2 Subsidiaries *(Continued)*

(b) Business combinations (Continued)

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

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

(c) Disposal of subsidiaries

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

(d) Separate financial statements

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

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

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

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

2.3 Associates

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

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

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

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

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

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

2.4 Segment reporting

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

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

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.6 Leasehold land payments

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

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

2.7 Property, plant and equipment

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.7 Property, plant and equipment *(Continued)*

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

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

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

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

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

2.8 Intangible assets

(a) Patents

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

(b) Computer software

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

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

2.9 Impairment of non-financial assets

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

2.10 Disposal groups held for sale

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.11 Financial Assets

(a) Classification

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

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

(b) Recognition and measurement

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

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

(c) Offsetting financial instruments

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.12 Inventories

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

2.13 Trade and other receivables

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

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.14 Cash and bank balances

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

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

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

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

2.17 Borrowings

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

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

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

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

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

2.18 Borrowing costs

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

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

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

2.19 Compound financial instruments

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.20 Current and deferred income tax *(Continued)*

(c) Offsetting

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

2.21 Employee benefits – pension

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

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

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

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

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

2.22 Share-based payments (continued)

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

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

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

(b) Share-based payment transactions among group entities

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

2.23 Provisions

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

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

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

2.24 Government grants

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

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

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

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

2.24 Government grants *(Continued)*

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

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

2.25 Revenue recognition

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

(a) Sales of goods

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

(b) Interest income

Interest income is recognised using the effective interest method.

2.26 Operating leases

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

2.27 Contingent liabilities and contingent assets

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

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

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

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

2.27 Contingent liabilities and contingent assets *(Continued)*

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

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

2.28 Research and development

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

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

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

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

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

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

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

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

2.29 Dividend distribution

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

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

3. Financial Risk Management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

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

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

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

(b) Credit risk

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

(c) Liquidity risk

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

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

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

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

3. Financial Risk Management *(Continued)*
3.1 Financial risk factors *(Continued)*
(c) Liquidity risk (Continued)

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

3. Financial Risk Management *(Continued)*

3.2 Capital risk management

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

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

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

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

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

3.3 Fair value estimation

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

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

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

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

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

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

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

4. Critical Accounting Estimates and Judgements

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

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

4.1 Estimated impairment of property, plant and equipment

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

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

4.2 Useful lives of plant and equipment

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

4.3 Net realisable value of inventories

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

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

4.4 PRC taxes

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

5. Segment Information

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

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

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

– manufacturing and sales of xanthan gum.

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

5. Segment Information *(Continued)*

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

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

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

5. Segment Information *(Continued)*

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

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

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

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

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

5. Segment Information *(Continued)*

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

5. Segment Information *(Continued)*

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

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

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

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

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

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

6. Other Income

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

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

7. Other Gains – Net

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

In 2016, the gain on disposal of subsidiaries arose from the disposal of 100% equity interest in Junan Beifang Properties Co., Ltd. and Junan Beibu Properties Co., Ltd., indirectly held subsidiaries of the Company, to a third party company at a total cash consideration of RMB164,133,000 (2015: RMB298,750,000 of disposal of Junan Beicheng Properties Co., Ltd.) (Note 33(b)). The only assets of Junan Beifang Properties Co., Ltd. and Junan Beibu Properties Co., Ltd. included the parcels of leasehold land with carrying values of RMB111,253,000 and RMB46,408,000, respectively (2015: RMB297,625,000) (Note 16). The disposal resulted in a gain of RMB6,472,000 (2015: RMB1,125,000) recognised in the consolidated income statements for the year ended 31 December 2016.

8. Expenses by Nature

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

9. Employee Benefit Expenses Including Directors' Emoluments

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

(a) Pension costs – defined contribution plans

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

(b) Five highest paid individuals

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

10. Research and Development Costs

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

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

All these research costs arose from internal development activities.

11. Finance Income and Costs

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

12a. Subsidiaries

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

12a. Subsidiaries *(Continued)*

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

12a. Subsidiaries *(Continued)*

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

12a. Subsidiaries *(Continued)*

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

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

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

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

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

12b. Investments Accounted for Using the Equity Method

The amounts recognised in the balance sheet are as follows:

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

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

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

Investment in an associate

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

Nature of investment in an associate as at 31 December 2016

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

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

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

Summarised financial information of an associate

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

13. Taxation

(a) Income tax expense

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

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

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

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

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

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

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

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財税[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知"), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%. Four subsidiaries of the Group including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (2015: 15%).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

13. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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

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

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

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

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

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

14. Earnings Per Share

(a) Basic

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

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

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

14. Earnings Per Share *(Continued)*

(b) Diluted

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

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

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

15. Net Foreign Exchange (Gains)/Losses

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

16. Leasehold Land Payments

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

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

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

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

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

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

17. Property, Plant and Equipment

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

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

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

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

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

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

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

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

18. Intangible Assets

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

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

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

19. Credit Quality of Financial Assets

Trade and notes receivables

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

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

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

Long-term bank deposits and cash and bank balances

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

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

20. Trade and Other Receivables

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

20. Trade and Other Receivables *(Continued)*

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

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

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

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

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

20. Trade and Other Receivables *(Continued)*

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

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

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

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

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

21. Inventories

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

21. Inventories *(Continued)*

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

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

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

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

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

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

23. Current and Non-Current Assets Held for Sale

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

24. Share Capital and Premium

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

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

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

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

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

25. Share-Based Payment

(a) Share options granted on 14 July 2009

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

25. Share-Based Payment *(Continued)*

(b) Share options granted on 9 April 2015

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

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

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

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

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

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

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

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

25. Share-Based Payment *(Continued)*

(c) Share options granted on 9 November 2016

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

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

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

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

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

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

In December 2016, one employee resigned and thus all the related 800,000 share options were forfeited during the year ended 31 December 2016, which were reclassified from other reserves to retained earnings.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2016 was approximately RMB820,000.

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

25. Share-Based Payment *(Continued)*

(d) Share options granted on 30 December 2016

The Company granted to certain eligible employee share options to subscribe for an aggregate of 300,000 ordinary shares of the Company on 30 December 2016. These options vest in tranches over a period of up to 6 years. Thus, there were no options being exercised during the year ended 31 December 2016.

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

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

The fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options as at the grant date was approximately RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

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

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

The attributable amount charged to the consolidated income statement during the year ended 31 December 2016 was approximately RMB10,000.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

26. Retained Earnings

	The Group	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**4,817,025**	4,334,460
Profit for the year	**1,092,512**	516,261
Profit appropriation to statutory reserves *(Note 27)*	**(86,924)**	(46,154)
Expiry of share options issued	**3,410**	10,597
Repurchase of shares of the Company *(Note 24)*	**–**	1,861
At 31 December	**5,826,023**	4,817,025

27. Other Reserves

	Convertible bonds *(Note 29)*	**Capital reserve** *(Note (a))*	**Statutory reserve** *(Note (b))*	**Share-based payment reserve** *(Note 25)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
1 January 2015	63,198	(370,760)	483,313	14,626	190,377
Profit appropriation *(Note 26)*	–	–	46,154	–	46,154
Conversion of convertible bonds	(3,567)	–	–	–	(3,567)
Employee share option schemes					
– Value of employee services *(Notes 9, 25)*	–	–	–	9,317	9,317
– Expiry of share options issued	–	–	–	(10,597)	(10,597)
– Proceeds from shares issued	–	–	–	(4,029)	(4,029)
31 December 2015	59,631	(370,760)	529,467	9,317	227,655
Profit appropriation *(Note 26)*	–	–	86,924	–	86,924
Employee share option schemes					
– Value of employee services *(Notes 9, 25)*	–	–	–	8,811	8,811
– Expiry of share options issued	–	–	–	(3,410)	(3,410)
31 December 2016	**59,631**	**(370,760)**	**616,391**	**14,718**	**319,980**

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

27. Other Reserves *(Continued)*

(a) Capital reserve

It mainly represents reserve arising from the Group's reorganisation completed in July 2006.

(b) Statutory reserve

In accordance with the PRC regulations and the articles of the association of the PRC companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

28. Trade, Other Payables and Accruals

	2016 *RMB'000*	2015 *RMB'000*
Trade payables (a)	**1,214,352**	1,195,564
Advances from customers (b)	**693,249**	510,875
Payables for property, plant and equipment *(Note 33(d))*	**746,611**	866,878
Bank acceptance notes payable	**255,300**	47,606
Government compensation related to property, plant and equipment disposal received in advance *(Note 17)*	**139,778**	151,144
Salaries, wages and staff welfares payables	**398,146**	347,628
Interest payables	**12,444**	33,682
Government grants received in advance	**16,432**	15,005
Dividends payable	**407**	407
Other payables and accruals	**244,896**	142,404
	3,721,615	3,311,193

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

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

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

(b) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be applied for settlement when sales occur.

(c) Trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in RMB.

29. Borrowings

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

29. Borrowings *(Continued)*

(a) Borrowings

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

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

As at 31 December 2016, the bank borrowings included RMB307,498,000 borrowings which were secured by restricted bank deposits (2015: RMB420,000,000 borrowings secured by leasehold land of the Group) (Note 16).

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

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

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

	Carrying amount		Fair value	
	2016 **RMB'000**	2015 RMB'000	**2016** **RMB'000**	2015 RMB'000
Bank borrowings, unsecured	**–**	635,477	**–**	639,928
Bank borrowings, secured	**–**	370,000	**–**	378,430
Corporate bonds (b)	**991,241**	986,744	**988,405**	979,266
Convertible bonds (c)	**931,944**	–	**1,056,617**	–
	1,923,185	1,992,221	**2,045,022**	1,997,624

The fair values of the non-current corporate bonds and other bank borrowings at 31 December 2016 were RMB988,405,000 (2015: RMB1,997,624,000). The fair value measurement of them is categorised within level 2 of the fair value hierarchy.

The fair values of the non-current convertible bonds at 31 December 2016 were RMB1,056,617,000 which values were calculated using the market price of the convertible bonds on the date of statement of financial position. The fair value measurement of convertible bonds and senior notes issued by the Company is categorised within the level 1 of fair value hierarchy as they are listed on The Singapore Exchange Securities Trading Limited.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

29. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2016	2015
	RMB'000	*RMB'000*
6 months or less	**519,146**	914,186
6 to 12 months	**657,647**	931,734
1 to 5 years	**1,923,185**	1,992,221
	3,099,978	3,838,141

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

	2016	2015
	RMB'000	*RMB'000*
RMB	**2,553,683**	3,330,856
USD	**546,295**	507,285
	3,099,978	3,838,141

(b) Corporate bonds

In November 2015, IM Fufeng issued corporate bonds at a par value of RMB1,000,000,000, which was denominated in RMB with a fixed interest rate of 3.98% per annum. The bonds will mature in three years from the issuance date. The value of the liability, net of transaction costs of RMB14,000,000, was determined at issuance of the bonds.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

29. Borrowings *(Continued)*

(c) Convertible bonds

Convertible bonds issued in April 2010 ("2010 CB")

The Company issued convertible bonds with a total par value of RMB1,025,000,000 in April 2010 at a fixed interest rate of 4.5%. The bonds will mature in five years from the issue date at their nominal value of RMB1,025,000,000 or can be converted into the Company's ordinary shares at the holder's option at the price of HKD7.03 per share. The values of the liability component and the equity conversion component, net of transaction costs of RMB25,679,000, were determined upon issuance of the bonds.

The fair value of the liability component, which was included in non-current borrowings, was calculated using a market interest rate of 5.08% for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

The Company partially redeemed convertible bonds in October and November 2012 and March and April 2013. According to the conversion price adjustment term of the offering memorandum of 2010 CB, the conversion price is adjusted from HKD7.03 per share to HKD6.56 per share after the Company's rights issue in May 2013. The remaining outstanding principal amount of 2010 CB was fully repaid on 1 April 2015.

Convertible bonds issued in November 2013 ("2013 CB")

The Company issued convertible bonds with a total par value of RMB975,000,000 in November 2013 at a fixed interest rate of 3.0%. The bonds will mature in five years from the issue date at an amount equal to 108.31 percentage of their principal amount of RMB975,000,000, or can be converted into the Company's ordinary shares at the holder's option at the price of HKD4.173 per share. The values of the liability component and the equity conversion component, net of transaction costs of RMB23,597,000, were determined upon issuance of the bonds. During the year ended 31 December 2015, a total of RMB53,760,000 of such convertible bonds were converted into 17,065,033 ordinary shares of the Company. The carrying amount of the 2013 CB as at 31 December 2016 was RMB931,944,000 (2015: RMB901,734,000).

The fair value of the liability component, which was included in non-current borrowings, was calculated using a market interest rate of 6.06% for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

According to the circular of 2013 CB, the bond holders had a put option right to request the Company to early redeem the 2013 CB on 27 November 2016 by formal written notice, which will be expired after the date. On 27 November 2016, no bond holders claimed to exercise the right. Accordingly, the balance of 2013 CB was classified as non-current liabilities as at 31 December 2016 while as current liabilities as at 31 December 2015.

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

29. Borrowings *(Continued)*

(c) Convertible bonds *(Continued)*

Convertible bonds issued in November 2013 ("2013 CB") (Continued)

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

	2010 CB *RMB'000*	2013 CB *RMB'000*	Total *RMB'000*
Liability component at 1 January 2015	13,314	923,499	936,813
Including:			
– Interest payable – current portion	149	2,438	2,587
– Carrying amount at 1 January 2015	13,165	921,061	934,226
Interest expense on convertible bonds *(Note 11)*	184	62,842	63,026
Interest paid	(298)	(28,550)	(28,848)
Settlement of final principle and interest of convertible bonds	(13,200)	–	(13,200)
Conversion of convertible bonds	–	(53,760)	(53,760)
Liability component at 31 December 2015	–	904,031	904,031
Including:			
– Interest payable – current portion	–	2,297	2,297
– Carrying amount at 31 December 2015 – current	–	901,734	901,734
Liability component at 1 January 2016	–	904,031	904,031
Interest expense on convertible bonds *(Note 11)*	–	57,781	57,781
Interest paid	–	(27,571)	(27,571)
Liability component at 31 December 2016	–	934,241	934,241
Including:			
– Interest payable – current portion	–	2,297	2,297
– Carrying amount at 31 December 2016 – non-current	–	931,944	931,944

(d) Medium-term notes

In April 2013, IM Fufeng issued medium-term notes at a par value of RMB600,000,000, which was dominated in RMB with a fixed interest rate of 5.11% per annum. The note will mature in three years from the issue date. The value of the liability, net of transaction costs of RMB5,310,000, was determined at issue of the notes. The medium-term notes was fully repaid on 18 April 2016.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

30. Deferred Income

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

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

	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**752,287**	536,550
Granted during the year	**121,333**	453,495
Amortised as income *(Note 6, 33)*	**(172,376)**	(231,501)
Transferred from/(to) disposal group classified as held for sale *(Note 23)*	**6,257**	(6,257)
At end of the year	**707,501**	752,287

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

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

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

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

31. Deferred Income Tax

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

	2016 *RMB'000*	2015 *RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	112,705	72,701
– Deferred income tax assets to be recovered within 12 months	71,691	70,371
	184,396	143,072
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(16,650)	(16,650)
– Deferred income tax liabilities to be settled within 12 months	–	–
	(16,650)	(16,650)
Deferred income tax assets, net	167,746	126,422

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

	2016 *RMB'000*	2015 *RMB'000*
Beginning balance of the year	126,422	94,615
Credited to consolidated income statement *(Note 13)*	36,686	36,445
Transferred from/(to) disposal group classified as held for sale *(Note 23)*	4,638	(4,638)
Ending balance of the year	167,746	126,422

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

31. Deferred Income Tax *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Tax Losses *RMB'000*	Unrealised profit *RMB'000*	Deferred income *RMB'000*	Staff pension plan *RMB'000*	Impairment losses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2015	7,438	1,370	45,576	26,776	8,757	23,738	113,655
(Charged)/Credited to consolidated income statement	(3,413)	(348)	22,591	11,400	3,319	1,426	34,975
Transferred to disposal group classified as held for sale *(Note 23)*	–	–	(221)	(1,151)	(3,426)	160	(4,638)
At 31 December 2015	4,025	1,022	67,946	37,025	8,650	25,324	143,992
(Charged)/Credited to consolidated income statement	(3,364)	5,812	11,467	7,331	33,422	(18,119)	36,549
Transferred from disposal group classified as held for sale *(Note 23)*	–	–	221	1,151	3,426	(160)	4,638
At 31 December 2016	**661**	**6,834**	**79,634**	**45,507**	**45,498**	**7,045**	**185,179**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax assets in respect of operating losses amounted to RMB15,966,000 as at 31 December 2016 (2015: RMB11,946,000) that can be carried forward to offset against future taxable income, because it was uncertain whether there would be sufficient profit to offset in the near future. As at 31 December 2016 and 2015, the expiry date of such tax operating losses is as follows:

Expiry date	**2016** ***RMB'000***	2015 *RMB'000*
2016	**–**	1,697
2017	**1,256**	1,256
2018	**1,468**	1,468
2019	**1,370**	1,370
2020	**6,155**	6,155
2021	**5,717**	–
	15,966	11,946

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

31. Deferred Income Tax *(Continued)*

Deferred income tax liabilities:

	Capitalisation of borrowing costs *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2015	2,390	16,650	19,040
Credited to consolidated income statement	(1,470)	–	(1,470)
At 31 December 2015	920	16,650	17,570
Credited to consolidated income statement	(137)	–	(137)
At 31 December 2016	**783**	**16,650**	**17,433**

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC, in respect of earnings generated after 31 December 2007. The Group's certain subsidiaries in the PRC are held by companies incorporated in Hong Kong and are subject to 5% to 10% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

Deferred income tax liabilities as at 31 December 2016 of RMB316,251,000 (2015: RMB254,961,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB6,325,020,000 (2015: RMB5,099,222,000). The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the retained profits of these PRC subsidiaries since the Group has no plan to distribute such profits in the foreseeable future.

32. Dividends

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

33. Cash Generated from Operations

(a) Cash generated from operations

	2016 RMB'000	2015 RMB'000
Profit before income tax	1,301,898	679,774
Adjustments for:		
– Provision for/(reversal of) inventory write-down *(Note 21)*	3,300	(22,522)
– (Reversal of)/Provision for receivables impairment *(Note 20)*	(237)	239
– Impairment charge for property, plant and equipment *(Note 17)*	119,790	60
– Depreciation *(Note 17)*	826,546	746,813
– Amortisation of intangible assets *(Note 18)*	606	2,788
– Amortisation of leasehold land payments *(Note 16)*	26,928	16,493
– Amortisation of deferred income *(Note 30)*	(172,376)	(231,501)
– Gain on disposal of subsidiaries/a subsidiary – net *(Note (b))*	(6,472)	(1,125)
– Loss on disposal of leasehold land prepayments – net *(Note 16)*	27	–
– Gain on compensation from insurance company after offsetting losses *(Note 7)*	(23,831)	(32,789)
– Loss on disposal of property, plant and equipment – net *(Note (c))*	1,594	2,248
– Employee share option schemes *(Notes 9, 25)*	8,811	9,317
– Interest income *(Note 11)*	(9,466)	(14,412)
– Interest expenses *(Note 11)*	181,153	301,751
– Foreign exchange losses on financing activities *(Note 11)*	37,481	66,361
Changes in working capital:		
– Inventories	(261,173)	(255,503)
– Trade and other receivables	232,730	242,118
– Restricted bank deposits	(327,679)	17,748
– Trade, other payables and accruals	538,345	76,337
Cash generated from operations	2,477,975	1,604,195

(b) Disposal of subsidiaries/ a subsidiary

	2016 RMB'000	2015 RMB'000
Proceeds from disposal of subsidiaries/a subsidiary	164,133	298,750
Net book amount for disposal of subsidiaries/a subsidiary *(Note 16)*	(157,661)	(297,625)
Gain on disposal of subsidiaries/a subsidiary – net *(Note 7)*	6,472	1,125

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

33. Cash Generated from Operations *(Continued)*

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

	2016 *RMB'000*	2015 *RMB'000*
Net book amount for disposals *(Note 17)*	**14,612**	131,233
Loss on disposal of property, plant and equipment – net *(Note 7)*	**(1,594)**	(2,248)
Decrease in other payables for government compensation related to property, plant and equipment received in advance *(Note 17, 28)*	**(11,366)**	(128,908)
Proceeds from disposal of property, plant and equipment	**1,652**	77

(d) Major non-cash transactions

During the year ended 31 December 2016, the Group purchased property, plant and equipment which were recorded in payables without cash outflow in the amount of RMB746,611,000 (2015: RMB866,878,000) (Note 28).

34. Commitments

(a) Capital commitments

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

34. Commitments *(Continued)*

(b) Operating lease commitments – the Group as lessee

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

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

35. Related Party Transactions and Balances

(a) Key management compensation

	2016 *RMB'000*	2015 *RMB'000*
Salaries and allowances	17,564	18,859
Pension costs – defined contribution plan	684	733
Share options granted to key management *(Note 27)*	4,191	9,317
	22,439	28,909

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

36. Events After the Balance Sheet Date

Other than the proposed final dividend described in Note 32, there was no significant event of the Group after the balance sheet date.

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

37. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		41	65
Investment in subsidiaries		460,066	453,788
		460,107	453,853
Current assets			
Loans to subsidiaries		952,428	869,698
Due from subsidiaries		907,310	1,016,249
Deposits and other receivables		693	575
Cash and cash equivalents		11,787	34,516
		1,872,218	1,921,038
Total assets		2,332,325	2,374,891
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		207,222	207,221
Share premium		462,639	555,157
Other reserves	*Note (a)*	74,349	68,948
Retained earnings	*Note (a)*	(247,648)	(222,133)
Total equity		496,562	609,193
LIABILITIES			
Non-current liabilities			
Borrowings		931,944	635,477
Current liabilities			
Borrowings		865,757	1,096,542
Due to subsidiaries		14,173	14,174
Other payables and accruals		23,889	19,505
		903,819	1,130,221
Total liabilities		1,835,763	1,765,698
Total equity and liabilities		2,332,325	2,374,891

The balance sheet of the Company was approved by the Board of Directors on 21 March 2017 and was signed on its behalf.

Li Xuechun
Director

Li Deheng
Director

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

37. Balance Sheet and Reserve Movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Retained earnings *RMB'000*	**Other reserves** *RMB'000*
At 1 January 2015	(136,561)	77,824
Loss for the year	(98,030)	–
Value of employee services	–	9,317
Repurchase of shares of the Company	1,861	(4,029)
Expiry of share options issued	10,597	(10,597)
Conversion of convertible bonds	–	(3,567)
At 31 December 2015	(222,133)	68,948
At 1 January 2016	(222,133)	68,948
Loss for the year	(28,925)	–
Value of employee services	–	8,811
Expiry of share options issued	3,410	(3,410)
At 31 December 2016	(247,648)	74,349

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

38. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The emoluments of every director for the years ended 31 December 2016 and 2015 are set out as below:

	2016				
Name of Director	**Fees**	**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	–	1,000	–	46	1,046
Li, Guangyu	–	800	–	46	846
Independent Non-executive Directors:					
Zheng, Yu	205	–	17	–	222
Sun, Yuguo	150	–	17	–	167
Qi, Qingzhong	100	–	17	–	117
	455	7,719	51	214	8,439

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

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

		2015		
Name of Director	Fees *RMB'000*	Salary *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Total *RMB'000*
Executive Directors:				
Li, Xuechun	–	2,746	25	2,771
Wang, Longxiang	–	1,901	42	1,943
Feng, Zhenquan	–	1,100	42	1,142
Li, Deheng	–	1,100	42	1,142
Xu, Guohua	–	995	16	1,011
Li, Guangyu	–	803	42	845
Independent Non-executive Directors:				
Choi, Tze Kit, Sammy (iv)	221	–	–	221
Chen, Ning (v)	44	–	–	44
Zheng, Yu	193	–	–	193
Sun, Yuguo	17	–	–	17
Qi, Qingzhong	100	–	–	100
	575	8,645	209	9,429

(i) Other benefits include share option.
(ii) Resigned on 25 July 2016.
(iii) Resigned on 19 September 2016.
(iv) Resigned on 9 November 2015.
(v) Resigned on 8 June 2015.

There was no bonus paid to the directors of the Company for the years ended 31 December 2016 and 2015.

No director waived or agreed to waive any remuneration for the years ended 31 December 2016 and 2015.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ISSUER

Fufeng Group Limited

Registered office

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

Principal place of business in Hong Kong

Suite 1102, 11th Floor
Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

TRUSTEE

DB Trustees (Hong Kong) Limited
Level 52, International
Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

Deutsche Bank AG, Hong Kong Branch
52/F, International
Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

LEGAL ADVISERS

To the Issuer as to English law

Sidley Austin LLP
25 Basinghall Street
London, EC2V 5HA
United Kingdom

To the Issuer as to Cayman Islands law

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

To the Issuer as to PRC law

King & Wood Mallesons
16–18F, One ICC
Shanghai ICC
999 Huai Hai
Road (M)
Shanghai, 200031
P.R.C.

To the Issuer as to Hong Kong Law

Li & Partners
22/F, World Wide House
Central
Hong Kong

To the Sole Manager as to English law

Davis Polk & Wardwell
18th Floor
The Hong Kong Club Building
3A Chater Road
Central, Hong Kong

To the Sole Manager as to PRC law

Jingtian & Gongcheng
Floor 34, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
P.R.C.

AUDITOR OF THE ISSUER

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong