Announcement of Bluestar Adisseo Company on New Liquid Methionine Plant Construction

Importance:

- Name of investment subject: Bluestar Adisseo Company (hereafter "BAC", "Adisseo" or the "Company") planned to build a new HMTBA plant ("the Project"), with 180K ton capacity
- Amount of investment: Approximately USD 490 million (or around CNY 3,154 million, converted by the FX rate of 6.4372 from USD to CNY published by PBC on January 16, 2018)

  The Project has been approved by the Board Meeting of BAC and no need for deliberation of shareholders' meeting. The project is not a related party transaction and not a major assets restructuring, as well.
- Special risk warnings: The Project is pending for Environment & Safety Appraisal by relevant authorities and therefore there are still uncertainties in the process of the construction. The Project may also be affected by factors such as the market condition, competition, pricing and etc. For details, please refer to Section IV "Risk Factors".

I. Overview

(I) Adisseo planned to build up a new liquid methionine plant in Nanjing, China. The designated capacity is 180k ton liquid methionine per annum. The Capex budget for the Project is approximately USD 490 million (or around CNY 3,154 million, converted by the FX rate of 6.4372 from USD to CNY published by PBC on January 16, 2018)

(II) The Project has been approved by the 16th meeting of the Sixth Session of BAC board. The Project doesn't need approval of shareholders' meeting.

The Project is pending for Environment & Safety Appraisal by relevant authorities and therefore there are still uncertainties in the process of the construction.

(III) The project is not a related party transaction and not a major assets restructuring, as well.

II. Basic information on the Project

（I） Analysis on the methionine industry

Methionine is a type of "essential amino acid" for animals and also the 1st "Limited amino acid" of poultry production. Methionine cannot be synthesized de novo sufficiently by the animals and has to be supplied in the diet. Adding methionine into the feed based on the demand of nutrition can proportion the feed formulation and thus reduce feed cost. According to tests made by Adisseo, assuming same nutrition ingredients, adding 0.2% methionine into per unit of feed can save 23% total cost of chicken. In other words, the benefit from methionine our customers can get is 8 times of the price they pay for methionine. Therefore, the substitution risk of methionine is rather low and markets can absorb substantial price rises without sales volume falling.

In a mega trend of increasing population, the meat consumption will continue growing at the rate of 2% per year and even faster for poultry at around 3%. The poultry meat has a wide suitability, without any limit from religion and regions, with low cost and low cholesterol. As a result, poultry meat is well perceived in both developing countries and developed countries. 85% of total methionine supply is used in Poultry sector, therefore the increase demand for poultry meat became the foundation of methionine increase. Using methionine can significantly reduce production cost, increase efficiency of breeding and limit the impact on environment, and there ensure sustainable supply of meat.

According to historical experience, the global demand for methionine kept growing at around 6% per year and will continue to grow at this ratio in future years. According to Feedinfo, the total global demand for methionine in 2017 is about 1,265 thousand tons, increased by 6.3% against 2016.

The major type of methionine on current market are powder methionine and liquid methionine. And large-scale integrators take the liquid methionine as a better choice for methionine source. It is estimated that the penetration ratio of liquid methionine is around 40% currently, while in the US, Mexico and other markets, the penetration ratio of liquid products is above 60%. Along with market consolidation in China, India as well as other developing countries, the growth rate of demand for liquid methionine is higher than powder.

（II）Analysis on the Position of Adisseo

It's been more than 70 years since Adisseo started to produce methionine in 1946. According to Feedinfo, Adisseo is a leading company in methionine industry and remain 2nd place in the global market share. Adisseo is also one of the two global methionine producers capable of producing methionine in both powder and liquid forms. From 2012 to 2016, although there were new capacity from both existing players and new comers, Adisseo managed to increase market share from 24% to 27%. This is mainly due to the contribution of liquid methionine.

Adisseo is a key participant in every regional market around the world. It serves around 2,600 customers in around 140 different countries through its global distribution network

The Liquid methionine plants of Adisseo locate in Burgos, Spain and Nanjing, China. They are both first tier methionine plants around the world. The reliability, HSE performance as well as production cost are all at top level in the world. In 2009, Adisseo started the construction of Nanjing plant, and became the 1st international player to build methionine plant in China. Up to now, with its integrated production process and world-class manufacturing capability, the Adisseo Nanjing plant has become one of the world's largest liquid methionine producers at comparatively one of the lowest cost, and has been playing an important role in the global supply chain of methionine.

During the construction period as well as operation of Nanjing Plant, the global team of Adisseo gave full support to the local team. Under such support, a strong local team has been built up. Under the management and operation of this strong local team, the Nanjing plant managed to operate the plant at full-capacity level in a smooth and reliable manner with its KPI indicators such as safety and production cost at a quite competitive level.

（III）Introduction of the Project

The project is located in Liuhe Chemical Industry Park in Nanjing. The experience of constructions and operations from Nanjing plant can be fully leveraged. The Project will also share management team as well as some facilities, such as administration building, warehouse and logistic area and utility infrastructures, which leads to lower Capex and Opex.

The Capex budget of the Project is approximately USD 490 million, all funded by Adisseo. The startup date will be in Mid 2021, with 180k tons capacity of liquid methionine per year. In accordance with preliminary business plan, the pay-back period after startup is around 4 years.

The Project is pending for Environment & Safety Appraisal by relevant authorities, therefore uncertainty exists. However, as the project location is adjacent to the existing Nanjing plant, the sound experience on project administration approval can be fully leveraged.

III. Effect of the external investment upon the listed company

The Project is a key step to implement the “two-Pillar” strategy and important action to consolidate leadership role in methionine industry. From 2014 to 2017, the average growth rates of liquid methionine sales volume of Adisseo is 15%. The new capacity from the Project will meet the continuously growing demand of customers and thus consolidate the leadership role of Adisseo.

The Project will fully leverage the current team, experience from setting up and operating the Nanjing plant as well as facilities of Nanjing Plant, making it the lowest cost plant in the world and further improve competitive advantage of Adisseo.

As at September 30th, 2017, the cash and bank deposit of Adisseo is around CNY 7 billion. The project will fully leverage the strong capital advantage of the Company, and will cause no additional financial expense. The new capacity will further increase profitability of the Company and create value for shareholders. When full capacity is reached, the Project will generate revenue over USD 300 million.

VI. Risk Factors

(I) The potential risks behind investment subject for reason of financial affairs, market, technology, environmental protection, project management, organization of implementation and other factors;

1. the risk from project construction

The complicated production processes of chemical synthesis of methionine require significant expertise and initial capital investment. The whole production process is regulated and supervised strictly from the prospective of environmental protection and production safety. Therefore, Safety is first priority and no issues can be ignored. The startup may not be in line with plan.

(2) Risks related to imbalance of supply and demand

The methionine market is affected by global methionine production capacities, the imbalance between supply and demand, the availability and pricing of raw materials and various factors such as the global macro economy.

(3) Risks related to market competition

Adisseo faces competition from large and well-known companies with strong financial positions as well as competition from smaller companies in the regional or local markets. Adisseo has taken steps to improve its competitiveness, including tightening cost control, improving production technologies, providing value-added services and increasing capacities in the Nanjing and European plants.

(4) Risks related to environmental protection policies

As a feed additives producer, Adisseo is subject to strict regulations and monitoring by governmental authorities with respect to discharge of sewage water, exhaust gas and solid wastes. As the public becomes more environmentally aware, if countries in which Adisseo operates amend the current environmental laws and regulations or alter the current pollution discharge standards, the Company may need to incur additional costs and expenses to establish new environmental protection facilities.

(5) Risks related to hazardous chemicals

Adisseo’s complex production process involves many hazardous chemicals that require special production, transportation and storage facilities. In addition, production process and research and development processes generate waste gas, liquid and solid waste. Even though Adisseo is committed to Health, Safety and Environment system, and has adopted prudent precautions and safety measures in accordance with relevant laws, regulations and administrative measures, there is a risk that leaked hazardous chemicals, emission of waste gas, liquid and solid waste may exceed the relevant standards. As a result, Adisseo will assume serious civil or criminal liabilities and may be liable to pay financial compensation, which may materially and adversely affect its business, financial positions and results from operations.

(6) Risks related to raw materials and energy

Raw materials used by Adisseo mainly include propylene, sulphur, methanol, ammonia and natural gas. Adisseo has a limited number of suppliers for such materials due to the fact that such raw materials are not easily transportable. If the suppliers fail to supply such raw materials, if the prices of such raw materials fluctuate significantly, or if Adisseo fails to acquire sufficient raw materials at a reasonable price, the Company's business, financial positions, and results from operations may be materially and adversely affected.

(7) Risks related to product research and development, technology upgrade and alternative methionine production technologies

In order to maintain their respective competitiveness, Adisseo, as well as its competitors, continue to invest in innovation, launch innovative products to meet the customers' needs and develop new production technologies that are more efficient and competitive. Product R&D projects and projects aiming to improve production process and technologies may be terminated due to multiple factors such as changes in market conditions, technologies and government policies. If Adisseo fails to continuously launch new products or improve its production process, or if Adisseo's competitors successfully launch competitive products or improve their production process faster than Adisseo, its market position will be weakened, which may materially and adversely affect the business, financial positions and results from operations of Adisseo. In addition, application of alternative methionine production technologies (such as the fermentation approach) may adversely affect the production and operations of Adisseo.

(8) Risks related to the diseases outbreak in poultry or livestock

There have been outbreaks of bird flu, foot-and-mouth disease, mad cow disease and swine flu in recent years. Such outbreaks of diseases that adversely affect poultry or livestock may adversely affect the poultry and livestock populations, consumers' perceptions about certain protein products and demand for the products used as nutritional ingredients for animal feed. Frequent outbreaks of poultry or livestock diseases around the world may materially and adversely affect the business, financial positions and results of operations of the Company.

(9) Risks related to improper lay-out of production plan

Adisseo's performance may be restrained by its production capacity. Adisseo has made progressive investments to increase its production capacities and proactively manage its inventory. However, customers' orders may not be fulfilled in a timely manner as a result of inappropriate production planning, malfunction or repairs of the production facilities or failure to convert the new production capacity into actual production. Failure to meet customers' needs may damage Adisseo's reputation and its relationship with its customers, which may result in customers choosing its competitors' products. This will adversely affect future sales of the Company.

Furthermore, if Adisseo over-estimates the future demand of its products and increases its production capacity based on such estimates but if such future demand fails to materialize, Adisseo's business, financial condition and results of operations could be materially and adversely affected.

(11) Risks related to exchange rate

The reporting currency of the Company's consolidated financial statements is the Chinese Renminbi, or RMB. The majority of Adisseo's production, operation and sales are performed outside of China, and day-to-day transactions are mainly carried out in EUR and USD. Exchange rate risks mainly include risks associated with translating foreign currencies for the purpose of conducting day-to-day transactions and risks associated with translating foreign currencies into RMB when preparing Adisseo's financial statements. Fluctuation of exchange rates may expose the day-to-day transactions to exchange rate risk and may adversely affect the financial position and results from operations of the Company.

(11) Risks related to customer credit

Adisseo is exposed to the credit risk of its customers. While Adisseo seeks to manage such exposure through a number of measures such as establishing customer accounts, setting credit limits for customers, obtaining deposits and security, and profiling the customers' credit risk, there is no assurance that such risk will be entirely eliminated.

(12) Risks related to the potential changes in tax and custom duties

As an international company, Adisseo may be investigated by the tax authorities in the relevant countries with respect to its tax matters from time to time. Tax audits or investigations may result in Adisseo losing its tax benefits, exemptions, other tax incentives or favorable tax arrangements with the tax authorities, which may subject Adisseo to a higher effective tax rate. Although Adisseo has not had any material tax-related issues so far, there is no assurance that the provisions made by Adisseo will be sufficient; or that Adisseo will not be subject to a higher tax rate.

(II) Risks of competent authority's disapproval for the investment;

The Project is pending for Environment & Safety Appraisal by relevant authorities, therefore uncertainty exists.

It is hereby announced.

Board of Directors of Bluestar Adisseo Company.

January 16th, 2018