



# Fufeng Group Limited 阜豐集團有限公司

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

Interim Report

# 2015



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## **CORPORATE INFORMATION**

### **Executive Directors**

Mr. Li Xuechun  
Mr. Wang Longxiang  
Mr. Feng Zhenquan  
Mr. Xu Guohua  
Mr. Li Deheng  
Mr. Li Guangyu

### **Independent Non-Executive Directors**

Mr. Choi Tze Kit, Sammy  
Mr. Chen Ning (resigned on 8 June 2015)  
Mr. Qi Qing Zhong  
Ms. Zheng Yu

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Hong Kong

### **Investor Relations Consultant**

Vision Asia Consulting Group Ltd  
Room 1411, Austin Tower,  
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Tsim Sha Tsui  
Hong Kong

### **Independent Auditor**

PricewaterhouseCoopers

### **Branch Share Registrar**

Tricor Investor Services Limited

### **Stock Code**

546

### **ADRs Information**

US Exchange: OTC  
CUSIP: 35953H105  
ADR: Ordinary shares 1:20

### **Website**

[www.fufeng-group.com](http://www.fufeng-group.com)

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and Financial Review

### Overview

China and the global economy remained relatively challenging in the first half of 2015. As the industry leader, the Group continued to consolidate its leadership position in the market and enhance its pricing power. In addition, the Group spent considerable effort in developing high value fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long term sustainable growth of the Group.

The Group continued to strategically utilise its production facility and capacity of each plant in order to match ongoing market demand. The Group has also actively explored the development of new high value polymer materials such as gellan gum, hyaluronic acid and other amino acid products, with a focus on the health and wellness end-use markets. Only by continuously upgrading our product quality and expanding our product range can we transform gradually from the traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

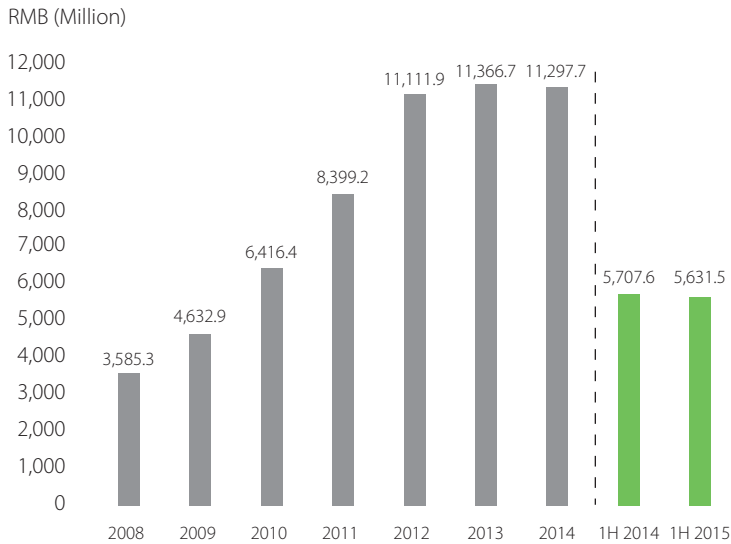
Furthermore, the Group's feed grade amino acid products threonine continued to show strength in both pricing and volume. Installation of the new production line for threonine in our Hulunbeir Plant is well underway and we target to start trial production in the later part of this year or early next year.

Our Amino acid segment (formerly named MSG segment), is primarily made up of our MSG, threonine and high-end amino acid products. In terms of MSG business, despite an increase in the cost of corn kernels, the key raw material for MSG production, in the first half of 2015, we managed to exercise our pricing power in the market and reflect such strength in the higher average selling price ("ASP") of MSG. Despite the market conditions, the Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing. The Group intends to migrate some of our MSG production lines to our Hulunbeir production base to take advantage of our superior production economics. Overall, the Group was able to register an increase in gross profit and gross profit margin in our Amino acid segment, mainly due to increasing contribution from the sales of MSG, threonine, starch sweeteners and higher margin products such as high-end amino acid products.

## MANAGEMENT DISCUSSION AND ANALYSIS

Our Xanthan gum business, another key business segment of the Group, registered a decrease in the ASP and thus witnessed weaker gross profit margin, in the midst of stiffer competition amongst Chinese competitors as well as the challenging conditions in the oil industry. In spite of the challenges, the Group was able to defend leading position in the global xanthan gum market and our strategy is to further strengthen our market share.

The table below illustrates the growth trend of the Group's revenue:



For the six months ended 30 June 2015, revenue for the Group remained relatively stable at approximately RMB5,631.5 million as compared to approximately RMB5,707.6 million for the six months ended 30 June 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

The slight decrease in revenue was primarily caused by the decrease in the ASP of xanthan gum, which was only partially offset by the slight increase in the ASP of MSG. Industrial consolidation of MSG was generally completed in 2014, and with demand and supply of MSG stabilising, the ASP of MSG witnessed an upward trend in the first half of 2015. Despite a decrease in the ASP of xanthan gum, the Group was able to increase the sales volume of xanthan gum due to an increase in production capacity, since the commencement of operations of a new production line of xanthan gum at the Xinjiang Plant, in the second half of 2014.

The Group's overall gross profit slightly increased from approximately RMB1,027.7 million in the first half of 2014 to approximately RMB1,036.8 million in the first half of 2015. This represents an increase of 0.9%, primarily due to the increasing gross profit contribution of the sales of threonine, MSG and high-end amino acid products which were partially offset by the decrease in gross profit margin of sales of xanthan gum.

In the first half of 2015, the ASP of the Group's MSG increased by 11.9% compared to the corresponding period of 2014. However, the ASP of the Group's xanthan gum decreased by 20.2% compared to the corresponding period of 2014 due to intense competition and weak market conditions in the global oil industry. Production costs of the Group, including the prices of corn kernel and chemical products, generally increased in line with inflation, but the price of coal decreased as compared with the corresponding period in 2014 due to overall weakness in global commodity prices. The Group's overall gross profit margin kept stable at around 18% in the first half of 2015 and 2014, primarily due to the effect from the increase in gross profit margin of MSG and starch sweeteners, and the higher gross profit margins enjoyed by our high-end amino acid products and threonine, which were partially offset by a decrease in gross profit margin of xanthan gum.

In view of the challenging market conditions, the Group also has had to continue actively implementing cost controls. The relatively stable gross profit margin of the Group in the first half of 2015 demonstrates the Group's ability to leverage on its economies of scale and production capabilities to manage its costs effectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

The production and sales volume of MSG decreased by 11.4% and 11.6% in the first half of 2015 as compared to the same period in 2014, respectively. The production volume of MSG decreased primarily as the Group restructured the production capacity of MSG to 940,000 tonne per annum after relocating its Baoji Plant in the second half of 2014.

The production and sales volume of xanthan gum, however, increased by 11.5% and 2.7% over the same period in 2014, respectively, in the first half of 2015. The production volume of xanthan gum increased mainly as the production capacity of xanthan gum in Xinjiang Plant has increased to 45,000 tonnes per annum since the end of 2014. The annual production capacity of xanthan gum of the Group increased to 90,000 tonnes.

In addition, we continued the development of threonine product. Threonine is a type of amino acid which is used as animal feed additives. During the period, the total sales amount of threonine reached RMB326.1 million. Compared to the corresponding period in 2014, it represented an increase of 38.0%. In the first half of 2015, the Group sold 27,955 tonnes of threonine as compared to the sales volume of 27,184 tonnes in the same period of 2014.

The high-end amino acid business, as part of our Amino acid segment, is the Group's new growth driver. The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging on the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. During the period, the total sales amount of high-end amino acid products reached RMB235.9 million. Compared to the corresponding period in 2014, it represented an increase of 61.4%. Our high-end amino acid products generally enjoy higher profitability and focus on healthcare and pharmaceutical materials industries. The short-term goal of the Group is to become one of the world's top three producers and suppliers by market share for several of our key amino acid product types. The development and production of these products will add further diversity to the Group's product and revenue mix. The Group also plans to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end products.

Overall, the diversity of the Group's product portfolio has allowed the Group to maintain its overall revenue growth momentum in the first half of 2015.

### Operational Review of the Group

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

#### Turnover/Gross profit/Gross profit margin of the Group

|                         | Six months ended 30 June |           | Change    |
|-------------------------|--------------------------|-----------|-----------|
|                         | 2015                     | 2014      | %         |
| Turnover (RMB'000)      | <b>5,631,495</b>         | 5,707,636 | (1.3)     |
| Gross profit (RMB'000)  | <b>1,036,804</b>         | 1,027,685 | 0.9       |
| Gross profit margin (%) | <b>18.4</b>              | 18.0      | 0.4 ppts. |

The performance of the Group in terms of gross profit and gross profit margin was stable, mainly due to the effect from an increase in gross profit margin of our Amino acid segment, which was partially offset by a decrease in gross profit margin of xanthan gum. As market consolidation of MSG was generally completed in 2014, the ASP of MSG trended upwards in the first half of 2015. Besides a slight increase in gross profit margin of our MSG, the increase in ASP of threonine brought additional growth momentum to our Amino acid segment. On the other hand, the market competition of xanthan gum intensified, resulting in the ASP of xanthan gum decreasing in the first half of 2015. More details are discussed in the following sections.

#### Profit attributable to the Shareholders

|             | Six months ended 30 June |                 | Change |
|-------------|--------------------------|-----------------|--------|
|             | 2015<br>RMB'000          | 2014<br>RMB'000 | %      |
| As reported | <b>413,500</b>           | 274,729         | 50.5   |



## MANAGEMENT DISCUSSION AND ANALYSIS

Our profit attributable to the Shareholders increased by 50.5% in the six months ended 30 June 2015 as compared to the same period in 2014, primarily due to the gain on disposal of a subsidiary, after income tax amounting to RMB137.5 million, given that such relevant lands were sold by means of disposal of a wholly owned subsidiary, Junan North City Property Company Limited, in the first half of 2015. Without the effect of such one-off other income, our operating results would have remained fairly stable in the first half of 2015 as compared to the same period in 2014.

### Segment Highlights

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

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

|                            | Six months ended 30 June 2015 |                  |                  | Six months ended 30 June 2014 |             |           | Increase/(Decrease) |             |           |
|----------------------------|-------------------------------|------------------|------------------|-------------------------------|-------------|-----------|---------------------|-------------|-----------|
|                            | Amino acid                    | Xanthan gum      | Group            | Amino acid                    | Xanthan gum | Group     | Amino acid          | Xanthan gum | Group     |
|                            | RMB'000                       | RMB'000          | RMB'000          | RMB'000                       | RMB'000     | RMB'000   | %                   | %           | %         |
|                            | Unaudited                     | Unaudited        | Unaudited        | Unaudited                     | Unaudited   | Unaudited | Unaudited           | Unaudited   | Unaudited |
| <b>Revenue</b>             | <b>5,072,512</b>              | <b>558,983</b>   | <b>5,631,495</b> | 5,030,395                     | 677,241     | 5,707,636 | 0.8                 | (17.5)      | (1.3)     |
| <b>Gross profit</b>        | <b>796,534</b>                | <b>240,270</b>   | <b>1,036,804</b> | 650,891                       | 376,794     | 1,027,685 | 22.4                | (36.2)      | 0.9       |
| <b>Gross profit margin</b> | <b>15.7%</b>                  | <b>43.0%</b>     | <b>18.4%</b>     | 12.9%                         | 55.6%       | 18.0%     | 2.8 pts.            | (12.6) pts. | 0.4 pts.  |
| <b>Segment results</b>     | <b>506,987</b>                | <b>211,277</b>   |                  | 196,112                       | 340,964     |           | 158.5               | (38.0)      |           |
| <b>Segment net assets</b>  |                               |                  |                  |                               |             |           |                     |             |           |
| Assets                     | <b>8,802,501</b>              | <b>3,791,798</b> |                  | 10,021,454                    | 3,086,963   |           | (12.2)              | 22.8        |           |
| Liabilities                | <b>4,646,405</b>              | <b>1,019,601</b> |                  | 4,860,729                     | 713,289     |           | (4.4)               | 42.9        |           |

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

**Amino acid segment (formerly named MSG segment)**

Amino acid segment mainly includes the sales of MSG, fertilisers, starch sweeteners, threonine, high-end amino acid products and other related products.

**Revenue and average selling price (“ASP”)**

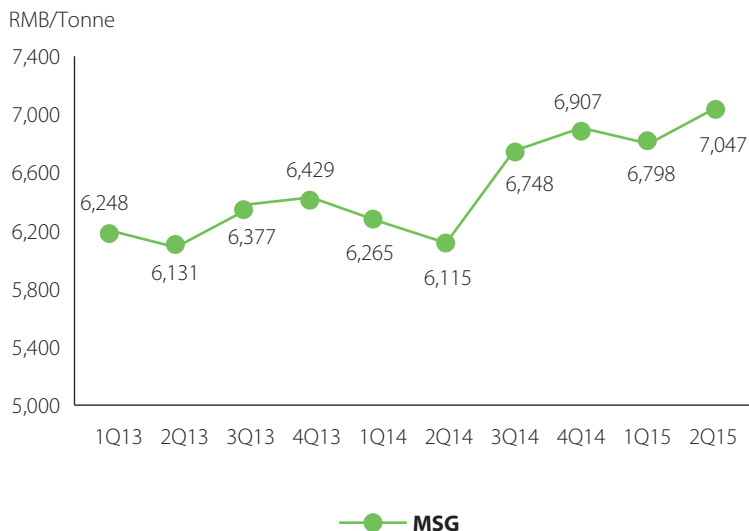
Revenue generated from the sale of the Amino acid segment products increased to RMB5,072.5 million in the first half of 2015, representing an increase of RMB42.1 million or 0.8%, as compared with that in the corresponding period of 2014. This was mainly attributed to the increase in revenue of high-end amino acid products, threonine and starch sweeteners. The revenue of MSG decreased, primarily due to the effect of an increase in the ASP of MSG offset by the effect of a decrease in sales volume during the period. The sales volume of MSG was 440,281 tonnes in the first half of 2015, representing a decrease of 11.6%, as compared with that in the corresponding period of 2014, mainly due to the restructuring of the production capacity of MSG to 940,000 tonnes per annum after relocating our Baoji Plant at the end of 2014.

The table below sets out the revenue of the products in this segment for the six months ended 30 June 2015 and 2014:

| Product                      | Six months ended 30 June |                 | Change<br>% |
|------------------------------|--------------------------|-----------------|-------------|
|                              | 2015<br>RMB'000          | 2014<br>RMB'000 |             |
| MSG                          | <b>3,057,420</b>         | 3,086,665       | (0.9)       |
| Glutamic acid                | <b>23,879</b>            | 26,909          | (11.3)      |
| Fertilisers                  | <b>236,218</b>           | 256,393         | (7.9)       |
| Corn refined products        | <b>715,845</b>           | 861,177         | (16.9)      |
| Starch sweeteners            | <b>397,081</b>           | 333,334         | 19.1        |
| Threonine                    | <b>326,104</b>           | 236,303         | 38.0        |
| High-end amino acid products | <b>235,885</b>           | 146,159         | 61.4        |
| Corn oil                     | <b>11,815</b>            | 8,206           | 44.0        |
| Compound seasoning           | <b>7,663</b>             | 5,241           | 46.2        |
| Others                       | <b>60,602</b>            | 70,008          | (13.4)      |
|                              | <b>5,072,512</b>         | 5,030,395       | 0.8         |

## MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is a chart showing the ASP of the Group's major products of MSG for each quarter from the first quarter of 2013 to the second quarter of 2015:



### MSG

The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. While the ASP increased about 11.9%, from approximately RMB6,181 per tonne in the first half of 2014 to approximately RMB6,919 per tonne in the first half of 2015, turnover of MSG in the first half of 2015 decreased by about 0.9%, mainly due to sales volume decreasing by 11.6% compared to the first half of 2014, to approximately 440,281 tonnes.

In the first half of 2015, the Group continuously strengthened exports of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The Group increased exports of MSG products from about RMB403.7 million in the first half of 2014 to about RMB492.9 million in the first half of 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Fertilisers***

Due to weak market demand, the ASP of fertilisers decreased from approximately RMB794 per tonne in the first half of 2014 to approximately RMB419 per tonne in the first half of 2015, representing a decrease of about 47.2%, which was in line with prevailing market conditions. However, we intensified our sales effort and launched a program for enhancing our fertilisers product range. As a result, the revenue of fertilisers amounted to RMB236.2 million for the six months ended 30 June 2015 as compared to RMB256.4 million for the same period in 2014.

### ***Corn refined products***

In line with the cost of corn kernels, the ASP of corn refined products remained fairly stable during the period. The revenue of corn refined products decreased by about 16.9% for the six months ended 30 June 2015 when compared with that in 2014. This was due to a decrease in the level of consumable volume of corn kernels available for production in the first half of 2015, resulting from the restructuring of our annual production capacity of MSG since the relocation of Baoji Plant.

### ***Starch sweeteners***

Turnover of starch sweeteners increased by about 19.1% in the first half of 2015, primarily because of increased production capacity of starch sweeteners to 260,000 tonnes per annum at the second half of 2014 as the new production line of starch sweeteners commenced operation in Hulunbeir Plant during the second half of 2014. In addition, ASP increased by about 14.3% to approximately RMB3,268 per tonne in the first half of 2015 from approximately RMB2,859 per tonne in the corresponding period of 2014, whilst demand for our starch sweeteners also significantly increased during this period.

### ***Threonine***

Threonine, mainly used as an animal feed additive, has been going from strength to strength. It is an essential amino acid which maintains body protein balance and promotes the growth of living things. The total revenue of threonine increased by about 38.0% in the first half of 2015 as compared to the same period in 2014, primarily as a result of significantly increased ASP of threonine. ASP of threonine increased by about 34.2% to approximately RMB11,665 per tonne in the first half of 2015 from approximately RMB8,693 per tonne in the first half of 2014. Sales volume of threonine was about 27,955 tonnes in the first half of 2015.

### **High-end amino acid products**

The new high-end amino acid products commenced production in new Xinjiang Plant from 2013.

The range of our high-end amino acid products includes valine, leucine, isoleucine, glutamine and hyaluronic acid. Sales increased to approximately RMB235.9 million in the first half of 2015 as compared to approximately RMB146.2 million in the first half of 2014. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end products by capitalising on the research and development capability and resources advantage to realise the Group's development strategy of "Low Investment – High Return".

In the first half of 2015, the Group, through our wholly owned subsidiary Shenhua Pharmaceutical, actively developed and promoted new health and wellness products. Using our new specialty ingredients such as hyaluronic acid and high-end amino acid products, the Group aims to improve product diversity and increase sales and penetration in health supplements, pharmaceutical and skin care related industries.

### **Gross profit and gross profit margin**

The gross profit of this segment is set out below:

|                         | Six months ended 30 June |         |           |
|-------------------------|--------------------------|---------|-----------|
|                         | 2015                     | 2014    | Change    |
| Gross profit (RMB'000)  | <b>796,534</b>           | 650,891 | 22.4%     |
| Gross profit margin (%) | <b>15.7</b>              | 12.9    | 2.8 ppts. |

Increasing ASP of threonine and MSG and an increase in revenue contribution from high-end amino acid products, which have a higher gross profit margin, resulted in an increase in the overall gross profit margin of the Amino acid segment. Gross profit increased to RMB796.5 million and gross profit margin increased by 2.8 percentage points to 15.7%.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group expects that pricing power and leading market position for MSG will be maintained or improved from the current levels in the second half of 2015.

### Production costs

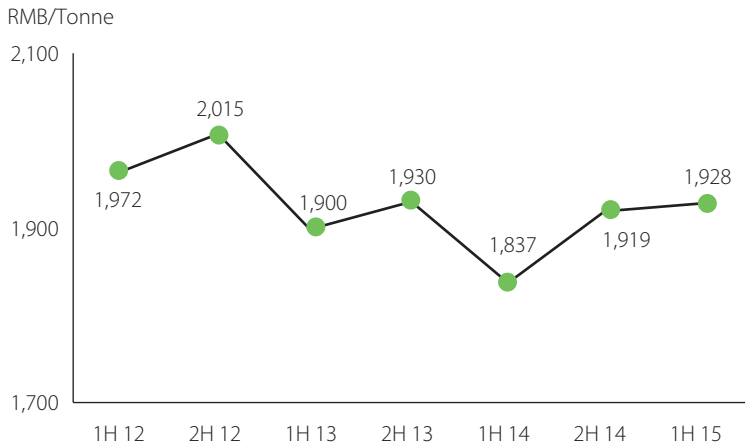
|                          | Six months ended 30 June |              |           |       |        |
|--------------------------|--------------------------|--------------|-----------|-------|--------|
|                          | 2015                     |              | 2014      |       | Change |
|                          | RMB'000                  | %            | RMB'000   | %     |        |
| Major raw materials      |                          |              |           |       |        |
| • Corn kernels           | <b>2,801,565</b>         | <b>62.9</b>  | 2,753,783 | 60.1  | 1.7    |
| • Liquid ammonia         | <b>40,064</b>            | <b>0.9</b>   | 88,753    | 1.9   | (54.9) |
| • Sulphuric acid         | <b>42,800</b>            | <b>1.0</b>   | 67,312    | 1.5   | (36.4) |
| Energy                   |                          |              |           |       |        |
| • Coal                   | <b>407,140</b>           | <b>9.1</b>   | 486,567   | 10.6  | (16.3) |
| Depreciation             | <b>305,441</b>           | <b>6.9</b>   | 311,424   | 6.8   | (1.9)  |
| Employee benefits        | <b>286,413</b>           | <b>6.4</b>   | 260,142   | 5.7   | 10.1   |
| Others                   | <b>572,954</b>           | <b>12.8</b>  | 617,702   | 13.4  | (7.2)  |
| Total cost of production | <b>4,456,377</b>         | <b>100.0</b> | 4,585,683 | 100.0 | (2.8)  |

**Corn kernels**

During the first half of 2015, corn kernels accounted for approximately 62.9% (1H 2014: 60.1%) of the total production costs of this segment. The average unit cost of corn kernels for six months ended 30 June 2015 was approximately RMB1,928 per tonne. The average unit cost of corn kernels increased during the period, which was due to the market demand increase and inflation.

The cost of corn kernels as a percentage of total production costs increased by 2.8% and the total cost of corn kernels incurred increased by 1.7% in the first half of 2015. It is mainly due to the increase in average price of corn kernels and that the quantity used for the production of starch sweeteners increased during the period.

**Price Trend of Corn Kernels**



**Liquid ammonia**

Liquid ammonia accounted for approximately 0.9% (1H 2014: 1.9%) of the total production costs in this segment in the first half of 2015. The average unit cost of liquid ammonia for the first half of 2015 decreased to approximately RMB2,006 per tonne, which represents a decrease of approximately RMB174 per tonne or 8.0% from that of 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

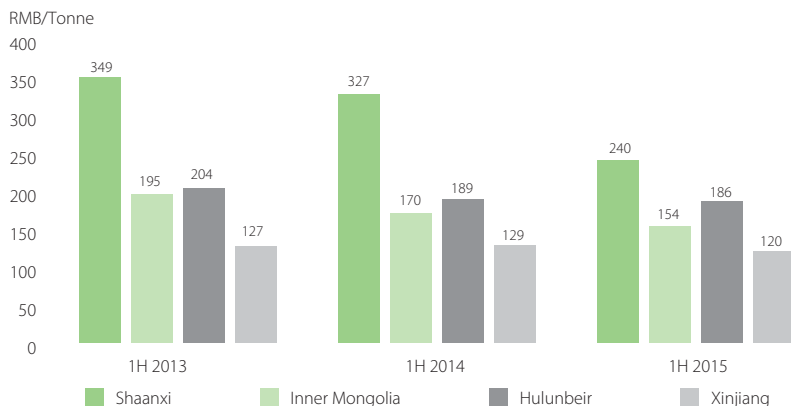
### **Sulphuric acid**

Sulphuric acid accounted for approximately 1.0% (1H 2014 1.5%) of the total production costs in this segment in the first half of 2015. As compared with the average unit cost of sulphuric acid in the first half of 2014, the average unit cost of sulphuric acid decreased to approximately RMB211 per tonne, which represents a decrease of approximately RMB36 per tonne or 14.6% from that of the first half of 2014.

### **Coal**

Coal accounted for 9.1% of the total production costs in this segment in the first half of 2015 (1H 2014: 10.6%). The average unit cost of coal for the first half of 2015 was RMB170 per tonne, a decrease of RMB23 per tonne or 11.9% from the first half of 2014. The decrease in coal prices reflects a general decrease in commodity prices.

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





## MANAGEMENT DISCUSSION AND ANALYSIS

### Production

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

| Product                                    | Six months ended 30 June |                | Change<br>% |
|--|--------------------------|----------------|-------------|
|  | 2015<br>Tonnes           | 2014<br>Tonnes |             |
| MSG  |                          |                |             |
| Annual designed production capacity (Note) | <b>470,000</b>           | 525,000        | (10.5)      |
| Actual production output                   | <b>463,829</b>           | 523,424        | (11.4)      |
| Utilisation rate                           | <b>98.7%</b>             | 99.7%          |             |
| Glutamic acid                              |                          |                |             |
| Annual designed production capacity (Note) | <b>380,000</b>           | 410,000        | (7.3)       |
| Actual production output                   | <b>378,618</b>           | 408,620        | (7.3)       |
| Utilisation rate                           | <b>99.6%</b>             | 99.7%          |             |
| Fertilisers                                |                          |                |             |
| Annual designed production capacity (Note) | <b>475,000</b>           | 550,000        | (13.6)      |
| Actual production output                   | <b>436,255</b>           | 500,625        | (12.9)      |
| Utilisation rate                           | <b>91.8%</b>             | 91.0%          |             |
| Starch sweeteners                          |                          |                |             |
| Annual designed production capacity (Note) | <b>130,000</b>           | 120,000        | 8.3         |
| Actual production output                   | <b>136,827</b>           | 122,440        | 11.8        |
| Utilisation rate                           | <b>105.3%</b>            | 102.0%         |             |

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

Utilisation rates decreased slightly in the first half of 2015, as the Group was still in the process of relocating its Baoji Plant. Except for fertilisers, utilisation rates for the other products of the Group are close to 100%, reflecting the Group's ability to utilise all its new production capacity it has built in Hulunbeir Plant and Xinjiang Plant.

### **Xanthan Gum Segment**

The global market demand for xanthan gum has increased continuously in recent years. The Group has increased its production capacity and has continued to increase its market share since 2009. The total supply of the top three xanthan gum producers continue to dominate the global market.

#### **Operation results**

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the six months ended 30 June 2015 and 2014:

|  | <b>Six months ended 30 June</b> |         | <b>Change</b> |
|--|---------------------------------|---------|---------------|
|  | <b>2015</b>                     | 2014    | <b>%</b>      |
| Sales amount (RMB'000)                                 | <b>558,983</b>                  | 677,241 | (17.5)        |
| ASP (RMB/tonne)  | <b>17,301</b>                   | 21,677  | (20.2)        |
| Gross profit (RMB'000)                                 | <b>240,270</b>                  | 376,794 | (36.2)        |
| Gross profit margin (%)                                | <b>43.0</b>                     | 55.6    | (12.6) pts.   |
| Annual designed production capacity<br>(tonnes) (Note) | <b>45,000</b>                   | 37,000  | 21.6          |
| Actual production output (tonnes)                      | <b>45,063</b>                   | 40,431  | 11.5          |
| Utilisation rate                                       | <b>100.1%</b>                   | 109.3%  |               |

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

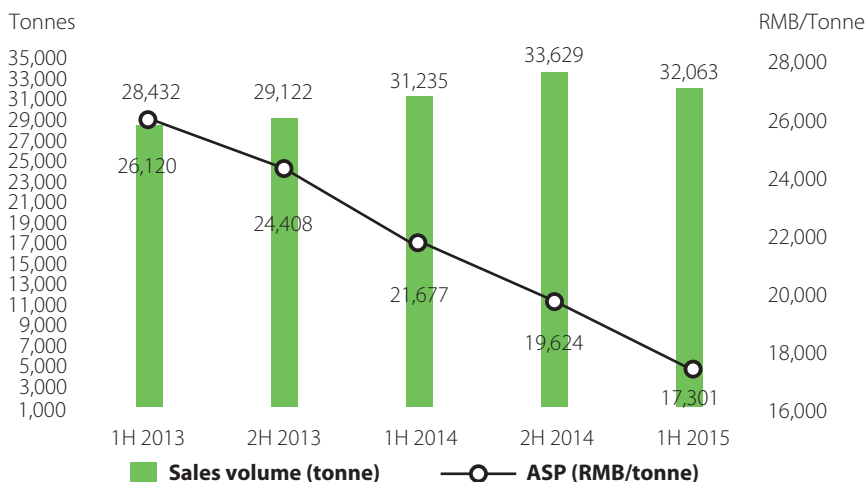
Revenue generated from xanthan gum decreased by 17.5% to RMB559.0 million in the first half of 2015, from RMB677.2 million in the first half of 2014. The decrease in revenue was due to the decrease in ASP, which was partially offset by the continual increase in the sales volume during the period, representing the Group's ability to increase production capacity to meet market demand.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's exports of xanthan gum decreased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed 90.7% and 89.9% of total sales of xanthan gum in the first half of 2014 and 2015, respectively. This reflects a decrease in global market demand caused mainly by a downturn in the oil industry.

### Sales and ASP

Sales Volume vs. ASP of Xanthan Gum



Sales in terms of volume increased by 2.7% in the first half of 2015, reflecting expanded production capacity, while sales amount decreased by 17.5% over the same period. A decrease in the ASP of xanthan gum, due to overall weakness in the oil industry, was the main driver for the decrease in revenue of xanthan gum during the period. We were able to continue generating demand for our xanthan gum products due to our competitive pricing strategy. Despite general weakness in current pricing, global industry-wide demand for xanthan gum remained stable in the first half of 2015, and the Group expects this to continue in the foreseeable future as demand stabilises in the oil industry as well as other sectors.

The expected ASP of xanthan gum is expected to trend downward slightly and maintain at a relatively low level during the second half of 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross profit and gross profit margin

Gross profit of the Xanthan gum segment decreased by about 36.2% from approximately RMB376.8 million in the first half of 2014 to approximately RMB240.3 million in the first half of 2015. Gross profit margin decreased as well, by 12.6 percentage points in the first half of 2015, reflecting the general pricing weakness of xanthan gum in the oil industry.

### Production costs

|                          | Six months ended 30 June |              |         |       | Change<br>% |
|--------------------------|--------------------------|--------------|---------|-------|-------------|
|                          | 2015                     |              | 2014    |       |             |
|                          | RMB'000                  | %            | RMB'000 | %     |             |
| Major raw materials      |                          |              |         |       |             |
| • Corn kernels           | <b>173,791</b>           | <b>41.7</b>  | 169,760 | 43.1  | 2.4         |
| • Soybeans               | <b>38,655</b>            | <b>9.3</b>   | 39,717  | 10.1  | (2.7)       |
| Energy                   |                          |              |         |       |             |
| • Coal                   | <b>70,261</b>            | <b>16.9</b>  | 64,686  | 16.4  | 8.6         |
| Depreciation             | <b>31,224</b>            | <b>7.5</b>   | 30,077  | 7.6   | 3.8         |
| Employee benefit         | <b>45,210</b>            | <b>10.8</b>  | 44,724  | 11.4  | 1.1         |
| Others                   | <b>57,740</b>            | <b>13.8</b>  | 44,754  | 11.4  | 29.0        |
| Total cost of production | <b>416,881</b>           | <b>100.0</b> | 393,718 | 100.0 | 5.9         |

***Corn kernels***

During the first half of 2015, corn kernels represented approximately 41.7% (1H 2014: 43.1%) of the total production costs of this segment. The price of corn kernels increased during the first six months of 2015. The average cost of corn kernels for the first half of 2015 was approximately RMB1,917 per tonne, which represents an increase of approximately RMB34 per tonne or 1.8% from that of the corresponding period in 2014.

Although the average price of corn kernels increased during this period, such increase had been mitigated by the tax relief in Inner Mongolia. The cost of corn kernels as a percentage of total production costs decreased by 1.4%. The cost amount incurred of corn kernels increased about 2.4%, from approximately RMB169.8 million in the first half of 2014 to approximately RMB173.8 million in the first half of 2015, mainly due to the new production capacity of xanthan gum in our Xinjiang Plant commencing operation in the second half of 2014.

***Soybeans***

During the first half of 2015, soybeans accounted for approximately 9.3% (1H 2014: 10.1%) of the total production costs of this segment. The decrease in proportion was mainly due to the decrease in soybean price from approximately RMB4,890 per tonne in the first half of 2014 to approximately RMB4,416 per tonne in the first half of 2015, representing a decrease of 9.7%.

***Coal***

During the first half of 2015, coal accounted for approximately 16.9% (1H 2014: 16.4%) of the total production costs of this segment. The Group took full advantage of the relatively low coal cost, and we were able to utilise in our IM Plant and Xinjiang Plant. The average unit cost of coal for the first half of 2015 was approximately RMB146 per tonne, which represents a decrease of approximately RMB16 per tonne or 9.9% from that of the first half of 2014.

***Other production costs***

The cost of depreciation in the first half of 2015 increased slightly as compared to the corresponding period of 2014, mainly due to the new Xinjiang Plant, whereby new production capacity of xanthan gum became fully operational in the second half of 2014.

### **Other Financial Information**

#### **Selling and marketing expenses**

Selling and marketing expenses were relatively stable and generally in line with the amount of sales revenue.

#### **Administrative expenses**

Administrative expenses increased by approximately RMB14.3 million or 6.3% for the six months ended 30 June 2015. The increase was mainly due to the new production plant in Baoji being in operation since the end of 2014. In addition, the research and development costs of high-end amino acids and relevant products also increased during the period.

#### **Finance costs**

The net finance costs of the Group for the six months ended 30 June 2015 decreased by approximately RMB12.9 million, or about 6.8% when compared with the first six months of 2014, due to a decrease in bank borrowings incurred for capital expenditure and foreign exchange losses on financing activities. The interest expenses of borrowings increased by RMB5.6 million from RMB170.6 million for the six months ended 2014 to RMB176.2 million for the six months ended 2015, mainly due to partial early redemption of principal amount USD100 million as the redemption price equal to 101.90625%.

The Company redeemed an aggregate principal amount of USD100,000,000 of outstanding 7.625% senior notes due 2016 (the "Notes") on 16 June 2015 at the redemption price equal to 101.90625% of the principal amount thereof, being USD101,906,250, plus accrued and unpaid interest on such Notes of USD1,334,375 to the redemption date on 16 June 2015. The total amount of payment in connection with this redemption made by the Company was USD103,240,625.

The main purpose of early redemption of Senior notes was the reduction of finance costs in the coming financial period. Finance costs are expected to be reduced in the coming periods given the planned decrease in the level of capital expenditure for expansion of production facilities.

### **Other income**

During the period, the Group disposed a wholly owned subsidiary, Junan North City Property Company Limited, for a total consideration of approximately RMB298.8 million. Junan North City Property Company Limited is an investment holding company and held a parcel of land which is located at Longshan Road (Northern section), Junan County, Shandong Province, PRC\* (莒南縣縣城隆山路北段). The aggregate site area of the Land is approximately 253,926.1 square metres, and the Land is designated for commercial use. As the above, the Group can recognize part of the deferred income of government grants related to urban planning of local PRC governments. It was recorded in other income of the gain on disposal of a subsidiary, Junan North City Property Company Limited, after income tax amounting to RMB137.5 million for the six months ended 30 June 2015.

### **Income tax expense**

The income tax expenses for the six months end of 2015 mainly represented the PRC Enterprise Income Tax ("EIT").

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%.

Some of the Group's subsidiaries in the PRC, namely 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 in 2015.

Shandong Fufeng was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2008 to 2010. In 2011, its new and high-technology enterprise qualification was further extended for another three years. In 2014, Shandong Fufeng was approved to be a new and high-technology enterprise again and entitled to a 15% tax rate from 2014 to 2016. Accordingly, the effective tax rate for Shandong Fufeng for 2015 is 15% (2014: 15%).

Shenhua Pharmaceutical was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2012 to 2015.

### **Outlook for Second Half of 2015**

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

### **Amino Acid Segment**

The Group is in a good position to benefit from such potential market upturn and will seize the opportunities and increase the ASP of MSG in due course in order to enhance the efficiency of the MSG business as well as consolidate and expand the Group's leading position and competitive strength in the industry. We expect the steady recovery trend of the MSG market will continue in the second half of 2015. The ASP of the MSG products should continue to stabilise or even increase in the second half of 2015, which would mitigate the costs of production and lead to an improvement in gross profit margin as a result.

The high-end amino acid business is the Group's new growth driver. In the second half of 2015, we will focus on strengthening our sales teams and enhancing marketing and development efforts while optimising the product mix and increasing the type of products, including hyaluronic acid. We will also strive to more effectively leverage on our cooperation with Shenhua Pharmaceutical to further increase sales of health and wellness and skin care products.

### **Xanthan gum segment**

The price of xanthan gum decreased significantly in the first half of 2015 due to market competition and weakness in the global oil industry. It is expected that the price of xanthan gum will stabilise in the second half of 2015. We will continue to strengthen our distribution network to further increase market share.



### **Future Plan and Recent Development**

Going forward, the Group will continue to strengthen its overall brand marketing and vigorously increase sales and promotion of high-end amino acid products in the PRC healthcare industry, including collaborating with market leading players, in order to create a new growth driver for the Group.

#### **Amino Acid Segment**

The market demand of Threonine continues growth. The construction of our new 60,000 tonnes production capacity of Threonine in Hulunbeir Plant will be completed in the end of fourth quarter of 2015 and the Group will consider to further improve the production capacity of threonine, with the objective of becoming the largest producer of threonine in the world after our business of MSG and xanthan gum.

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

The Group will continuously launch new health and wellness end use products and compound seasoning products to enhance our product portfolio. In addition, we have started the construction of an e-commerce platform which we expect to strengthen our current sales and distribution channel for marketing our high value added products.

#### **Xanthan gum segment**

The market condition of xanthan gum will be still weak in the second half of 2015 as a result of weakness in the oil industry. Based on our leading position in the xanthan gum market, the Group will further increase its market share. We believe that we can act as a leader to bring the industry out of the low tide in next year.

#### **Overseas market expansion**

The Group has increased the efforts to develop the overseas MSG and xanthan gum markets by taking advantage of the establishment of sales branches and offices. In the first half of 2015, the Group strengthened promotional activities in Middle East, Europe, Africa and South America, focusing on providing customers with better after-sales services, improving customer relationships, and enhancing our reputation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources

As at 30 June 2015, the Group's cash and cash equivalents and restricted bank deposits were RMB947.5 million (2014: RMB961.5 million), whereas current bank borrowings and current other borrowings (including the balances of senior notes and medium-term note) were approximately RMB1,153.6 million and RMB1,816.4 million (2014: RMB800 million and RMB13.2 million) and non-current bank borrowings and non-current other borrowings (including the balances of convertible bonds) were approximately RMB400 million and RMB882.7 million (2014: RMB360 million and RMB3,342.5 million).

### Convertible Bonds

The Group issued RMB820.0 million in convertible bonds with a fixed rate of 4.5% per year on 1 April 2010, together with bond options of RMB205.0 million on 22 April 2010 ("2010 CB"). In November 2012, the Company repurchased a principal amount of RMB843.8 million of the 2010 CB resulting in an outstanding principal amount of 2010 CB of RMB181.2 million as at 31 December 2012. On 1 March 2013, certain holders of 2010 CB irrevocably exercised their right to request the Company to redeem RMB167 million principal amount of 2010 CB on 2 April 2013. The remaining outstanding principal amount of 2010 CB RMB13.2 million was also fully repaid on 1 April 2015.

The Group issued RMB975.0 million in new convertible bonds with a fixed coupon rate of 3.0% per year on 27 November 2013 with 5 year terms ("2013 CB"). The yield to maturity rate of 2013 CB is 4.5% per annum. The net proceeds in the amount of approximately USD155 million from the issue of the 2013 CB were used to repay the syndicated bank loan at the end of 2013. For the six months ended 30 June 2015, total RMB56 million conversion bonds were converted to 17,065,033 ordinary shares. The current outstanding principal amount of 2013 CB is RMB919 million.

### Senior Notes

The Company issued USD300.0 million senior notes for five years on 13 April 2011. The fixed interest rate is 7.625% p.a.. The funds raised from the senior notes were mainly used to finance the construction of new production facilities of Hulunbeir Plant Phase 1 and Phase 2 and for general working capital purposes. As at 16 June 2015, the Company had redeemed an aggregate principal amount of USD100,000,000 of outstanding Notes on the Redemption Date (the "Redemption") at the redemption price equal to 101.90625% of the principal amount thereof, being USD101,906,250, plus accrued and unpaid interest on such Notes of USD1,334,375 to the Redemption Date. The total amount of payment in connection with the Redemption made by the Company on the Redemption Date is USD103,240,625.

As at 30 June 2015, the outstanding principal amount of senior notes was USD200 million.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Medium-Term Note

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

As at 30 June 2015, senior notes of approximately RMB1,217.9 million and medium-term note of approximately RMB598.4 million have been reclassified in current liabilities which will mature in one year. The Group expects timely settlements by positive cash flows from operating and refinancing activities.

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

### Material Acquisition or Disposal of Subsidiary and Associated Company

As at 24 June 2015, a wholly owned subsidiary of the Company, Shandong Fufeng Fermentation Co, Ltd, entered into sale and purchase agreement to sell its wholly owned company, Junan North City Property Company Limited, for a total consideration of approximately RMB298.8 million. Junan North City Property Company Limited is an investment holding company and held a parcel of land located at Longshan Road (Northern section), Junan County, Shandong Province, PRC\* (莒南縣縣城隆山路北段). The aggregate site area of the Land is approximately 253,926.1 square metres, and the Land is designated for commercial use.

Except for the above, the Group had no other material acquisition or disposal of subsidiaries or associated companies for the six months ended 30 June 2015.

### Employees

As at 30 June 2015, the Group had approximately 6,000 employees. Employees' remunerations were paid in accordance with relevant PRC policies. Appropriate salaries and bonuses were commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Scheme" under the "Other information" section below for the share options granted to certain employees of the Group after the IPO.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Charges on Assets

As at 30 June 2015, certain leasehold land and fixed bank deposits of the Group with carrying value of approximately RMB120.0 million and RMB20.1 million, respectively were pledged to certain banks to secure bank borrowings of RMB462.6 million of the Group.

The senior notes issued in April 2011 are secured by the pledge of the capital stock of certain subsidiaries of the Company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

### Gearing Ratio

As at 30 June 2015, the total assets of the Group amounted to approximately RMB13,574.7 million (2014: RMB13,694.3 million) whereas the total borrowings amounted to RMB4,252.7 million (2014: RMB4,515.6 million). The gearing ratio was approximately 31.3% (2014: 33.0%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

### Foreign Exchange Exposure

The Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and the issuance of convertible bonds, and senior notes. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of convertible bonds and senior notes by remitting the necessary funds to the PRC and using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the period ended 30 June 2015.

### **American Depositary Receipt Facility**

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

### **Dividend**

The Board has resolved to pay an interim dividend of HK4.5 cents per share for the six months ended 30 June 2015, payable on or before 15 October 2015 to the shareholders whose names appear on the register of members of the Company on Thursday, 8 October 2015.

### **Closure of Register of Members**

The register of members of the Company will be closed from Monday, 5 October 2015 to Thursday, 8 October 2015 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong, Tricor Investor Services Limited at level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 2 October 2015.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

|  | Note | 30 June<br>2015<br>RMB'000<br>Unaudited | 31 December<br>2014<br>RMB'000<br>Audited |
|--|------|---|---|
| <b>ASSETS</b>  |      |   |   |
| <b>Non-current assets</b>                                    |      |   |   |
| Leasehold land payments                                      | 7    | <b>1,526,522</b>                        | 1,748,704                                 |
| Property, plant and equipment                                | 7    | <b>7,445,218</b>                        | 7,470,082                                 |
| Intangible assets  | 7    | <b>4,493</b>                            | 2,554                                     |
| Deferred income tax assets                                   |      | <b>119,582</b>                          | 113,655                                   |
| Other long-term assets                                       |      | <b>20,100</b>                           | –   |
|  |      | <b>9,115,915</b>                        | 9,334,995                                 |
| <b>Current assets</b>  |      |   |   |
| Inventories  |      | <b>2,193,409</b>                        | 1,946,014                                 |
| Trade and other receivables                                  | 8    | <b>1,317,920</b>                        | 1,451,721                                 |
| Short-term bank deposits                                     |      | <b>271,469</b>                          | 164,983                                   |
| Cash and cash equivalents                                    |      | <b>675,988</b>                          | 796,564                                   |
|  |      | <b>4,458,786</b>                        | 4,359,282                                 |
| Total assets   |      | <b>13,574,701</b>                       | 13,694,277                                |
| <b>EQUITY</b>  |      |   |   |
| <b>Capital and reserves attributable to the Shareholders</b> |      |   |   |
| Share capital  | 9    | <b>207,222</b>                          | 205,243                                   |
| Share premium  | 9    |   |   |
| – Proposed interim dividend                                  |      | <b>79,124</b>                           | 73,536                                    |
| – Others   |      | <b>555,157</b>                          | 565,450                                   |
| Other reserves   |      | <b>202,269</b>                          | 206,770                                   |
| Retained earnings  |      | <b>4,733,428</b>                        | 4,318,067                                 |
| <b>Total equity</b>  |      | <b>5,777,200</b>                        | 5,369,066                                 |

**INTERIM CONDENSED  
CONSOLIDATED BALANCE SHEET**

|  |      | <b>30 June<br/>2015<br/>RMB'000<br/>Unaudited</b> | 31 December<br>2014<br>RMB'000<br>Audited |
|--|------|---|---|
|  | Note |   |   |
| <b>LIABILITIES</b>                           |      |   |   |
| <b>Non-current liabilities</b>               |      |   |   |
| Deferred income                              |      | <b>635,082</b>                                    | 536,550                                   |
| Borrowings                                   | 10   | <b>1,282,707</b>                                  | 3,702,482                                 |
| Deferred income tax liabilities              |      | <b>17,638</b>                                     | 19,040                                    |
|  |      | <b>1,935,427</b>                                  | 4,258,072                                 |
| <b>Current liabilities</b>                   |      |   |   |
| Trade, other payables and accruals           | 11   | <b>2,801,502</b>                                  | 3,203,415                                 |
| Current income tax liabilities               |      | <b>90,620</b>                                     | 50,559                                    |
| Borrowings                                   | 10   | <b>2,969,952</b>                                  | 813,165                                   |
|  |      | <b>5,862,074</b>                                  | 4,067,139                                 |
| <b>Total liabilities</b>                     |      | <b>7,797,501</b>                                  | 8,325,211                                 |
| <b>Total equity and liabilities</b>          |      | <b>13,574,701</b>                                 | 13,694,277                                |
| <b>Net current (liabilities)/assets</b>      |      | <b>(1,403,288)</b>                                | 292,143                                   |
| <b>Total assets less current liabilities</b> |      | <b>7,712,627</b>                                  | 9,627,138                                 |

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

|   |      | <b>Six months ended 30 June</b>       |                              |
|---|------|---------------------------------------|------------------------------|
|   | Note | <b>2015<br/>RMB'000<br/>Unaudited</b> | 2014<br>RMB'000<br>Unaudited |
| Revenue   | 6    | <b>5,631,495</b>                      | 5,707,636                    |
| Cost of sales   | 13   | <b>(4,594,691)</b>                    | (4,679,951)                  |
| <b>Gross profit</b>   |      | <b>1,036,804</b>                      | 1,027,685                    |
| Other income  | 12   | <b>281,064</b>                        | 76,652                       |
| Selling and marketing expenses  | 13   | <b>(340,044)</b>                      | (343,137)                    |
| Administrative expenses   | 13   | <b>(242,755)</b>                      | (228,463)                    |
| Other operating expenses  | 13   | <b>(27,856)</b>                       | (2,528)                      |
| <b>Operating profit</b>   |      | <b>707,213</b>                        | 530,209                      |
| Finance costs   |      | <b>(177,008)</b>                      | (189,871)                    |
| Finance costs – net   | 14   | <b>(177,008)</b>                      | (189,871)                    |
| <b>Profit before income tax</b>   |      | <b>530,205</b>                        | 340,338                      |
| Income tax expense  | 15   | <b>(116,705)</b>                      | (65,609)                     |
| <b>Profit for the period and attributable to the Shareholders</b>   |      | <b>413,500</b>                        | 274,729                      |
| <b>Earnings per share for profit attributable to the Shareholders during the period</b><br>(expressed in RMB cents per share) |      |                                       |                              |
| – basic   | 16   | <b>19.59</b>                          | 13.16                        |
| – diluted   | 16   | <b>18.55</b>                          | 12.74                        |
| <b>Dividends</b>  | 17   | <b>79,124</b>                         | 49,720                       |



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|  | <b>Six months ended 30 June</b> |           |
|--|---------------------------------|-----------|
|  | <b>2015</b>                     | 2014      |
|  | <b>RMB'000</b>                  | RMB'000   |
|  | <b>Unaudited</b>                | Unaudited |
| <b>Profit for the period</b>                                       | <b>413,500</b>                  | 274,729   |
| <b>Other comprehensive income for the period</b>                   | -                               | -         |
| <b>Total comprehensive income for the period</b>                   | <b>413,500</b>                  | 274,729   |
| <b>Total comprehensive income attributable to the Shareholders</b> | <b>413,500</b>                  | 274,729   |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|  | Unaudited<br>Attributable to the Shareholders |                             |                              |                                 |                  |
|--|---|-----------------------------|------------------------------|---------------------------------|------------------|
|  | Share<br>capital<br>RMB'000                   | Share<br>premium<br>RMB'000 | Other<br>reserves<br>RMB'000 | Retained<br>earnings<br>RMB'000 | Total<br>RMB'000 |
| <b>Balance at 1 January 2014</b>                     | 203,644                                       | 702,873                     | 194,143                      | 3,718,126                       | 4,818,786        |
| <b>Total comprehensive income for the six months</b> | –   | –                           | –                            | 274,729                         | 274,729          |
| <b>Transactions with owners</b>                      |   |                             |                              |                                 |                  |
| Employees share option scheme:                       |   |                             |                              |                                 |                  |
| – Value of employee services                         | –   | –                           | 1,392                        | –                               | 1,392            |
| Dividends  | –   | (65,925)                    | –                            | –                               | (65,925)         |
| <b>Total transactions with owners</b>                | –   | (65,925)                    | 1,392                        | –                               | (64,533)         |
| <b>Balance at 30 June 2014</b>                       | 203,644                                       | 636,948                     | 195,535                      | 3,992,855                       | 5,028,982        |
| <b>Balance at 1 January 2015</b>                     | <b>205,243</b>                                | <b>638,986</b>              | <b>206,770</b>               | <b>4,318,067</b>                | <b>5,369,066</b> |
| <b>Total comprehensive income for the six months</b> | –   | –                           | –                            | 413,500                         | 413,500          |
| <b>Transactions with owners</b>                      |   |                             |                              |                                 |                  |
| Employees share option scheme:                       |   |                             |                              |                                 |                  |
| – Shares issued                                      | 688   | 14,656                      | (4,029)                      | –                               | 11,315           |
| – Value of employee services                         | –   | –                           | 3,095                        | –                               | 3,095            |
| Conversion of convertible bonds                      | 1,347   | 55,980                      | (3,567)                      | –                               | 53,760           |
| Repurchase of shares of the Company                  | (56)  | (1,805)                     | –                            | 1,861                           | –                |
| Dividends  | –   | (73,536)                    | –                            | –                               | (73,536)         |
| <b>Total transactions with owners</b>                | <b>1,979</b>                                  | <b>(4,705)</b>              | <b>(4,501)</b>               | <b>1,861</b>                    | <b>(5,366)</b>   |
| <b>Balance at 30 June 2015</b>                       | <b>207,222</b>                                | <b>634,281</b>              | <b>202,269</b>               | <b>4,733,428</b>                | <b>5,777,200</b> |

## INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

|   | <b>Six months ended 30 June</b> |           |
|---|---------------------------------|-----------|
|   | <b>2015</b>                     | 2014      |
|   | <b>RMB'000</b>                  | RMB'000   |
|   | <b>Unaudited</b>                | Unaudited |
| <b>Cash flows from operating activities</b>                   |                                 |           |
| Cash generated from operations                                | <b>306,027</b>                  | 773,359   |
| Interest paid   | <b>(177,739)</b>                | (166,822) |
| Income taxes paid   | <b>(66,293)</b>                 | (68,203)  |
|   | <hr/>                           | <hr/>     |
| <b>Net cash flows generated from operating activities</b>     | <b>61,995</b>                   | 538,334   |
|   | <hr/>                           | <hr/>     |
| <b>Cash flows from investing activities</b>                   |                                 |           |
| Purchases of property, plant and equipment                    | <b>(370,040)</b>                | (621,640) |
| Payments of leasehold land                                    | <b>(81,097)</b>                 | (486,535) |
| Purchase of intangible assets                                 | <b>(964)</b>                    | –         |
| Urban planning related government grants received             | <b>227,862</b>                  | 256,453   |
| Payments of plant relocation expenses                         | <b>(18,966)</b>                 | –         |
| Proceeds from disposal of property, plant and equipment       | –                               | 1,338     |
| Proceeds from disposal of a subsidiary                        | <b>298,750</b>                  | –         |
| Assets-related government grants received                     | <b>65,181</b>                   | 28,940    |
| Interest received   | <b>5,958</b>                    | 3,327     |
| Proceeds from term deposits                                   | <b>8,000</b>                    | 2,000     |
| Payment for term deposits                                     | <b>(24,100)</b>                 | (4,031)   |
|   | <hr/>                           | <hr/>     |
| <b>Net cash generated from/(used in) investing activities</b> | <b>110,584</b>                  | (820,148) |
|   | <hr/>                           | <hr/>     |

**INTERIM CONDENSED  
CONSOLIDATED CASH FLOW STATEMENT**

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2015</b>                     | 2014        |
|   | <b>RMB'000</b>                  | RMB'000     |
|   | <b>Unaudited</b>                | Unaudited   |
| <b>Cash flows from financing activities</b>                   |                                 |             |
| Net proceeds from shares issued                               | <b>11,315</b>                   | –           |
| Proceeds from bank borrowings                                 | <b>1,391,100</b>                | 1,401,000   |
| Repayments of bank borrowings                                 | <b>(997,500)</b>                | (1,035,000) |
| Redemption of senior notes                                    | <b>(611,690)</b>                | –           |
| Repayments of convertible bonds                               | <b>(13,200)</b>                 | –           |
| Dividends paid to the Company's shareholders                  | <b>(73,180)</b>                 | (66,397)    |
|   | <hr/>                           | <hr/>       |
| <b>Net cash (used in)/generated from financing activities</b> | <b>(293,155)</b>                | 299,603     |
|   | <hr/>                           | <hr/>       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(120,576)</b>                | 17,789      |
| Cash and cash equivalents at beginning of the period          | <b>796,564</b>                  | 805,999     |
|   | <hr/>                           | <hr/>       |
| <b>Cash and cash equivalents at end of the period</b>         | <b>675,988</b>                  | 823,788     |
|   | <hr/>                           | <hr/>       |

# 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, 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 information is presented in RMB, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 31 August 2015.

This condensed consolidated interim financial information has not been audited.

### Key Events

- (a) In June 2015, the Company redeemed senior notes with a total par value of USD100,000,000, which were issued in April 2011. The total consideration and transaction costs paid for the redemption were USD101,906,250. The remaining outstanding senior notes with a total par value of USD200,000,000 will be matured in April 2016.
- (b) During six months ended 30 June 2015, par value of RMB56,000,000 of the convertible bonds issued by the Company in November 2013 were converted into the Company’s ordinary shares at the rate of HKD4.173 per share. As a result, 17,065,000 new shares were issued.

## **2. Basis of Preparation**

This condensed consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with HKAS 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with HKFRS.

### **2.1 Going-concern basis**

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial information.

## **3. Accounting Policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 3. Accounting Policies *(Continued)*

The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2015 and have not been early adopted:

|   |   | Effective for<br>accounting periods<br>beginning on or after |
|---|---|--|
| Annual improvements<br>2014                     | HKFRS 5, 'Non-current assets held for sale and discontinued operations' | 1 January 2016   |
|   | HKFRS 7, 'Financial instruments: Disclosures'                           | 1 January 2016   |
|   | HKAS 19, 'Employee benefits'  | 1 January 2016   |
|   | HKAS 34, 'Interim financial reporting'                                  | 1 January 2016   |
| HKAS 16 and HKAS 38<br>(Amendment)              | Clarification of acceptable methods of depreciation and amortization    | 1 January 2016   |
| HKAS 27 (Amendment)                             | Equity method in separate financial statements                          | 1 January 2016   |
| HKFRS 10, HKFRS12<br>and HKAS 28<br>(Amendment) | Investment entities: applying the consolidation exception               | 1 January 2016   |
| HKAS 1 (Amendment)                              | Disclosure initiative   | 1 January 2016   |
| HKFRS 15  | Revenue from Contracts with Customers                                   | 1 January 2017   |
| HKFRS 9   | Financial Instruments   | 1 January 2018   |

The adoption of these new and amended standards would not result in any material impact on the results and financial position of the Group. The Group has not applied any new or amended standard that is not effective for the current accounting period.

### 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.

#### **4. Estimates** *(Continued)*

In preparing this condensed consolidated interim financial information, 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 2014.

### **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 information 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 2014.

There have been no changes in the risk management department since year end or in any risk management policies.

#### **5.2 Liquidity risk**

Compared to 2014 year end, there were additional current bank borrowings of RMB353,600,000 in the contractual undiscounted cash out flows for financial liabilities.

As at 30 June 2015, senior notes of approximately RMB1,217,906,000 and medium-term note of approximately RMB598,446,000 have been reclassified into current liabilities which will be matured in one year. The Group expects timely settlements by positive cash flows from operating and refinancing activities.



## 5. Financial Risk Management *(Continued)*

### 5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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).

There were no changes on valuation techniques during the period.

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.

## 6. Segment Information *(Continued)*

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. On 1 January 2015, MSG segment was renamed to Amino acid segment. The products of the business segment are:

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

Approximately 77% (30 June 2014: 81%) of the Group's revenue are generated from 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.

The revenue of the Group for the six months ended 30 June 2015 and 2014 are set out as follows:

|                              | <b>Six months ended 30 June</b>                   |                              |
|------------------------------|---|------------------------------|
|                              | <b>2015</b><br><b>RMB'000</b><br><b>Unaudited</b> | 2014<br>RMB'000<br>Unaudited |
| MSG                          | <b>3,057,420</b>                                  | 3,086,665                    |
| Corn refined products        | <b>715,845</b>                                    | 861,177                      |
| Xanthan gum                  | <b>558,983</b>                                    | 677,241                      |
| Starch sweeteners            | <b>397,081</b>                                    | 333,334                      |
| Threonine                    | <b>326,104</b>                                    | 236,303                      |
| Fertilisers                  | <b>236,218</b>                                    | 256,393                      |
| High-end amino acid products | <b>235,885</b>                                    | 146,159                      |
| Glutamic acid                | <b>23,879</b>                                     | 26,909                       |
| Corn oil                     | <b>11,815</b>                                     | 8,206                        |
| Others                       | <b>68,265</b>                                     | 75,249                       |
|                              | <b>5,631,495</b>                                  | 5,707,636                    |

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**6. Segment Information** (Continued)

The segment information for the six months ended 30 June 2015 is as follows:

|                          | <b>Amino acid<br/>RMB'000<br/>Unaudited</b> | <b>Xanthan gum<br/>RMB'000<br/>Unaudited</b> | <b>Unallocated<br/>RMB'000<br/>Unaudited</b> | <b>Group<br/>RMB'000<br/>Unaudited</b> |
|--------------------------|---|--|--|--|
| Revenue                  | <b>5,072,512</b>                            | <b>558,983</b>                               | <b>-</b>                                     | <b>5,631,495</b>                       |
| Segment results          | <b>506,987</b>                              | <b>211,277</b>                               | <b>(11,051)</b>                              | <b>707,213</b>                         |
| Finance costs – net      |   |  |  | <b>(177,008)</b>                       |
| Profit before income tax |   |  |  | <b>530,205</b>                         |
| Income tax expenses      |   |  |  | <b>(116,705)</b>                       |
| Profit for the period    |   |  |  | <b>413,500</b>                         |

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

|  | <b>Amino acid<br/>RMB'000<br/>Unaudited</b> | <b>Xanthan gum<br/>RMB'000<br/>Unaudited</b> | <b>Unallocated<br/>RMB'000<br/>Unaudited</b> | <b>Group<br/>RMB'000<br/>Unaudited</b> |
|--|---|--|--|--|
| Depreciation of property,<br>plant and equipment     | <b>338,109</b>                              | <b>32,563</b>                                | <b>799</b>                                   | <b>371,471</b>                         |
| Amortisation of leasehold land<br>payments           | <b>4,775</b>                                | <b>836</b>                                   | <b>43</b>                                    | <b>5,654</b>                           |
| Amortisation of intangible assets                    | <b>530</b>                                  | <b>-</b>                                     | <b>-</b>                                     | <b>530</b>                             |
| Loss on disposal of property,<br>plant and equipment | <b>1,080</b>                                | <b>-</b>                                     | <b>-</b>                                     | <b>1,080</b>                           |

The segment assets and liabilities at 30 June 2015 are as follows:

|                   | <b>Amino acid<br/>RMB'000<br/>Unaudited</b> | <b>Xanthan gum<br/>RMB'000<br/>Unaudited</b> | <b>Unallocated<br/>RMB'000<br/>Unaudited</b> | <b>Group<br/>RMB'000<br/>Unaudited</b> |
|-------------------|---|--|--|--|
| Total assets      | <b>8,802,501</b>                            | <b>3,791,798</b>                             | <b>980,402</b>                               | <b>13,574,701</b>                      |
| Total liabilities | <b>4,646,405</b>                            | <b>1,019,601</b>                             | <b>2,131,495</b>                             | <b>7,797,501</b>                       |

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**6. Segment Information** *(Continued)*

The segment information for the six months ended 30 June 2014 is as follows:

|                          | Amino acid<br>RMB'000<br>Unaudited | Xanthan gum<br>RMB'000<br>Unaudited | Unallocated<br>RMB'000<br>Unaudited | Group<br>RMB'000<br>Unaudited |
|--------------------------|------------------------------------|-------------------------------------|-------------------------------------|-------------------------------|
| Revenue                  | 5,030,395                          | 677,241                             | –                                   | 5,707,636                     |
| Segment results          | 196,112                            | 340,964                             | (6,867)                             | 530,209                       |
| Finance costs – net      |                                    |                                     |                                     | (189,871)                     |
| Profit before income tax |                                    |                                     |                                     | 340,338                       |
| Income tax expenses      |                                    |                                     |                                     | (65,609)                      |
| Profit for the period    |                                    |                                     |                                     | 274,729                       |

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

|  | Amino acid<br>RMB'000<br>Unaudited | Xanthan gum<br>RMB'000<br>Unaudited | Unallocated<br>RMB'000<br>Unaudited | Group<br>RMB'000<br>Unaudited |
|--|------------------------------------|-------------------------------------|-------------------------------------|-------------------------------|
| Depreciation of property,<br>plant and equipment     | 345,240                            | 30,650                              | 799                                 | 376,689                       |
| Amortisation of leasehold<br>land payments           | 3,795                              | 2,310                               | 43                                  | 6,148                         |
| Amortisation of intangible assets                    | 1                                  | –                                   | –                                   | 1                             |
| Gain on disposal of property,<br>plant and equipment | 71                                 | –                                   | –                                   | 71                            |

The segment assets and liabilities at 30 June 2014 are as follows:

|                   | Amino acid<br>RMB'000<br>Unaudited | Xanthan gum<br>RMB'000<br>Unaudited | Unallocated<br>RMB'000<br>Unaudited | Group<br>RMB'000<br>Unaudited |
|-------------------|------------------------------------|-------------------------------------|-------------------------------------|-------------------------------|
| Total assets      | 10,021,454                         | 3,086,963                           | 467,259                             | 13,575,676                    |
| Total liabilities | 4,860,729                          | 713,289                             | 2,972,676                           | 8,546,694                     |

## 7. Leasehold Land Payments, Property, Plant and Equipment and Intangible Assets

|                                | <b>Leasehold<br/>land<br/>payments</b> | <b>Property,<br/>plant and<br/>equipment</b> | <b>Intangible<br/>assets</b> | <b>Total</b>            |
|--------------------------------|--|--|------------------------------|-------------------------|
|                                | RMB'000                                | RMB'000                                      | RMB'000                      | RMB'000                 |
|                                | Unaudited                              | Unaudited                                    | Unaudited                    | Unaudited               |
| <b>Six months ended</b>        |  |  |                              |                         |
| <b>30 June 2014</b>            |  |  |                              |                         |
| <b>Opening net book amount</b> |  |  |                              |                         |
| <b>at 1 January 2014</b>       | 506,289                                | 7,575,975                                    | 51                           | 8,082,315               |
| Additions                      | 486,535                                | 421,017                                      | –                            | 907,552                 |
| Disposals                      | (67,190)                               | (1,409)                                      | –                            | (68,599)                |
| Depreciation and amortisation  | (6,148)                                | (376,689)                                    | (1)                          | (382,838)               |
| <b>Closing net book amount</b> | <u>919,486</u>                         | <u>7,618,894</u>                             | <u>50</u>                    | <u>8,538,430</u>        |
| <b>Six months ended</b>        |  |  |                              |                         |
| <b>30 June 2015</b>            |  |  |                              |                         |
| <b>Opening net book amount</b> |  |  |                              |                         |
| <b>at 1 January 2015</b>       | <b>1,748,704</b>                       | <b>7,470,082</b>                             | <b>2,554</b>                 | <b>9,221,340</b>        |
| Additions                      | <b>81,097</b>                          | <b>393,972</b>                               | <b>2,469</b>                 | <b>477,538</b>          |
| Disposals                      | <b>(297,625)</b>                       | <b>(47,365)</b>                              | <b>–</b>                     | <b>(344,990)</b>        |
| Depreciation and amortisation  | <b>(5,654)</b>                         | <b>(371,471)</b>                             | <b>(530)</b>                 | <b>(377,655)</b>        |
| <b>Closing net book amount</b> | <u><b>1,526,522</b></u>                | <u><b>7,445,218</b></u>                      | <u><b>4,493</b></u>          | <u><b>8,976,233</b></u> |

## 8. Trade and Other Receivables

|   | <b>As at</b>                                      |   |
|---|---|---|
|   | <b>30 June<br/>2015<br/>RMB'000<br/>Unaudited</b> | 31 December<br>2014<br>RMB'000<br>Audited |
| Trade receivables (a)                               | <b>423,622</b>                                    | 352,932                                   |
| Less: provision for impairment of trade receivables | <b>(4,510)</b>                                    | (4,510)                                   |
| Trade receivables, net                              | <b>419,112</b>                                    | 348,422                                   |
| Notes receivables (b)                               | <b>391,285</b>                                    | 663,638                                   |
| Deposits and others                                 | <b>24,051</b>                                     | 21,333                                    |
| Value-added tax for future deduction                | <b>72,738</b>                                     | 99,607                                    |
| Trade and other receivables excluding prepayments   | <b>907,186</b>                                    | 1,133,000                                 |
| Prepayments for raw materials                       | <b>410,734</b>                                    | 318,721                                   |
|   | <b>1,317,920</b>                                  | 1,451,721                                 |

## 8. Trade and Other Receivables *(Continued)*

- (a) The ageing analysis of the trade receivables was as follows:

|                 | <b>As at</b>                                      |   |
|-----------------|---|---|
|                 | <b>30 June<br/>2015<br/>RMB'000<br/>Unaudited</b> | 31 December<br>2014<br>RMB'000<br>Audited |
| Within 3 months | <b>383,048</b>                                    | 331,627                                   |
| 3–12 months     | <b>33,890</b>                                     | 14,833                                    |
| Over 12 months  | <b>6,684</b>                                      | 6,472                                     |
|                 | <b>423,622</b>                                    | 352,932                                   |

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 2015, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB360,829,000 (31 December 2014: RMB614,612,000) applied for settling the amounts payable to the Group's suppliers.

## 9. Share Capital and Premium

|  | Number of<br>authorised<br>shares<br>'000<br>Unaudited | Number of<br>issued and<br>fully paid<br>shares<br>'000<br>Unaudited | Amount                                     |  |                               |
|--|--|--|--|--|-------------------------------|
|  |  |  | Ordinary<br>shares<br>RMB'000<br>Unaudited | Share<br>premium<br>RMB'000<br>Unaudited | Total<br>RMB'000<br>Unaudited |
| <b>Opening balance at 1<br/>January 2014</b> | 10,000,000   | 2,087,561  | 203,644                                    | 702,873                                  | 906,517                       |
| Dividends                                    | -  | -  | -  | (65,925)                                 | (65,925)                      |
| <b>At 30 June 2014</b>                       | <u>10,000,000</u>                                      | <u>2,087,561</u>   | <u>203,644</u>                             | <u>636,948</u>                           | <u>840,592</u>                |
| <b>Opening balance at 1<br/>January 2015</b> | <b>10,000,000</b>                                      | <b>2,105,208</b>   | <b>205,243</b>                             | <b>638,986</b>                           | <b>844,229</b>                |
| Employee share option<br>scheme:             |  |  |  |  |                               |
| – Shares issued                              | -  | 5,117  | 688  | 14,656                                   | 15,344                        |
| Conversion of convertible<br>bonds           | -  | 17,065   | 1,347                                      | 55,980                                   | 57,327                        |
| Repurchase of shares of<br>the Company (a)   | -  | (705)  | (56)                                       | (1,805)                                  | (1,861)                       |
| Dividends                                    | -  | -  | -  | (73,536)                                 | (73,536)                      |
| <b>At 30 June 2015</b>                       | <u>10,000,000</u>                                      | <u>2,126,685</u>   | <u>207,222</u>                             | <u>634,281</u>                           | <u>841,503</u>                |

- (a) 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 and the credit to retained earnings has been transferred to share capital and share premium.



## 10. Borrowings

|                              | As at   |   |
|------------------------------|---|---|
|                              | <b>30 June<br/>2015<br/>RMB'000<br/>Unaudited</b> | 31 December<br>2014<br>RMB'000<br>Audited |
| <b>Non-current</b>           |   |   |
| – Bank borrowings, secured   | <b>400,000</b>                                    | 360,000                                   |
| – Convertible bonds          | <b>882,707</b>                                    | 921,061                                   |
| – Senior notes               | –   | 1,823,875                                 |
| – Medium-term note           | –   | 597,546                                   |
|                              | <b>1,282,707</b>                                  | 3,702,482                                 |
| <b>Current</b>               |   |   |
| – Bank borrowings, unsecured | <b>1,091,000</b>                                  | 760,000                                   |
| – Bank borrowings, secured   | <b>62,600</b>                                     | 40,000                                    |
| – Convertible bonds          | –   | 13,165                                    |
| – Senior notes               | <b>1,217,906</b>                                  | –   |
| – Medium-term note           | <b>598,446</b>                                    | –   |
|                              | <b>2,969,952</b>                                  | 813,165                                   |
|                              | <b>4,252,659</b>                                  | 4,515,647                                 |

## 10. Borrowings (Continued)

Movements in borrowings were analysed as follows:

|   | RMB'000<br>Unaudited    |
|---|-------------------------|
| <b>Six months ended 30 June 2014</b>      |                         |
| Opening amount as at 1 January 2014       | 4 477,094               |
| New borrowings                            | 1,401,000               |
| Repayments of borrowings                  | (1,035,000)             |
| Amortisation of transaction cost:         |                         |
| – Senior notes                            | 4,253                   |
| – Convertible bonds – liability component | 14,516                  |
| – Medium-term note                        | 854                     |
| Exchange differences                      | 18,274                  |
|   | <u>4,880,991</u>        |
| <b>Closing amount as at 30 June 2014</b>  |                         |
| <b>Six months ended 30 June 2015</b>      |                         |
| Opening amount as at 1 January 2015       | <b>4,515,647</b>        |
| New borrowings                            | <b>1,391,100</b>        |
| Repayments of borrowings                  | <b>(1,622,390)</b>      |
| Conversion of convertible bonds           | <b>(53,760)</b>         |
| Amortisation of transaction cost:         |                         |
| – Senior notes                            | <b>4,606</b>            |
| – Convertible bonds – liability component | <b>15,441</b>           |
| – Medium-term note                        | <b>900</b>              |
| Exchange differences                      | <b>1,115</b>            |
|   | <u><b>4,252,659</b></u> |
| <b>Closing amount as at 30 June 2015</b>  |                         |

Interest expenses on borrowings for the six months ended 30 June 2015 were RMB176,235,000 (30 June 2014: RMB170,569,000).

## 11. Trade, Other Payables and Accruals

|   | <b>As at</b>                                      |   |
|---|---|---|
|   | <b>30 June<br/>2015<br/>RMB'000<br/>Unaudited</b> | 31 December<br>2014<br>RMB'000<br>Audited |
| Trade payables (a)  | <b>1,085,619</b>                                  | 987,197                                   |
| Advances from customers   | <b>191,042</b>                                    | 213,476                                   |
| Payables for property, plant and equipment  | <b>670,540</b>                                    | 662,608                                   |
| Bank acceptance notes payable   | <b>112,500</b>                                    | 494,760                                   |
| Government compensation related to property,<br>plant and equipment disposal received<br>in advance | <b>233,766</b>                                    | 280,052                                   |
| Salaries, wages and staff welfares<br>payables  | <b>302,393</b>                                    | 276,788                                   |
| Interest payables – current portion   | <b>36,826</b>                                     | 61,152                                    |
| Government grants received in advance   | <b>28,031</b>                                     | 13,000                                    |
| Dividends payable   | <b>407</b>  | 407                                       |
| Other payables and accruals   | <b>140,378</b>                                    | 213,975                                   |
|   | <b><u>2,801,502</u></b>                           | <u>3,203,415</u>                          |

## 11. Trade, Other Payables and Accruals *(Continued)*

(a) The ageing analysis of the trade payables was as follows:

|                 | As at   |   |
|-----------------|---|---|
|                 | <b>30 June<br/>2015<br/>RMB'000<br/>Unaudited</b> | 31 December<br>2014<br>RMB'000<br>Audited |
| Within 3 months | <b>893,316</b>                                    | 762,492                                   |
| 3 to 6 months   | <b>62,782</b>                                     | 140,307                                   |
| 6 to 12 months  | <b>88,533</b>                                     | 49,692                                    |
| 1 to 2 years    | <b>31,321</b>                                     | 27,737                                    |
| Over 2 years    | <b>9,667</b>                                      | 6,969                                     |
|                 | <b>1,085,619</b>                                  | 987,197                                   |

## 12. Other Income

|  | Six months ended 30 June              |                              |
|--|---------------------------------------|------------------------------|
|  | <b>2015<br/>RMB'000<br/>Unaudited</b> | 2014<br>RMB'000<br>Unaudited |
| Gain on disposal of a subsidiary       | <b>161,791</b>                        | –                            |
| Sales of waste products                | <b>48,216</b>                         | 27,645                       |
| Amortisation of deferred income        | <b>32,601</b>                         | 27,308                       |
| Government grants relating to expenses | <b>20,829</b>                         | 3,100                        |
| Foreign exchange gains                 | <b>5,456</b>                          | 6,892                        |
| Others                                 | <b>12,171</b>                         | 11,707                       |
|  | <b>281,064</b>                        | 76,652                       |

### 13. Expenses by Nature

|   | Six months ended 30 June     |                              |
|---|------------------------------|------------------------------|
|   | 2015<br>RMB'000<br>Unaudited | 2014<br>RMB'000<br>Unaudited |
| Amortisation of leasehold land payments                 | 5,654                        | 6,148                        |
| Amortisation of intangible assets                       | 530                          | 1                            |
| Depreciation of property, plant and equipment           | 371,471                      | 376,689                      |
| Value on employee services for the share option schemes | 3,095                        | 1,393                        |
| Inventory write-down – net                              | 12,282                       | 37,142                       |
| Plant relocation expenses                               | 18,966                       | –                            |
| Loss on disposal of property, plant and equipment       | 1,080                        | –                            |

### 14. Finance Costs – Net

|   | Six months ended 30 June     |                              |
|---|------------------------------|------------------------------|
|   | 2015<br>RMB'000<br>Unaudited | 2014<br>RMB'000<br>Unaudited |
| Interest expense                                | 176,235                      | 170,569                      |
| Foreign exchange losses on financing activities | 773                          | 19,302                       |
| <b>Finance costs</b>                            | <b>177,008</b>               | 189,871                      |
| <b>Finance income</b>                           | <b>–</b>                     | –                            |
| <b>Net finance costs</b>                        | <b>177,008</b>               | 189,871                      |

## 15. Income Tax Expense

|                                   | <b>Six months ended 30 June</b> |           |
|-----------------------------------|---------------------------------|-----------|
|                                   | <b>2015</b>                     | 2014      |
|                                   | <b>RMB'000</b>                  | RMB'000   |
|                                   | <b>Unaudited</b>                | Unaudited |
| Current income tax                |                                 |           |
| – PRC enterprise income tax       | <b>123,816</b>                  | 82,431    |
| – Singapore enterprise income tax | <b>218</b>                      | –         |
| Deferred income tax               | <b>(7,329)</b>                  | (16,822)  |
|                                   | <b>116,705</b>                  | 65,609    |

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.

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the six months ended 30 June 2015 and 2014.

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.

## 16. Earnings Per Share

|  | Six months ended 30 June |                   |
|--|--------------------------|-------------------|
|  | 2015<br>Unaudited        | 2014<br>Unaudited |
| Earnings per share for profit attributable to the Shareholders (RMB cents per share) |                          |                   |
| – basic  | <b>19.59</b>             | 13.16             |
| – diluted  | <b>18.55</b>             | 12.74             |

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 excluding ordinary shares purchased by the Company and held as treasury shares. 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 2015 was RMB19.59 cents and RMB18.55 cents respectively (equivalent to HK24.84 cents and HK23.52 cents) (1H 2014: RMB13.16 cents and RMB12.74 cents respectively (equivalent to HK16.58 cents and HK16.05 cents)).

## 17. Dividends

On 24 March 2015, the Board proposed a final dividend in respect of the year ended 31 December 2014 of HKD92,823,000 (equivalent to RMB73,536,000), representing HK4.4 cents (equivalent to RMB3.49 cents) per share. The final dividend was paid in June 2015.

At a meeting held on 31 August 2015, the Board proposed an interim dividend of HKD95,701,000 (equivalent to RMB79,124,000) (2014: HKD62,627,000 (equivalent to RMB49,720,000)), representing HK4.5 cents (equivalent to RMB3.72 cents) (2014: HK3 cents (equivalent to RMB2.38 cents)) per share. This interim dividend has not been recognised as a dividend payable in this interim financial information, but will be recognised as an appropriation of share premium for the year ending 31 December 2015.

## 18. Contingent Liabilities – The Group

As at 30 June 2015 and 2014, the Group had no material contingent liabilities.

## 19. Related Party Transactions

Key management compensation is set out below:

|   | Six months ended 30 June |           |
|---|--------------------------|-----------|
|   | 2015                     | 2014      |
|   | RMB'000                  | RMB'000   |
|   | Unaudited                | Unaudited |
| Salaries and allowances                 | 9,363                    | 10,837    |
| Pension costs-defined contribution plan | 362                      | 333       |
| Share options granted                   | 3,095                    | 1,392     |
|   | <b>12,820</b>            | 12,562    |

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.

## 20. Events Occurring after the Balance Sheet Date

Details of the interim dividend proposed are given in Note 17.

## 21. Approval on the Condensed Consolidated Interim Financial Information

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the Board on 27 August 2015 and 31 August 2015, respectively.



## OTHER INFORMATION

### Corporate Governance

The Company is committed to establishing and ensuring a high standard of corporate governance practices which place emphasis on quality of the board, sound and efficient internal control and accountability as well as transparency to equity holders. The Directors are in the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules since the Listing Date to 30 June 2015.

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Ning and Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 15 May 2015. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2015.

### Model Code for Securities Transactions by Directors

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

## OTHER INFORMATION

### Purchase, Redemption or Sale of Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2015.

### Share option scheme

The Company granted options to subscribe for an aggregate of 64,110,000 Shares on 14 July 2009 to eligible employees. As the rights issue completed on 2 May 2013, in accordance with the respective terms of the Share Options granted on 14 July 2009 and in compliance with Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005, the exercise price and the number of Shares to be allotted and issued upon full exercise of the outstanding Share Options was adjusted. In addition, the Company granted options to subscribe for an aggregate of 16,600,000 Shares on 9 April 2015 to eligible employees. Details of the share options granted and outstanding for the period ended 30 June 2015, are as follows:

| Director and eligible employees | Number of share options |                           |                             |                          |                     | At 30 June 2015   | Date of grant | Revised/ Adjusted Exercise price (HKD) | Exercise period       |
|---------------------------------|-------------------------|---------------------------|-----------------------------|--------------------------|---------------------|-------------------|---------------|--|-----------------------|
|                                 | At 1 January 2015       | Granted during the period | Exercised during the period | Lapsed during the period | At 30 June 2015     |                   |               |  |                       |
| Eligible employees <sup>4</sup> | A                       | 24,822,571                | -                           | 5,117,000                | (19,705,571)        | -                 | 14/7/2009     | 2.80                                   | 14/1/2012 - 13/1/2015 |
| Eligible employees <sup>5</sup> | B                       | -                         | 16,600,000                  | -                        | -                   | 16,600,000        | 9/4/2015      | 5.69                                   | 9/4/2016 - 8/4/2020   |
|                                 |                         | <u>24,822,571</u>         | <u>16,600,000</u>           | <u>5,117,000</u>         | <u>(19,705,571)</u> | <u>16,600,000</u> |               |  |                       |

## OTHER INFORMATION

- A) The total fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options granted as at the grant dates is approximately RMB59,441,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

|                          | <b>Granted on<br/>14 July 2009</b> |
|--------------------------|------------------------------------|
| Average share price      | HKD2.81                            |
| Exercise price           | HKD3.00                            |
| Expected life of options | 3.0–5.0 years                      |
| Expected volatility      | 46.04–51.34%                       |
| Expected dividend yield  | 3.56%                              |
| Risk free rate           | 1.032–1.745%                       |

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

|                          | <b>Granted on<br/>9 April 2015</b> |
|--------------------------|------------------------------------|
| 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%                              |

## OTHER INFORMATION

### Interest of Directors and chief executive

#### Directors' Interests in Shares

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 30 June 2015, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

#### Long position

| Name of Director | Name of company | Capacity                                     | Number and class of securities | Percentage of interests to total issued share capital (approximate) |
|------------------|-----------------|--|--------------------------------|---|
| Li Xuechun       | The Company     | Interests of controlled corporation (Note 1) | 963,342,461 Shares             | 45.30%  |
| Wang Longxiang   | The Company     | Beneficial interests (Note 2)                | 8,292,000 Shares               | 0.39%   |
| Feng Zhenquan    | The Company     | Interests of controlled corporation (Note 3) | 33,320,160 Shares              | 1.57%   |
| Xu Guohua        | The Company     | Interests of controlled corporation (Note 4) | 33,320,160 Shares              | 1.57%   |
| Li Deheng        | The Company     | Interests of controlled corporation (Note 5) | 33,320,160 Shares              | 1.57%   |

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 Mr. Wang Longxiang, an executive Director of the Company.
3. The interest in these Shares is held by Elite Chance Holdings Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Feng Zhenquan, an executive director of the Company. Accordingly, Mr Feng Zhenquan is deemed to be interested in all Shares held by Elite Chance Holdings Limited under the SFO.

## OTHER INFORMATION

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

Save as disclosed above, for the six months ended 30 June 2015, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### Interest of persons holding 5% or more interests

As at 30 June 2015, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

#### Long position

| Name                                   | Name of Group member | Capacity             | Class and number of securities | Percentage of interests to total issued share capital (approximate) |
|--|----------------------|----------------------|--------------------------------|---|
| Motivator Enterprises Limited (Note 1) | The Company          | Beneficial interests | 963,342,461 Shares             | 45.30%  |
| Shi Guiling (Note 2)                   | The Company          | Interests of spouse  | 963,342,461 Shares             | 45.30%  |
| Treetop Asset Management SA            | The Company          | Beneficial interests | 169,406,470 Shares             | 7.97%   |
| JPMorgan Chase & Co.                   | The Company          | Beneficial interests | 133,427,423 Shares             | 6.27%   |

## OTHER INFORMATION

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.
2. Ms. Shi Guiling is the spouse of Mr. Li Xuechun. Accordingly, she is also deemed to be interested in the 963,342,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

### Short position

| <b>Name</b>          | <b>Name of Group member</b> | <b>Capacity</b>      | <b>Class and number of securities</b> | <b>Percentage of interests to total issued share capital (approximate)</b> |
|----------------------|-----------------------------|----------------------|---------------------------------------|--|
| JPMorgan Chase & Co. | The Company                 | Beneficial interests | 45,478,215 Shares                     | 2.14%  |

Save as disclosed above, for the period ended 30 June 2015, 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.

## GLOSSARY

|                  |   |
|------------------|---|
| Acquisition      | the acquisition of the land use right in respect of the Land by Junan Company under the auction (listing-for-sale) process    |
| ASP              | average selling price(s) of the products of the Group   |
| Baoji Fufeng     | 寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company                   |
| Baoji Plant      | the production plant of the Group located in Baoji City in the Shaanxi Province, the PRC                                      |
| Board            | the board of Directors  |
| Company          | Fufeng Group Limited  |
| Director(s)      | the director(s) of the Company  |
| Group            | the Company and its subsidiaries  |
| HKFRS            | Hong Kong Financial Reporting Standards   |
| Hong Kong        | Hong Kong Special Administrative Region of the PRC  |
| Hulunbeir Fufeng | 呼倫貝爾東北阜豐生物科技股份有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company |
| Hulunbeir Plant  | the production plant of the Group located at Hulunbeir, Inner Mongolia Autonomous Region, the PRC                             |

## GLOSSARY

|               |  |
|---------------|--|
| IM Fufeng     | 內蒙古阜豐生物科技股份有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company   |
| IM Plant      | the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC   |
| IPO           | Initial public offering of the Shares on 8 February 2007   |
| Junan Company | Junan North City Property Company Limited* (莒南北城置業有限公司), a PRC incorporated company and a wholly-owned subsidiary of the Company   |
| Land          | Seven plots of land located at Longshan Road (Northern section) Junan County, Shandong Province, PRC (land lot no.: Junan 2014-G05/06/07/08/09/10/14) (莒南縣縣城隆山路北段), occupying a total site area of approximately 253,926.1 square metres |
| Listing Date  | 8 February 2007, the date on which the Company was listed on the Stock Exchange  |
| Listing Rules | the Rules Governing the Listing of Securities on the Stock Exchange  |
| Model Code    | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules   |
| MSG           | monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application   |

\* For identification purpose only



## GLOSSARY

|                 |   |
|-----------------|---|
| PRC             | the People's Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| Shandong Fufeng | 山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company  |
| Shandong Plant  | the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC   |
| Share(s)        | share(s) in the share capital of the Company  |
| Shareholder(s)  | holder(s) of the Share(s)   |
| Stock Exchange  | The Stock Exchange of Hong Kong Limited   |
| Xinjiang Fufeng | 新疆阜豐生物科技股份有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company)                                      |
| Xinjiang Plant  | the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region   |
| HKD             | Hong Kong dollars, the lawful currency of Hong Kong   |
| RMB             | Renminbi, the lawful currency of the PRC  |
| USD             | United States dollars, the lawful currency of the United States of America  |
| %               | per cent  |