



Fufeng Group Limited 阜豐集團有限公司

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

Interim Report

2016

PROGRESSION
THROUGH TECHNOLOGY

CONTENTS

Corporate information	2
Management discussion and analysis	3
Interim condensed consolidated balance sheet	28
Interim condensed consolidated statement of comprehensive income	30
Interim condensed consolidated statement of changes in equity	32
Interim condensed consolidated cash flow statement	33
Notes to the condensed financial statements	35
Other information	59
Glossary	64



CORPORATE INFORMATION

Executive Directors

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

Independent Non-Executive Directors

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

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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



MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Overview

The PRC and global economies continued to face difficulties and challenges in the first half of 2016. As the leader in the industry, the Group achieved stable development for its core business and also further consolidated its leadership position in the market. In addition, the Group made considerable effort in developing high-value fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group.

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

In addition, 2015 was a year for our production technology enhancement and product development. Our enhanced production technology of MSG further strengthened our competitive cost advantages which will reduce production costs and lead to an expected increase of production capacity. Implementation of production technology enhancement in Baoji Plant and Hulunbeir Plant was completed at the end of 2015 and at the beginning of 2016, respectively. The consumption of sugar and liquid ammonia required during the production of glutamic acid substantially decreased when adopting the production technology enhancement, which led to a noticeable decrease in the cost per tonne in the first half of 2016.

Despite ongoing challenges in the MSG market, the Group was able to record a moderate increase in its overall gross profit during the first half of 2016 compared to the corresponding period of 2015. Even though overall revenue of the Group remained fairly stable during the first half of 2016 compared to the corresponding period of 2015, the Group was able to rely on new products such as high-end amino acids and effective implementation of cost controls to increase overall profitability. The high-end amino acid products and threonine successfully expanded in terms of product development and market share, and we are more confident that we can become one of the world's leading providers of threonine and high-end amino acid products.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of production capacity, the overall production capacity of the Group in the first half of 2016 remained almost fully operational.

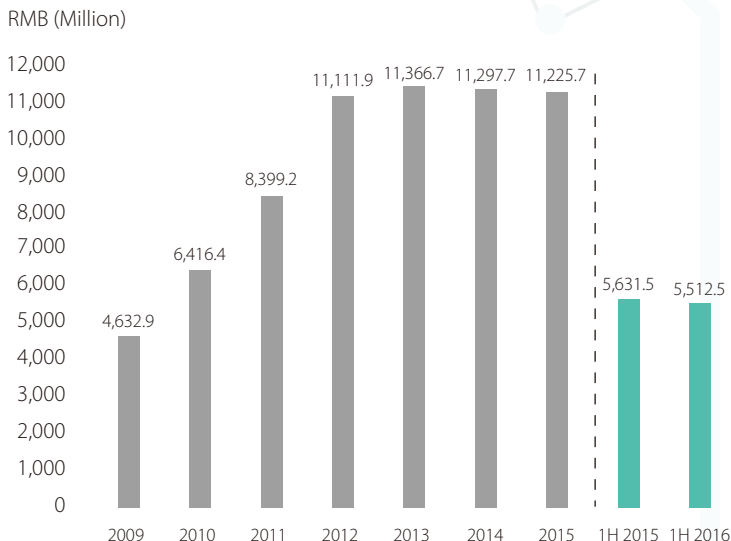
Our Amino acid segment is primarily made up of our MSG and high-end amino acid products. In terms of MSG business, there was a decrease in the ASP of MSG in the first half of 2016 as costs of main raw materials significantly decreased during the period. The ASP of MSG remained at a relatively low level and the Group continued to face lackluster conditions in the domestic catering and consumer market as well as pricing pressure due to market competition. Despite the market conditions, the Group was able to maintain its leadership in terms of market share and sales volume and also increase gross profit margin by leveraging its cost advantages to adopt competitive pricing. The Group was able to record an increase in gross profit and gross profit margin in its Amino acid segment, mainly due to increasing contribution from the sales of MSG and higher margin products such as high-end amino acid product and threonine. The high-end amino acid products, a relatively new product of the Group, continued to increase its revenue contribution to the Group, especially after the commencement in operation of the new production facility in the Xinjiang Plant since 2014.

Our xanthan gum business, another key business segment of the Group, recorded a significant decrease in the ASP and gross profit margin, whilst the market demand of xanthan gum was generally weak. We have changed part of the production capacity in Xinjiang Plant to produce high-end amino acid products at the beginning of 2016 and have temporarily stopped part of the production capacity for maintenance in IM Plant since the second quarter of 2016. The production capacity will temporarily be reduced to 61,000 tonnes per annum. The Group, as the largest xanthan gum manufacturer in the world, continued to maintain the global market leading position in the first half of 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

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



For the six months ended 30 June 2016, the Group's revenue remained relatively stable at approximately RMB5,512.5 million as compared to approximately RMB5,631.5 million for the six months ended 30 June 2015. The slight decrease in revenue was primarily caused by the significant decrease in the ASP of xanthan gum, which was partially offset by the increase in the revenue contribution of MSG, high-end amino acid products and threonine. As the costs of major raw materials decreased in the first half of 2016, the ASP of MSG was adjusted accordingly. But, the performance represented by gross profit has improvement. Although the ASP of xanthan gum decreased significantly as the global oil industry market condition was weak, the Group was able to maintain the market leading position of xanthan gum during the six months ended 30 June 2016.

The Group's overall gross profit slightly increased from approximately RMB1,036.8 million in the first half of 2015 to approximately RMB1,064.1 million in first half of 2016. This represents an increase of 2.6%, primarily due to the increase in gross profit contribution of the sales of MSG, high-end amino acids products and threonine, which were partially offset by the decrease in gross profit of sales of xanthan gum.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2016, the ASP of the Group's MSG decreased by 12.9% compared to the corresponding period of 2015, mainly because raw material costs decreased during the six months ended 30 June 2016. Moreover, the ASP of the Group's xanthan gum decreased by 33.4% in the first half of 2016 compared to the corresponding period of 2015 due to intense competition and the weak market conditions in the global oil industry. Production costs of the Group, including the prices of corn kernel and coal, generally decreased in line with market conditions and overall weakness in global commodity prices. In addition, the production technology enhancement is being continuously implemented in our production plants, and as a result, the production cost of MSG noticeably decreased during the six months ended 30 June 2016. The Group's overall gross profit margin increased to around 19.3% in the first half of 2016, primarily due to the effect from an increase in gross profit margin of MSG, and the higher gross profit margins enjoyed by our high-end amino acids 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 had to continue to actively implement cost control measures. The increasing trend of gross profit margin of the Group in the first half of 2016 demonstrated the Group's ability to leverage on its economy of scale and production capability to manage its costs effectively.

The production and sales volume of MSG increased by 18.8% and 15.5% in the first half of 2016 as compared to the same period in 2015, primarily as the implementation of production technology enhancement of MSG in Hulunbeir Plant was completed at the beginning of 2016, bringing the total production capacity of MSG of the Group to 1,130,000 tonnes per annum. The production and sales volume of xanthan gum in the first half of 2016 decreased by 16.2% and 20.5% over the same period in 2015. As xanthan gum market conditions were weak during the period, corresponding manipulate of production capacity of xanthan gum market implemented. A part of production capacity of xanthan gum about 12,000 tonnes in Xinjiang Plant has been adjusted to produce other new products such as high-end amino acid products. In addition, a production line of xanthan gum representing an annual production capacity of 12,000 tonnes in IM Plant has temporarily stopped operation for maintenance since the second quarter of 2016. The annual production capacity of xanthan gum has temporarily decreased to 61,000 tonnes per annum since the second quarter of 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

The high-end amino acid business, as part of our Amino acid business segment, is the Group's new growth driver. The Group's high-end amino acid products were developed using different types of corn-based biochemical products by leveraging on the Group's fermentation technology. The high-end amino acid products included 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 first half of 2016, the total sales amount of high-end amino acid products reached approximately RMB314.9 million, representing an increase of about 33.5% compared to the corresponding period in 2015. Our high-end amino acid products generally enjoy higher profitability and focus on health and wellness and pharmaceutical materials industries. The short-term goal of the Group is to become one of the world's top three producers and suppliers by market share for several of our key amino acid products type. 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 to bulk trade of those high-end products.

In addition, we have also continued with development of threonine. Threonine is a type of amino acid which is used as animal feed additives. The annual production capacity of threonine reached 136,000 tonnes at the end of 2015. In the first half of 2016, the Group sold about 47,021 tonnes of threonine as compared to about 27,955 tonnes in the same period of 2015.

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 2016.

Operational review of the Group

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

Turnover/Gross profit/Gross profit margin of the Group

	Six months ended 30 June		Change
	2016	2015	%
Turnover (RMB'000)	5,512,484	5,631,495	(2.1)
Gross profit (RMB'000)	1,064,123	1,036,804	2.6
Gross profit margin (%)	19.3	18.4	0.9 ppts.

MANAGEMENT DISCUSSION AND ANALYSIS

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 acids segment, which was partially offset by a decrease in gross profit margin of xanthan gum. As weakness in China's economy continued and main raw material costs decreased in the first half of 2016, the ASP of MSG trended downwards. As a result of our production technology enhancement being continuously implemented in our plants, gross profit margin of our MSG noticeably increased. Moreover, the increase in sales volume of our high-end amino acid products and threonine also brought additional growth momentum to our Amino acids segment. On the other hand, the market competition of xanthan gum intensified, resulting in the ASP of xanthan gum decreasing significantly in the first half of 2016. These are discussed in more details in the following sections.

Profit attributable to the Shareholders

	Six months ended 30 June		Change %
	2016 RMB'000	2015 RMB'000	
As reported	350,449	413,500	(15.2)

Our profit attributable to the Shareholders decreased by 15.2% in the six months ended 30 June 2016 as compared to the same period in 2015. If you ignore the effect of one-off compensation income after taxation from sales of a subsidiary amounting to RMB136.6 million in the past corresponding six months ended 30 June 2015, profit attributable to the Shareholders increased by 26.5% from RMB276.9 million in the six months ended 30 June 2015 to RMB350.4 million in the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

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, glutamic acid, fertilisers, threonine, high-end amino acid products and other related products while Xanthan gum segment represents the production and sale of xanthan gum.

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

	Six months ended 30 June 2016			Six months ended 30 June 2015			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
Revenue	5,213,176	299,308	5,512,484	5,072,512	558,983	5,631,495	2.8	(46.5)	(2.1)
Gross profit	1,017,485	46,638	1,064,123	796,534	240,270	1,036,804	27.7	(80.6)	2.6
Gross profit margin	19.5%	15.6%	19.3%	15.7%	43.0%	18.4%	3.8 ppts.	(27.4) ppts.	0.9 ppts.
Segment results	553,724	3,461		506,987	211,277		9.2	(98.4)	
Segment net assets									
Assets	9,182,392	3,960,516		8,802,501	3,791,798		4.3	4.4	
Liabilities	4,930,821	1,130,081		4,646,405	1,019,601		6.1	10.8	

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

MANAGEMENT DISCUSSION AND ANALYSIS

Amino acid segment

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

Revenue and average selling price (“ASP”)

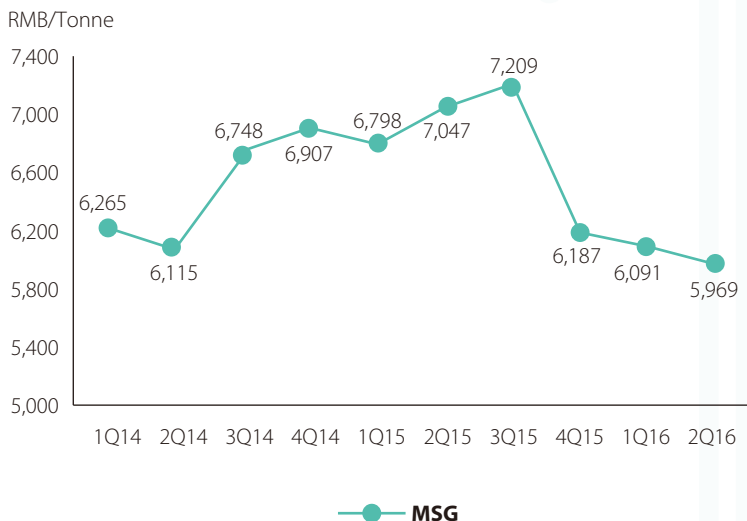
Revenue generated from the sale of the Amino acid segment products increased to RMB5,213.2 million in the first half of 2016, representing an increase of RMB140.7 million, or 2.8%, as compared with the corresponding period of 2015, mainly attributed to the increase in the revenue of high-end amino acid products and threonine. The revenue of MSG was stable primarily due to the effect of an increase in the sales volume of MSG offset by the effect from a decrease in ASP during the period. The sales volume of MSG was 508,477 tonnes in the first half of 2016, representing an increase of 15.5% as compared with the corresponding period of 2015, mainly due to the production technology enhancement which strengthened our competitive advantage.

The table below sets out the revenue of the products in this segment for the six months ended 30 June 2016 and 2015:

Product	Six months ended 30 June		Change %
	2016 RMB'000	2015 RMB'000	
MSG	3,066,942	3,057,420	0.3
Glutamic acid	70,564	23,879	195.5
Fertilisers	277,972	236,218	17.7
Corn refined products	668,460	715,845	(6.6)
Starch sweeteners	300,445	397,081	(24.3)
Threonine	416,351	326,104	27.7
High-end amino acid products	314,943	235,898	33.5
Corn oil	15,391	11,815	30.3
Compound seasoning	6,391	7,663	(16.6)
Others	75,717	60,589	25.0
	5,213,176	5,072,512	2.8

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 2014 to the first quarter of 2016:



MSG

The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. While the ASP decreased about 12.9%, from approximately RMB6,919 per tonne in the first half of 2015 to approximately RMB6,025 per tonne in the first half of 2016, turnover of MSG in the first half of 2016 increased by 0.3%, mainly due to sales volume increasing by 15.5% to approximately 508,477 tonnes compared to the first half of 2015.

In the first half of 2016, 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 RMB492.9 million in the first half of 2015 to about RMB506.4 million in the first half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Fertilisers

During the period, the Group continuously developed high value-added fertiliser products, the ASP of fertilisers increased from approximately RMB419 per tonne in the first half of 2015 to approximately RMB450 per tonne in first half of 2016, representing an increase of about 7.4%, which was in line with prevailing market conditions. The sales volume also recovered in the first half of 2016. As a result, the revenue of fertilisers amounted to RMB278.0 million for the six months ended 30 June 2016 as compared to RMB236.2 million for the same period in 2015.

Corn refined products

In line with the cost of corn kernels, the ASP of corn refined products decreased in the first half of 2016. The revenue of corn refined products decreased by about 6.6% for the six months ended 30 June 2016 as compared with the corresponding period of 2015, which was due to a decrease in ASP of corn kernels in the first half of 2016.

Starch sweeteners

Turnover of starch sweeteners decreased by about 24.3% in the first half of 2016, primarily due to a fall in the ASP of starch sweeteners by about 23.8% from approximately RMB3,268 per tonne in the first half of 2015 to approximately RMB2,490 per tonne in the first half of 2016, whilst demand for our starch sweetener products was stable during this period.

Threonine

Threonine is a relatively new product of the Group, with annual production capacity of approximately 136,000 tonnes since the end of 2015. Threonine is an essential amino acid which maintains body protein balance and promotes the growth of living things. Our threonine is mainly used as animal feed additives.

The total revenue of threonine increased by about 27.7% in the first half of 2016 as compared to the same period in 2015, primarily as a result of increased sales volume of threonine from approximately 27,955 tonnes in the first half of 2015 to approximately 47,021 tonnes in first half of 2016, which was offset by the decrease in ASP of threonine by 23.8% from approximately RMB11,665 per tonne in the first half of 2015 to approximately RMB8,885 per tonne in the first half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

High-end amino acid products

The high-end amino acid products business is the new growth driver of the Group. The total sales amount of high-end amino acid products including valine, leucine, isoleucine glutamine and hyaluronic acid, increased to approximately RMB314.9 million in the first half of 2016 as compared to approximately RMB235.9 million in the first half of 2015. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end amino acid products by capitalising on our research and development capabilities and resources advantage to realise the Group's development strategy of "Low Investment – High Return".

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

Gross profit and gross profit margin

The gross profit of this segment is set out below:

	Six months ended 30 June		
	2016	2015	Change
Gross profit (RMB'000)	1,017,485	796,534	27.7%
Gross profit margin (%)	19.5	15.7	3.8 pts.

During the six months ended 30 June 2016, gross profit and gross profit margin of MSG increased with the implementation of production technology enhancement. In addition, increasing gross profit contribution from high-end amino acids products and threonine, which have higher gross margins, resulted in an increase in the overall gross profit margin of the Amino acids segment. Gross profit increased to RMB1,017.5 million and gross profit margin increased by 3.8 percentage points to 19.5%.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group expects that our pricing power and leading market position for MSG can be maintained or improved from current levels in the second half of 2016.

Production costs

	Six months ended 30 June				Change
	2016 RMB'000	%	2015 RMB'000	%	2015 %
Major raw materials					
• Corn kernels	2,397,326	55.7	2,801,565	62.9	(14.4)
• Liquid ammonia	62,178	1.4	40,064	0.9	55.2
• Sulphuric acid	52,093	1.2	42,800	1.0	21.7
Energy					
• Coal	429,377	10.0	407,140	9.1	5.5
Depreciation	343,447	8.0	305,441	6.9	12.4
Employee benefits	306,255	7.1	286,413	6.4	6.9
Others	710,761	16.6	572,954	12.8	24.1
Total cost of production	4,301,437	100.0	4,456,377	100.0	(3.5)

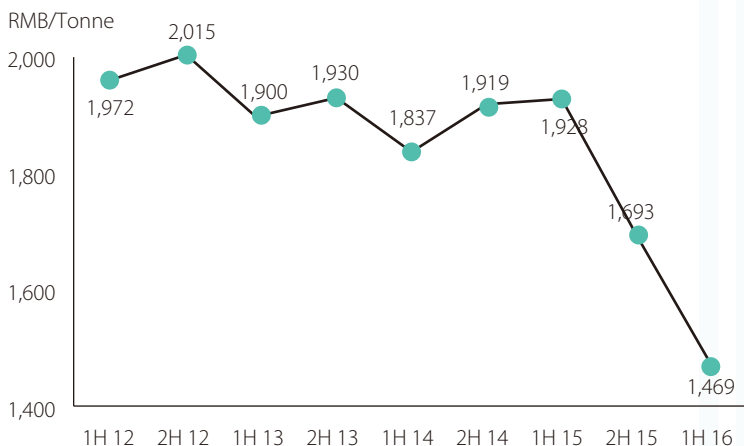
MANAGEMENT DISCUSSION AND ANALYSIS

Corn kernels

During the first half of 2016, corn kernels accounted for approximately 55.7% (1H 2015: 62.9%) of the total production cost of this segment. The average price of corn kernels for six months ended 30 June 2016 was approximately RMB1,469 per tonne, representing a significant decrease of 23.8% compared to corresponding period of 2015. The decrease in average unit cost of corn kernels for the six months ended 30 June 2016 was due to weak demand and weakness in the overall economy.

The cost of corn kernels as a percentage of total production costs decreased by 7.2 percentage points. The total cost of corn kernels incurred decreased by 14.4% in the first half of 2016, which was mainly due to the decrease in ASP of corn kernels.

Price Trend of Corn Kernels



Liquid ammonia

Liquid ammonia accounted for approximately 1.4% (1H 2015: 0.9%) of total production cost in this segment in the first half of 2016. The average unit cost of liquid ammonia for the first half of 2016 increased to approximately RMB2,358 per tonne, which represents an increase of approximately RMB352 per tonne, or 17.5%, from the first half of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

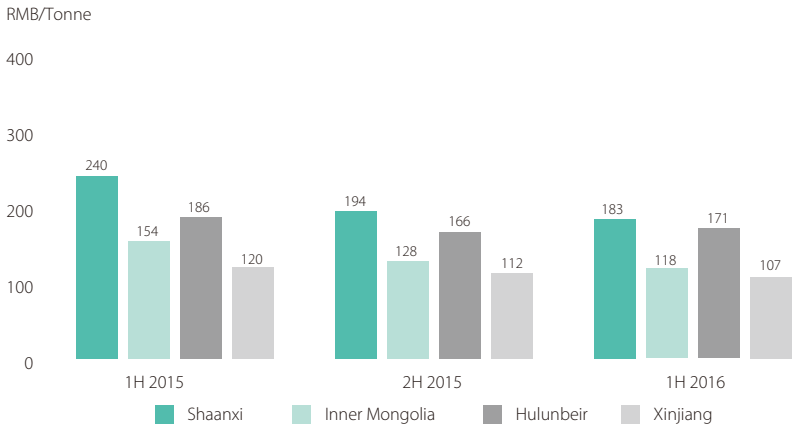
Sulphuric acid

Sulphuric acid accounted for approximately 1.2% (1H 2015: 1.0%) of total production cost in this segment in the first half of 2016. The average unit cost of sulphuric acid increased to approximately RMB231 per tonne, which represents an increase of approximately RMB20 per tonne, or 9.5%, from the first half of 2015.

Coal

Coal accounted for 10.0% (1H 2015: 9.1%) of total production cost in this segment in the first half of 2016. The average unit cost of coal for the first half of 2016 was RMB148 per tonne, which represents a decrease of RMB22 per tonne, or 12.9%, from the first half of 2015. The decrease in coal prices reflects a general decrease in commodity prices.

The Group’s major production bases 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 Shandong, 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 %
	2016 Tonnes	2015 Tonnes	
MSG			
Annual designed production capacity (Note)	565,000	470,000	20.2
Actual production output	551,186	463,829	18.8
Utilisation rate	97.6%	98.7%	
Glutamic acid			
Annual designed production capacity (Note)	455,000	380,000	19.7
Actual production output	446,501	378,618	17.9
Utilisation rate	98.1%	99.6%	
Fertilisers			
Annual designed production capacity (Note)	475,000	475,000	–
Actual production output	457,610	436,255	4.9
Utilisation rate	96.3%	91.8%	
Starch sweeteners			
Annual designed production capacity (Note)	130,000	130,000	–
Actual production output	129,299	136,827	(5.5)
Utilisation rate	99.5%	105.3%	

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

Utilisation rates kept stable and were close to 100% in the first half of 2016, except fertilisers. The increase in annual production capacity of glutamic acid and MSG was due to the implementation of production technology enhancement in Hulunbeir Plant being completed at the beginning of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Xanthan gum segment

The global market demand for xanthan gum has been weak in recent years with weakness in the global economy and oil industry in particular, which has significantly impacted the contribution of xanthan gum business in the Group. The Group has continued to maintain its market leading position since 2009 and the total supply of the top three xanthan gum manufacturers continue to dominate the global market.

Operation results

The table below sets out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the six months ended 30 June 2016 and 2015:

	Six months ended 30 June		Change
	2016	2015	%
Sales amount (RMB'000)	299,308	558,983	(46.5)
ASP (RMB/tonne)	11,522	17,301	(33.4)
Gross profit (RMB'000)	46,638	240,270	(80.6)
Gross profit margin (%)	15.6	43.0	(27.4) ppts.
Annual designed production capacity (tonnes) (Note)	36,500	45,000	(18.9)
Actual production output (tonnes)	37,760	45,063	(16.2)
Utilisation rate	103.5%	100.1%	

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

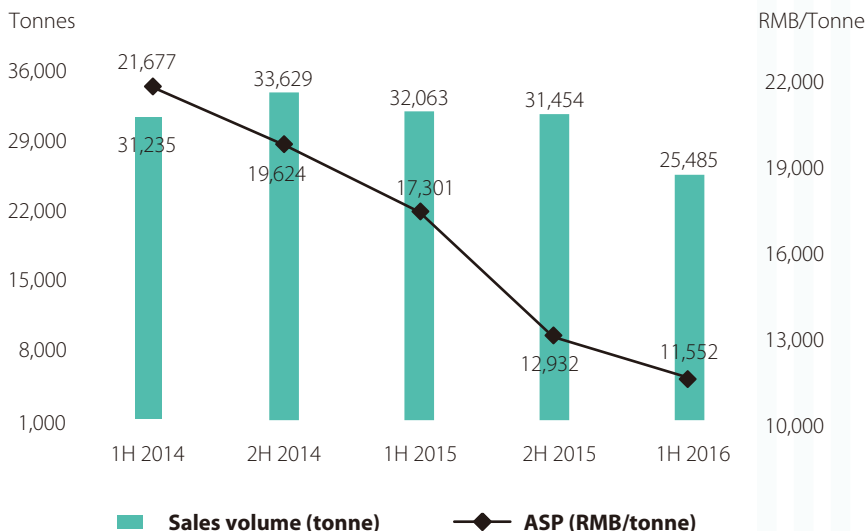
Revenue generated from xanthan gum decreased by 46.5% from RMB558,983 million in the first half of 2015 to RMB299,308 million in the first half of 2016. The decrease in revenue was due to the decrease in ASP and sales volume during the period.

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 89.9% and 83.7% of total sales of xanthan gum in the first half of 2015 and 2016, respectively, reflecting weak demand in the global oil industry.

Sales volume and ASP

Sales Volume vs. ASP of Xanthan Gum



Sales in terms of volume decreased by 20.5% in the first half of 2016, since part of our production capacity temporarily stopped operation for maintenance in IM Plant while around 12,000 tonnes production capacity in Xinjiang Plant were changed to produce other high-end amino acid products. Sales amounts decreased by 46.5% 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. However, we were able to continue generating demand for our xanthan gum products due to our competitive pricing strategy. Global industry-wide demand for xanthan gum remained weak in the first half of 2016, and the Group expects this to continue in the foreseeable future as demand is still weak in the oil industry as well as other sectors.

The ASP of xanthan gum is expected to maintain at a relatively low level during the second half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment decreased by about 80.6% from approximately RMB240.3 million in the first half of 2015 to approximately RMB46.6 million in the first half of 2016. Gross margin decreased as well, by 27.4 percentage points in the first half of 2016, reflecting the general pricing weakness of xanthan gum in the oil industry.

Production costs

	Six months ended 30 June				Change %
	2016		2015		
	RMB'000	%	RMB'000	%	
Major raw materials					
• Corn kernels	124,077	40.2	173,791	41.7	(28.6)
• Soybeans	24,784	8.0	38,655	9.3	(35.9)
Energy					
• Coal	45,851	14.9	70,261	16.9	(34.7)
Depreciation	28,284	9.2	31,224	7.5	(9.4)
Employee benefit	39,447	12.8	45,210	10.8	(12.7)
Others	46,063	14.9	57,740	13.8	(20.2)
Total cost of production	308,506	100.0	416,881	100.0	(26.0)

MANAGEMENT DISCUSSION AND ANALYSIS

Corn kernels

During the first half of 2016, corn kernels represented approximately 40.2% (1H 2015: 41.7%) of the total production cost of this segment. The price of corn kernels decreased during the first six months of 2016. The average cost of corn kernels for the first half of 2016 was approximately RMB1,642 per tonne, which represents a decrease of approximately RMB275 per tonne, or 14.3%, from that of the corresponding period in 2015.

The cost of corn kernels as a percentage of total production costs decreased by 1.5 percentage points. The cost of corn kernels decreased about 28.6%, from approximately RMB173.8 million in the first half of 2015 to approximately RMB124.1 million in the first half of 2016, mainly due to the reduction in production volume as the Group changed part of its production facility to other new products and a production line in IM Plant temporarily stopped operation for maintenance.

Soybeans

During the first half of 2016, soybeans accounted for approximately 8.0% (1H 2015: 9.3%) of the total production cost of this segment. The decrease in proportion was mainly due to the decrease in soybeans prices from approximately RMB4,416 per tonne in the first half of 2015 to approximately RMB3,733 per tonne in the first half of 2016, representing a decrease of 15.5%.

Coal

During the first half of 2016, coal accounted for approximately 14.9% (1H 2015: 16.9%) of the total production cost of this segment. The Group was able to utilise the advantage of the relatively low coal cost in its IM Plant and Xinjiang Plant. The average unit cost of coal for the first half of 2016 was approximately RMB115 per tonne, which represents a decrease of approximately RMB31 per tonne, or 21.2%, from that of the first half of 2015.

Other production costs

The cost of employee benefit and other production costs in the first half of 2016 decreased slightly as compared to the corresponding period of 2015, mainly due to reduction in production volume as the Group changed part of its production facility to produce other new products and a production line in IM Plant temporarily stopped operation for maintenance.

MANAGEMENT DISCUSSION AND ANALYSIS

Other financial information

Selling and marketing expenses

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

Administrative expenses

Administrative expenses increased by approximately RMB36.4 million, or 15.0%, for the six months ended 30 June 2016. The increase was mainly due to increase in depreciation of property, plant and equipment and amortisation of leasehold land payment. In addition, the research and development costs of high-end amino acid products and relevant products increased during the period.

Finance costs

The net finance costs of the Group for the six months ended 30 June 2016 decreased by approximately RMB56.4 million, or about 33.0%, when compared with the first six months of 2015 due to full repayment of senior note with coupon rate of 7.625% in the second quarter of 2015 and a decrease in bank borrowings incurred for the capital expenditure since 2015. The interest expenses of borrowings decreased by RMB71.5 million from RMB176.2 million for the six months ended 30 June 2015 to RMB104.7 million for the six months ended 30 June 2016.

Other income

In the first half of 2016, other income amounted to RMB123.3 million, which mainly comprised the income from the sales of waste products, amortisation of deferred income and government grants. There was no one-off income earned during the first half of 2016.

Income tax expense

The income tax expenses for the six months ended 30 June 2016 mainly comprised 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%.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2016.

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 and 2014, its new and high-technology enterprise qualification was further extended for another three years. Accordingly, the effective tax rate for Shandong Fufeng in the first half of 2016 was 15% (1H 2015: 15%).

Shenhua Pharmaceutical was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2012 to 2016.

Outlook for second half of 2016

The Group will continuously explore the development of high-end amino acid products and specialty ingredients, including specialty gum products, in order to improve our product portfolio and to increase sales and penetration in health and wellness products, pharmaceutical entities and the skin care segments, becoming a critical player in such value chains.

Amino acid segment

The market demand for threonine continues to grow. The construction of our new 85,000 tonnes production capacity of threonine in Hulunbeir Plant was completed at the end of 2015, making us one of the top global players in this market. The Group is exploring a deepened cooperation with our strategic partner in threonine to further our global market penetration, particularly in Europe, and further enhance the threonine product quality and value. The Group will strengthen research and development efforts to develop and commercialise more new high-end amino acid products, and to look for further opportunities to improve productivity and production efficiency in our fermentation manufacturing, with an aim to further enhance our competitiveness in the MSG market. The Group will continuously launch new products and strengthen existing compound seasoning products to enhance our product portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

Xanthan gum segment

The market condition of xanthan gum was very weak in the first half of 2016 as a result of weakness in the global oil industry. The Group has put in considerable effort during the period to optimise our customer mix and we believe that we are very well positioned to benefit from the future recovery of the xanthan gum market.

Future plan and recent development

For our Amino acid segment, we have completed the implementation of production technology enhancement in Hulunbeir Plant, which was adopted at the beginning of 2016. In the first half of 2016, we proceeded with the production technology enhancement of MSG in the IM Plant. It is anticipated that the positive result in this regard will occur in the second half of 2016 and we are excited about the prospects of the MSG sector. With benefits from the production technology enhancement, namely significant improvement in unit cost and yield, our advantage over our competitors will be further enhanced. We will further strengthen our market leadership due to such advantage and we believe that our emphasis on profit improvement of the MSG business will be realised in near future.

The Group has increased its efforts to develop the overseas MSG and xanthan gum markets by taking advantage of the establishment of the sales branches and offices. In the first half of 2016, the Group increased promotional activities in Middle East, Europe, Africa and South America, focusing on providing customers with better after-sale services, improving customer relationships, and further strengthening the Group's reputation.

The Group is also actively monitoring the upcoming implementation of China corn price liberalization, and we believe in the medium to long run our Group will enjoy a substantial uplift in competitive advantages from this policy.

Proposed Spin-off

As set out in the voluntary announcement of the Company dated 11 May 2016, the Company has informed the Shareholders that the Stock Exchange of Hong Kong Limited returned the Listing Application on 29 March 2016. Although it is still the intention of the Company to continue proceeding with the Proposed Spin-off, the Company is at the moment still evaluating a number of strategic options with regards to related businesses. As at the date of this announcement, the Company has no finalised plan or timetable to resubmit a new application in the near future and if there is any material development relating to the Proposed Spin-off, the Company will issue further announcement(s) on the details of the Proposed Spin-off in accordance with the requirements of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30 June 2016, the Group's cash and cash equivalent and restricted bank deposits were RMB1,489.8 million (2015: RMB1,019.1 million) whereas current bank borrowings and current other borrowings (including the balances of convertible bonds) were approximately RMB844.6 million and RMB916.6 million (2015: RMB344.8 million and RMB1,501.1 million). Non-current bank borrowings and non-current other borrowings (including the balances of corporate bonds) were approximately RMB935.5 million and RMB989.0 million (2015: RMB1,005.5 million and RMB986.7 million).

Convertible Bonds

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. During the six months ended 30 June 2015, convertible bonds in principal value of RMB56 million were converted to 17,065,033 ordinary Shares. During the six months ended 30 June 2016, no conversion had taken place. The current outstanding principal amount of 2013 CB is RMB919 million.

Medium-Term Note

In April 2013, IM Fufeng issued a medium-term note at par value of RMB600 million, which was dominated 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. It was fully repaid on April 2016.

Corporate Bonds

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisition or disposal of subsidiary and associated company

The Group had no material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2016.

Employees

As at 30 June 2016, the Group had approximately 7,000 employees. Employees' remunerations are paid in accordance with relevant PRC policies. Appropriate salaries and bonuses are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Schemes" under the "Other Information" section below for the existing share options granted to certain employees of the Group after the IPO.

Charges on assets

As at 30 June 2016, certain leasehold land of the Group with carrying value of approximately RMB109.5 million were pledged to certain banks to secure bank borrowings of RMB412.5 million of the Group.

The 2013 CB 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 2016, the total assets of the Group amounted to approximately RMB14,076.7 million (2015: RMB13,850.2 million) whereas the total borrowings amounted to RMB3,685.7 million (2015: RMB3,838.1 million). The gearing ratio was approximately 26.2% (2015: 27.7%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

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 operates mainly in the PRC and most of the Group's transactions, assets and liabilities are denominated in RMB. Foreign currencies were, however, received for the export sales of products and the issuance of convertible bonds. 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 bank borrowings by remitting the necessary funds to the PRC and using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the six months ended 30 June 2016.

American Depositary Receipt Facility

The Company has established a sponsored, unlisted American Depositary Receipt ("ADR") facility, which has become effective on 19 June 2009. The Depository is the Bank of New York Mellon. Each of the ADRs represents 20 ordinary Shares. 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 HK3.8 cents per Share for the six months ended 30 June 2016, payable on or before 30 September 2016 to the Shareholders whose names appear on the register of members of the Company on 15 September 2016.

Closure of register of members

The register of members of the Company will be closed from Monday, 12 September 2016 to Thursday, 15 September 2016 (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, 9 September 2016.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	7	7,606,137	7,566,778
Leasehold land payments	7	1,583,897	1,510,060
Intangible assets	7	3,298	1,051
Deferred income tax assets		168,636	143,072
Other long-term assets		20,158	–
Total non-current assets		9,382,126	9,220,961
Current assets			
Inventories		2,095,021	2,191,849
Trade and other receivables	8	1,109,755	1,213,787
Cash and bank balances	9	1,489,760	1,019,069
		4,694,536	4,424,705
Assets of disposal group classified as held for sale	13	–	204,512
Total current assets		4,694,536	4,629,217
Total assets		14,076,662	13,850,178
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	10	207,222	207,222
Share premium	10	531,934	555,157
Other reserves		231,645	227,655
Retained earnings		5,167,474	4,817,025
Total equity		6,138,275	5,807,059

**INTERIM CONDENSED
CONSOLIDATED BALANCE SHEET**

	Note	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Borrowings	11	1,924,516	1,992,221
Deferred income		781,666	752,287
Deferred income tax liabilities		16,650	16,650
		2,722,832	2,761,158
Total non-current liabilities			
Current liabilities			
Trade, other payables and accruals	12	3,378,737	3,311,193
Current income tax liabilities		75,623	68,377
Borrowings	11	1,761,195	1,845,920
		5,215,555	5,225,490
Liabilities of disposal group classified as held for sale	13	-	56,471
		5,215,555	5,281,961
Total current liabilities			
Total liabilities			
Total equity and liabilities			
		14,076,662	13,850,178

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
		Unaudited	Unaudited
	Note		
Revenue	6	5,512,484	5,631,495
Cost of sales	15	(4,448,361)	(4,594,691)
Gross profit		1,064,123	1,036,804
Other income	14	123,329	268,524
Selling and marketing expenses	15	(351,001)	(340,044)
Administrative expenses	15	(279,115)	(242,755)
Other operating expenses	15	(23,434)	(27,856)
Other gain		13,878	6,582
Operating profit		547,780	701,255
Finance income		1,652	5,958
Finance costs		(116,285)	(177,008)
Finance costs – net	16	(114,633)	(171,050)
Profit before income tax		433,147	530,205
Income tax expense	17	(82,698)	(116,705)
Profit for the period and attributable to the Shareholders		350,449	413,500

**INTERIM CONDENSED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
		Unaudited	Unaudited
	Note		
Other comprehensive income for the period		–	–
Total comprehensive income for the period		350,449	413,500
Total comprehensive income attributable to the Shareholders		350,449	413,500
Earnings per share for profit attributable to the Shareholders during the period (expressed in RMB cents per share)			
– basic	18	16.48	19.59
– diluted	18	15.75	18.55

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited				
	Attributable to the shareholders				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2015	205,243	638,986	206,770	4,318,067	5,369,066
Total comprehensive income for the period ended 30 June 2015	-	-	-	413,500	413,500
Transactions with Shareholders, recognised directly in equity					
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)
Total transactions with Shareholders, recognised directly in equity	1,979	(4,705)	(4,501)	1,861	(5,366)
Balance at 30 June 2015	207,222	634,281	202,269	4,733,428	5,777,200
Balance at 1 January 2016	207,222	555,157	227,655	4,817,025	5,807,059
Total comprehensive income for the period ended 30 June 2016	-	-	-	350,449	350,449
Transactions with Shareholders, recognised directly in equity					
Employees share option scheme:					
– Value of employee services	-	-	3,990	-	3,990
Dividends	-	(23,223)	-	-	(23,223)
Total transactions with Shareholders, recognised directly in equity	-	(23,223)	3,990	-	(19,233)
Balance at 30 June 2016	207,222	531,934	231,645	5,167,474	6,138,275

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June

	2016	2015
	RMB'000	RMB'000
	Unaudited	Unaudited
Cash flows from operating activities		
Cash generated from operations	1,328,827	306,027
Interest paid	(83,291)	(177,739)
Income taxes paid	(97,526)	(66,293)
Net cash flows generated from operating activities	1,148,010	61,995
Cash flows from investing activities		
Purchases of property, plant and equipment	(689,151)	(370,040)
Payments of leasehold land	(80,636)	(81,097)
Purchase of intangible assets	(163)	(964)
Urban planning related government grants received	–	227,862
Payments of plant relocation expenses	(4,855)	(18,966)
Proceeds from disposal of property, plant and equipment	1,571	–
Proceeds from disposal of a subsidiary	–	298,750
Assets-related government grants received	69,078	65,181
Interest received	1,652	5,958
Proceeds from term deposits	145,000	8,000
Payment for term deposits	–	(24,100)
Net cash (used in)/generated from investing activities	(557,504)	110,584

**INTERIM CONDENSED
CONSOLIDATED CASH FLOW STATEMENT**

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	Unaudited	Unaudited
Cash flows from financing activities		
Net proceeds from shares issued	–	11,315
Proceeds from bank borrowings	675,489	1,391,100
Repayments of bank borrowings	(277,600)	(997,500)
Redemption of medium-term note	(600,000)	–
Redemption of senior notes	–	(611,690)
Repayments of convertible bonds	–	(13,200)
Dividends paid to the Company's shareholders	(23,223)	(73,180)
	<u>(225,334)</u>	<u>(293,155)</u>
Net cash used in financing activities		
	(225,334)	(293,155)
Net increase/(decrease) in cash and cash equivalents	365,172	(120,576)
Cash and cash equivalents at beginning of the period	776,880	796,564
	<u>1,142,052</u>	<u>675,988</u>
Cash and cash equivalents at end of the period		

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 16 August 2016.

This condensed consolidated interim financial information has not been audited.

2. Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2016 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 2015, 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

3. Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2016.

3.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

HKFRS 7 (Amendments) "Financial instruments: Disclosures condensed interim financial statements" is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies that the additional disclosure required by the amendments to HKFRS 7 "Disclosure – Offsetting financial assets and financial liabilities" is not specifically required for all interim periods, unless required by HKAS 34.

HKAS 19 (Amendments) "Employee benefits" is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

3. Accounting Policies *(Continued)*

3.1 Changes in accounting policy and disclosures *(Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

HKAS 34 (Amendments) "Interim financial reporting" is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

(b) Standards, amendments and interpretations to existing standards effective in 2016 but not relevant to the Group

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Disclosure initiative	1 January 2016
HKAS 16 (Amendment)	Property, plant and equipment	1 January 2016
HKAS 27 (Amendment)	Separate financial statements	1 January 2016
HKAS 38 (Amendment)	Intangible assets	1 January 2016
HKAS 41 (Amendment)	Agriculture	1 January 2016
HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations	1 January 2016
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Application of the disclosure requirements to a servicing contract	1 January 2016
HKFRS 11 (Amendment)	Joint arrangements	1 January 2016
HKFRS 12 (Amendment)	Disclosure of interests in other entities	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

3. Accounting Policies *(Continued)*

3.1 Changes in accounting policy and disclosures *(Continued)*

- (c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 (Amendment)	Consolidated financial statements	To be determined
HKAS 28 (Amendment)	Investment in associates	To be determined

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.

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 2015.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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 2015.

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 2015 year end, there were additional current bank borrowings of RMB499,784,000 in the contractual undiscounted cash out flows for financial liabilities.

The Group expects timely settlements by positive cash flows from operating and refinancing activities.

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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

5. Financial Risk Management *(Continued)*

5.3 Fair value estimation *(Continued)*

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents and short-term bank deposits) and short term liabilities (including trade and other payables and short-term borrowings) are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

6. Segment Information

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

The executive directors consider the business from a product perspective and accordingly, the Group's operations are mainly organised under MSG 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 76% (30 June 2015: 77%) of the Group's revenue are generated from the PRC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

6. Segment Information *(Continued)*

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 2016 and 2015 are set out as follows:

	Six months ended 30 June	
	2016 RMB'000 Unaudited	2015 RMB'000 Unaudited
MSG	3,066,942	3,057,420
Corn refined products	668,460	715,845
Threonine	416,351	326,104
High-end amino acid products	314,943	235,898
Starch sweeteners	300,445	397,081
Xanthan gum	299,308	558,983
Fertilisers	277,972	236,218
Glutamic acid	70,564	23,879
Corn oil	15,391	11,815
Others	82,108	68,252
	5,512,484	5,631,495

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

6. Segment Information *(Continued)*

The segment information for the six months ended 30 June 2016 is as follows:

	Amino acid RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	5,213,176	299,308	–	5,512,484
Segment results	553,724	3,461	(9,405)	547,780
Finance costs – net				(114,633)
Profit before income tax				433,147
Income tax expenses				(82,698)
Profit for the period				350,449

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

	Amino acid RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Depreciation of property, plant and equipment	377,782	33,596	748	412,126
Amortisation of leasehold land payments	11,462	3,066	43	14,571
Amortisation of intangible assets	134	–	–	134
Gain on disposal of property, plant and equipment	98	–	–	98
Loss on disposal of property, plant and equipment	463	–	–	463

The segment assets and liabilities at 30 June 2016 are as follows:

	Amino acid RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Total assets	9,182,392	3,960,516	933,754	14,076,662
Total liabilities	4,930,821	1,130,081	1,877,485	7,938,387

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

6. Segment Information (Continued)

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

	Amino acid RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	5,072,512	558,983	–	5,631,495
Segment results	501,029	211,277	(11,051)	701,255
Finance costs – net				(171,050)
Profit before income tax				530,205
Income tax expenses				(116,705)
Profit for the period				413,500

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

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

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

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

**NOTES TO THE
CONDENSED FINANCIAL STATEMENTS**
7. Leasehold Land Payments, Property, Plant and Equipment and Intangible Assets

	Leasehold land payments	Property, plant and equipment	Intangible assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	Unaudited	Unaudited	Unaudited	Unaudited
Six months ended				
30 June 2015				
Opening net book amount				
at 1 January 2015	1,748,704	7,470,082	2,554	9,221,340
Additions	81,097	393,972	2,469	477,538
Disposals	(297,625)	(47,365)	–	(344,990)
Depreciation and amortisation	(5,654)	(371,471)	(530)	(377,655)
Closing net book amount				
at 30 June 2015	<u>1,526,522</u>	<u>7,445,218</u>	<u>4,493</u>	<u>8,976,233</u>
Six months ended				
30 June 2016				
Opening net book amount				
at 1 January 2016	1,510,060	7,566,778	1,051	9,077,889
Additions	80,636	386,016	163	466,815
Disposals	–	(1,936)	–	(1,936)
Transferred from disposal group classified as held for sale (Note 13)	7,772	67,405	2,218	77,395
Depreciation and amortisation	(14,571)	(412,126)	(134)	(426,831)
Closing net book amount				
at 30 June 2016	<u>1,583,897</u>	<u>7,606,137</u>	<u>3,298</u>	<u>9,193,332</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

8. Trade and Other Receivables

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
Trade receivables (a)	294,000	399,614
Less: provision for impairment of trade receivables	(4,800)	–
Trade receivables, net	289,200	399,614
Notes receivables (b)	128,228	418,293
Deposits and others	76,714	74,423
Loans to employees	1,260	1,402
– Loans to key management	–	–
– Loans to other employees	1,260	1,402
Value-added tax for future deduction	70,991	71,114
Trade and other receivables excluding prepayments	566,393	964,846
Prepayments for raw materials	543,362	248,941
	1,109,755	1,213,787

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

8. Trade and Other Receivables *(Continued)*

- (a) At 30 June 2016 and 31 December 2015, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
Within 3 months	234,379	348,549
3–12 months	51,309	48,562
Over 12 months	8,312	2,503
	294,000	399,614

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 2016, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB10,494,000 (31 December 2015: RMB353,519,000) applied for settling the amounts payable to the Group's suppliers.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

9. Cash and Bank Balances

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
Cash and cash equivalents		
– Cash on hand	721	534
– Cash in bank	1,141,331	740,753
	1,142,052	741,287
Term deposits over 3 months and within one year	4,000	145,000
Cash and bank balances	1,146,052	886,287
Restricted bank deposits	343,708	132,782
Total cash and bank balances	1,489,760	1,019,069

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

10. Share Capital and Premium

	Number of authorised shares '000 Unaudited	Number of issued and fully paid shares '000 Unaudited	Amount		
			Ordinary shares RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
Opening balance					
at 1 January 2015	10,000,000	2,105,208	205,243	638,986	844,229
Employee share option scheme:					
– Shares issued	–	5,117	688	14,656	15,344
Conversion of convertible bonds	–	17,065	1,347	55,980	57,327
Repurchase of shares of the Company	–	(705)	(56)	(1,805)	(1,861)
Dividends	–	–	–	(73,536)	(73,536)
At 30 June 2015	<u>10,000,000</u>	<u>2,126,685</u>	<u>207,222</u>	<u>634,281</u>	<u>841,503</u>
Opening balance					
at 1 January 2016	10,000,000	2,126,685	207,222	555,157	762,379
Dividends	–	–	–	(23,223)	(23,223)
At 30 June 2016	<u>10,000,000</u>	<u>2,126,685</u>	<u>207,222</u>	<u>531,934</u>	<u>739,156</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

11. Borrowings

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
Non-current		
– Bank borrowings, unsecured	645,540	635,477
– Bank borrowings, secured	290,000	370,000
– Corporate bonds	988,976	986,744
	1,924,516	1,992,221
Current		
– Bank borrowings, unsecured	722,092	294,808
– Bank borrowings, secured	122,500	50,000
– Convertible bonds	916,603	901,734
– Medium-term note	–	599,378
	1,761,195	1,845,920
	3,685,711	3,838,141

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

11. Borrowings (Continued)

Movements in borrowings were analysed as follows:

	RMB'000
Six months ended 30 June 2015	
Opening amount as at 1 January 2015	4,515,647
New borrowings	1,391,100
Repayments of borrowings	(1,622,390)
Conversion of convertible bonds	(53,760)
Amortisation of transaction cost:	
– Senior notes	4,606
– Convertible bonds – liability component	15,441
– Medium-term note	900
Exchange differences	1,115
	<u>4,252,659</u>
Closing amount as at 30 June 2015	
Six months ended 30 June 2016	
Opening amount as at 1 January 2016	3,838,141
Transfer from disposal group classified as held for sale	20,100
New borrowings	675,489
Repayments of bank borrowings	(277,600)
Repayments of medium-term note	(600,000)
Amortisation of transaction cost:	
– Corporation bonds	2,232
– Convertible bonds – liability component	14,869
– Medium-term note	622
Exchange differences	11,858
	<u>3,685,711</u>
Closing amount as at 30 June 2016	

Interest expenses on borrowings for the six months ended 30 June 2016 were RMB104,700,000 (30 June 2015: RMB176,235,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

12. Trade, Other Payables and Accruals

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
Trade payables (a)	1,373,981	1,195,564
Advances from customers	493,291	510,875
Payables for property, plant and equipment	570,649	866,878
Bank acceptance notes payable	165,200	47,606
Government compensation related to property, plant and equipment disposal received in advance	151,144	151,144
Salaries, wages and staff welfare payables	398,232	347,628
Interest payables – current portion	36,902	33,682
Government grants received in advance	15,020	15,005
Dividends payable	407	407
Other payables and accruals	173,911	142,404
	3,378,737	3,311,193

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

12. Trade, Other Payables and Accruals (Continued)

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

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
Within 3 months	1,089,063	798,319
3 to 6 months	205,028	263,308
6 to 12 months	35,144	87,786
1 to 2 years	33,289	36,410
Over 2 years	11,457	9,741
	1,373,981	1,195,564

13. Current and Non-Current Assets Held for Sale

On 26 November 2015, the Group approved in an extraordinary general meeting the spin-off and listing plan on The Stock Exchange of Hong Kong Limited of Shenhua Health Holdings Limited ("Shenhua Health"), a holding company directly held by the Company, which is engaged in the manufacturing and sales of pharmaceutical products. On 27 October 2015, Shenhua Health submitted the listing application form (Form 5A) to the Stock Exchange to apply for the listing of, and permission to deal in, the shares of Shenhua Health Holdings Limited on The Stock Exchange of Hong Kong Limited.

As at 31 December 2015, the assets and liabilities of Shenhua Health were classified as held for sale when their carrying amount was to be recovered principally through a sale transaction and a sale was considered highly probable. However, on 29 March 2016, the Stock Exchange of Hong Kong Limited discontinued reviewing the application and returned the application form to Shenhua Health Holdings Limited. Such spin-off transaction was not assessed highly probable. Accordingly, as of 30 June 2016, the assets and liabilities of Shenhua Health were not classified as held for sale.

**NOTES TO THE
CONDENSED FINANCIAL STATEMENTS**
13. Current and Non-Current Assets Held for Sale (Continued)

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

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
ASSETS		
Non-current assets		
Leasehold land payments	–	7,772
Property, plant and equipment	–	67,405
Intangible assets	–	2,218
Deferred income tax assets	–	4,638
Long-term bank deposits	–	20,100
	<u>–</u>	<u>102,133</u>
Current assets		
Inventories	–	32,189
Trade and other receivables	–	30,597
Cash and bank balances	–	39,593
	<u>–</u>	<u>102,379</u>
Total Assets	<u>–</u>	<u>204,512</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

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

	As at	
	30 June 2016 RMB'000 Unaudited	31 December 2015 RMB'000 Audited
Liabilities		
Non-current liabilities		
Deferred income	-	584
Current liabilities		
Trade and other payables	-	28,966
Current income tax liabilities	-	1,148
Borrowings	-	20,100
Current portion of deferred income	-	5,673
	-	55,887
Total liabilities	-	56,471

14. Other Income

	Six months ended 30 June	
	2016 RMB'000 Unaudited	2015 RMB'000 Unaudited
Gain on disposal of a subsidiary	-	160,666
Sales of waste products	57,793	48,216
Amortisation of deferred income	39,592	32,601
Government grants relating to expenses	14,581	20,829
Others	11,363	6,212
	123,329	268,524

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

15. Expenses by Nature

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	Unaudited	Unaudited
Amortisation of leasehold land payments	14,571	5,654
Amortisation of intangible assets	134	530
Depreciation of property, plant and equipment	412,126	371,471
Value on employee services for the share option schemes	3,990	3,095
Inventory write-down – net	22,007	12,282
Plant relocation expenses	4,855	18,966
Loss on disposal of property, plant and equipment	463	1,080

16. Finance Costs – Net

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	Unaudited	Unaudited
Interest expense	104,701	176,235
Foreign exchange losses on financing activities	11,584	773
Finance costs	116,285	177,008
Finance income	(1,652)	(5,958)
Net finance costs	114,633	171,050

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

17. Income Tax Expense

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	Unaudited	Unaudited
Current income tax		
– PRC enterprise income tax	103,479	123,816
– U.S. enterprise income tax	102	–
– Singapore enterprise income tax	43	218
Deferred income tax	(20,926)	(7,329)
	82,698	116,705

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 2016 and 2015.

PRC enterprise income tax is calculated based on the effective tax rate on assessable profit of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

Singapore enterprise income tax is calculated based on the assessable profit of the subsidiary established in Singapore in accordance with Singapore tax laws and regulations.

The U.S. enterprise income tax is calculated based on the assessable profit of the subsidiary established in the U.S. in accordance with the U.S. tax laws and regulations.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

18. Earnings Per Share

	Six months ended 30 June	
	2016	2015
	Unaudited	Unaudited
Earnings per share for profit attributable to the Shareholders (RMB cents per share)		
– basic	16.48	19.59
– diluted	15.75	18.55

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 2016 was RMB16.48 cents and RMB15.75 cents respectively (equivalent to HK19.28 cents and HK18.43 cents) (1H 2015: RMB19.59 cents and RMB18.55 cents respectively (equivalent to HK24.84 cents and HK23.52 cents)).

19. Dividends

On 15 March 2016, the Board proposed a final dividend in respect of the year ended 31 December 2015 of HKD27,647,000 (equivalent to RMB23,223,000), representing HK1.3 cents (equivalent to RMB1.09 cents) per share. The final dividend was paid in June 2016.

At a meeting held on 16 August 2016, the Board proposed an interim dividend of HKD80,814,000 (equivalent to RMB69,295,000) (2015: HKD95,701,000 (equivalent to RMB79,124,000)), representing HK3.8 cents (equivalent to RMB3.26 cents) (2015: HK4.5 cents (equivalent to RMB3.72 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 2016.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

20. Contingent Liabilities – the Group

As at 30 June 2016 and 2015, the Group had no material contingent liabilities.

21. Related Party Transactions

Key management compensation is set out below:

	Six months ended 30 June	
	2016 RMB'000 Unaudited	2015 RMB'000 Unaudited
Salaries and allowances	9,385	9,363
Pension costs-defined contribution plan	443	362
Share options granted	3,990	3,095
	13,818	12,820

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.

22. Events Occurring After the Balance Sheet Date

Details of the interim dividend proposed are given in Note 19.

23. 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 11 August 2016 and 16 August 2016, 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 2016.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2016.

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.

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 2016.

OTHER INFORMATION

Share option scheme

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 2016, are as follows:

Director and eligible employees	Number of share options					Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
	At 1 January 2016	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2016			
Eligible employees ⁸	16,600,000	-	-	-	16,600,000	9/4/2015	5.69	9/4/2016-8/4/2020
	<u>16,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,600,000</u>			

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

**Granted on
9 April 2015**

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

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 2016, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position

Name of Director	Name of company	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
Li Xuechun	The Company	Interests of controlled corporation (Note 1)	985,138,461 Shares	46.32%
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:

- 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.
- The interest in these Shares is held by Mr. Wang Longxiang, an executive Director of the Company.
- 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

4. 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.
5. 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 2016, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interest of persons holding 5% or more interests

As at 30 June 2016, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
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Motivator Enterprises Limited (Note 1)	The Company	Beneficial interests	985,138,461 Shares	46.32%
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Shi Guiling (Note 2)	The Company	Interests of spouse	985,138,461 Shares	46.32%
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Treetop Asset Management SA	The Company	Beneficial interests	214,678,304 Shares	10.09%
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JPMorgan Chase & Co.	The Company	Beneficial interests	126,282,601 Shares	5.93%
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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 985,138,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

Short position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
JPMorgan Chase & Co.	The Company	Beneficial interests	37,484,045 Shares	1.76%

Save as disclosed above, for the period ended 30 June 2016, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

GLOSSARY

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
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
Listing Date	8 February 2007, the date on which the Company was listed on the Stock Exchange

GLOSSARY



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
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
Proposed Spin-off	the proposed spin-off of Shenhua Health by the Company
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Shenhua Health	Shenhua Health Holdings Limited (神華維康控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on 19 August 2015, and a direct wholly-owned subsidiary of the Company as at the date of this announcement
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company

GLOSSARY

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

