



# Fufeng Group Limited 阜豐集團有限公司

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



2017  
Interim Report

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## CORPORATE INFORMATION

### Executive Directors

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

### Independent Non-Executive Directors

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

### Principal Place of Business in the PRC

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Junan, Shandong 276600,  
PRC

### Principal Place of Business in Hong Kong

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Hong Kong

### Investor Relations Consultant

Vision Asia Consulting Group Ltd  
Room 1411, Austin Tower,  
22-26 Austin Avenue,  
Tsim Sha Tsui  
Hong Kong

### Independent Auditor

PricewaterhouseCoopers

### Branch Share Registrar

Tricor Investor Services Limited

### Stock Code

546

### Website

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

#### Overview

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

Although the PRC and global economies continued to face difficulties and challenges in the first half of 2017, 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 animal nutrition such as threonine, and new high-end biochemical products such as gellan gum, hyaluronic acid and high-end 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 the first half of 2017, the Group continuously benefited from the achieved results of industry consolidation in the past few years. We actively strengthened our competitiveness and constantly improved the production technology to achieve better cost effectiveness and more actively expand the Amino acid segment business. Our newly enhanced production technology of MSG further strengthened our competitive cost advantages by reducing production costs and increasing production yield. Construction of a new plant in Qiqihar City was started in the first half of 2017 and the first phase of the new plant is expected to be completed by the end of 2017.

The strategy of our product development is mainly divided into four categories:

1. Food additives (key products include MSG, compound seasoning, starch sweeteners, corn oil etc.);
2. Animal nutrition (key products include threonine, tryptophan, corn refined products etc.);
3. Colloid (key products include xanthan gum, pectin, welan gum etc.); and
4. High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid etc.).

## MANAGEMENT DISCUSSION AND ANALYSIS

The business environment of the Group has improved since 2016 due to gradual consolidation of MSG industry and the Group's effort to expand diversified products, coupled with a decrease in the price of corn kernels during the first half of 2017, which led to a significant increase in overall gross profit and net profit of the Group during the first half of 2017, compared to the corresponding period of 2016.

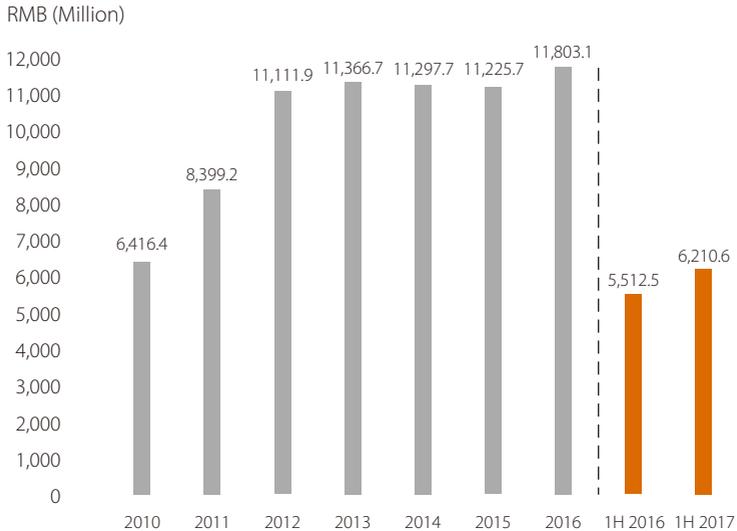
Overall revenue of the Group slightly increased for the six months ended 30 June 2017. The Group was able to rely on the growth products such as threonine and high-end amino acids and effective implementation of cost controls to increase overall profitability. The high-end amino acid products are more mature in terms of product development and market development, and we are more confident that we can become one of the world's leading suppliers of amino acid products. The overall production capacity of the Group in the first half of 2017 remained almost fully operational.

Our Amino acid segment is primarily made up of MSG, threonine and high-end amino acid products. In terms of MSG business, there was a decrease in the ASP in the first half of 2017 as costs of main raw materials, especially corn kernels, stayed at a low level during the period. The ASP of MSG remained at a relatively low level and the Group continued to face lackluster conditions in the consumer markets as well as pricing pressure due to market competition. Despite the challenging market conditions, the Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing. The Group was able to record an increase in gross profit and gross profit margin in its Amino acid segment, mainly due to increasing contribution from the sales of threonine and high-end amino acid products which offset the decreasing contribution from the sales of MSG. The expansion of threonine and high-end amino acid products continued to increase revenue contribution to the Group, especially after the commencement of operations at the new production facility in the Xinjiang Plant.

As another key business segment of the Group, our xanthan gum business gradually improved during the first half of 2017. The ASP and gross profit margin of xanthan gum increased gradually and the Group continuously strengthened its effort to promote xanthan gum in the food industry, which is reflected in the increasing contribution from xanthan gum during the period. The Group, as the largest xanthan gum manufacturer in the world, continued to dominate the global market share during the six months ended 30 June 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

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



For the six months ended 30 June 2017, the Group's revenue increased to approximately RMB6,210.6 million as compared to approximately RMB5,512.5 million for the six months ended 30 June 2016. The increase in revenue was primarily due to (1) the increase in annual production capacity by means of newly enhanced production technology, and (2) the increase in the sales of threonine, high-end amino acid products and xanthan gum.

The Group's overall gross profit significantly increased from approximately RMB1,064.1 million in the first half of 2016 to approximately RMB1,401.6 million in the first half of 2017. This represents an increase of 31.7%, primarily due to (1) the decrease in the price of corn kernels, (2) the decrease in production costs resulted from production technology enhancement, and (3) increase in gross profit contribution of threonine, starch sweeteners and high-end amino acid products.

In the first half of 2017, the ASP of the Group's MSG decreased by 9.1% compared to the corresponding period of 2016, due to a decrease in the average price of corn kernels. On the other hand, the ASP of xanthan gum increased by 9.6% compared to the corresponding period of 2016 as the Group strategically put more effort in promoting xanthan gum in the food industry and market conditions of xanthan gum stabilised in the global oil industry.

## MANAGEMENT DISCUSSION AND ANALYSIS

In view of the challenging market conditions, the Group had to continue actively implementing cost controls and managed to undertake a technology enhancement to its production processes, which contributed to improvements in production efficiency and cost structure. The significantly increased gross profit margin of Amino acid segment in the first half of 2017 demonstrates the Group's ability to leverage its economies of scale and the strategic locations of production capacities to manage its costs effectively.

The production and sales volume of MSG increased by approximately 11.1% and 7.7% in the first half of 2017 as compared to the first half of 2016, respectively. The production volume of MSG increased as a result of the technology enhancement of its production processes. While the production volume of xanthan gum decreased by approximately 59.3%, the sales volume of xanthan gum increased by 2.0% in the first half of 2017 compared to the first half of 2016. The production volume of xanthan gum decreased primarily as a result of low market demand. Therefore, the Group suspended part of the production lines of xanthan gum, which were changed to produce other profitable high-end amino acid products.

### Animal nutrition and high-end amino acid business

We continued the development of our threonine product. Threonine is a type of amino acid which is used as an animal feed additive. During the first half of 2017, the Group achieved great success in the production expansion of threonine, which was attributable to the successful layout of production bases and market development. Amidst considerable earnings of the threonine business, the Group managed to expand the production capacity of threonine. The sales of threonine reached approximately RMB631.3 million, representing an increase of 51.6% compared to the first half of 2016. The Group sold about 76,036 tonnes of threonine in the first half of 2017, as compared to 47,021 tonnes in the first half of 2016.

The high-end amino acid business, as part of our Amino acid segment, is the Group's growth driver. The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging 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 six months ended 30 June 2017, the sales of high-end amino acid products reached approximately RMB455.5 million, representing an increase of 44.6% compared to the first half of 2016. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. The short-term goal of the Group is to become a leading amino acid supplier in the world by market share for several of our key amino acid products. 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 of high end products.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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
	2017	2016	%
Turnover (RMB'000)	<b>6,210,619</b>	5,512,484	12.7
Gross profit (RMB'000)	<b>1,401,607</b>	1,064,123	31.7
Gross profit margin (%)	<b>22.6</b>	19.3	3.3 pts.

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

#### Profit attributable to the Shareholders

	Six months ended 30 June		Change
	2017 RMB'000	2016 RMB'000	%
As reported	<b>642,560</b>	350,449	83.4

Our profit attributable to the Shareholders increased by 83.4% for the six months ended 30 June 2017 as compared to the same period in 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 three categories of our products: 1. Food additives (key products include MSG, compound seasoning, starch sweeteners, corn oil etc.), 2. Animal nutrition (key products include threonine, tryptophan, corn refined products etc.), and 3. High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid etc.), while Xanthan gum segment represents the production and sale of xanthan gum and colloids such as welan gum.

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

	Six months ended 30 June 2017			Six months ended 30 June 2016			Increase/(Decrease)		
	Amino acid	Xanthan gum	Group	Amino acid	Xanthan gum	Group	Amino acid	Xanthan gum	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	%	%
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	5,878,596	332,023	6,210,619	5,213,176	299,308	5,512,484	12.8	10.9	12.7
Gross profit	1,314,398	87,209	1,401,607	1,017,485	46,638	1,064,123	29.2	87.0	31.7
Gross profit ratio	22.4%	26.3%	22.6%	19.5%	15.6%	19.3%	2.9 ppts.	10.7 ppts.	3.3 ppts.
Segment results	766,576	48,783		553,724	3,461		38.4	1,309.5	
Segment net assets									
Assets	9,786,329	4,106,802		9,182,392	3,960,516		6.6	3.7	
Liabilities	4,173,230	1,202,621		4,930,821	1,130,081		(15.4)	6.4	

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

### Amino Acid Segment

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenue and ASP

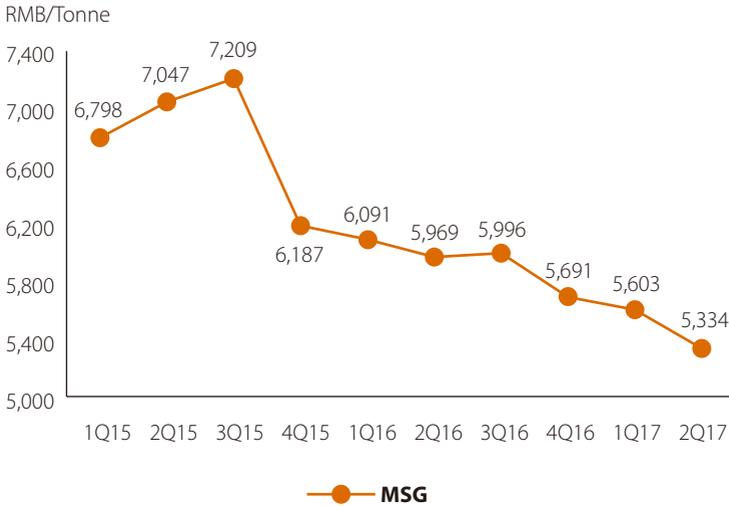
Revenue generated from the sales of the Amino acid segment products increased to RMB5,878.6 million in the first half of 2017, representing an increase of RMB665.4 million, or 12.8%, as compared with that in the corresponding period of 2016, mainly attributed to the increase in the revenue of threonine and high-end amino acid products. The revenue of MSG was stable primarily due to the effect of an increase in the sales volume of MSG, offset by the effect of a decrease in ASP during the period. The sales volume of MSG was about 547,672 tonnes in the first half of 2017, representing an increase of 7.7% as compared with the corresponding period of 2016, mainly due to the production technology enhancement which increased production yield and strengthened our competitive advantage.

The table below sets out the revenue of the products in this segment for the six months ended 30 June 2017 and 2016:

Product	Six months ended 30 June		Change %
	2017 RMB'000	2016 RMB'000	
MSG	2,998,000	3,066,942	(2.2)
Glutamic acid	226,215	70,564	220.6
Fertilisers (reclassified)	161,805	166,510	(2.8)
Corn refined products (reclassified)	988,587	779,922	26.8
Starch sweeteners	310,909	300,445	3.5
Threonine	631,338	416,351	51.6
High-end amino acid products	455,494	314,943	44.6
Corn oil	4,749	15,391	(69.1)
Compound seasoning	9,615	6,391	50.4
Others	91,884	75,717	21.4
	<b>5,878,596</b>	<b>5,213,176</b>	<b>12.8</b>

**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 2015 to the second quarter of 2017:



**MSG**

The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. While the ASP decreased by 9.1%, from approximately RMB6,025 per tonne in the first half of 2016 to approximately RMB5,475 per tonne in the first half of 2017, sales volume increased by 7.7%, from approximately 508,477 tonnes in the first half of 2016 to approximately 547,672 tonnes in the first half of 2017. Therefore, turnover of MSG only decreased by 2.2% to about RMB2,998.0 million in the first half of 2017.

In the first half of 2017, 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 RMB506.4 million in the first half of 2016 to about RMB602.2 million in the first half of 2017.



## MANAGEMENT DISCUSSION AND ANALYSIS

### *Fertilisers*

In the past, fertilisers mainly included two types of products: bacterial protein 菌體蛋白 and compound fertilisers 複混肥. Bacterial protein is a by-product from the production process of fertilisers. In the past, the production scale of bacterial protein was small and the difference between the ASP of compound fertiliser and bacterial protein was minor. Therefore, we classified the revenue from bacterial protein to the category of fertilisers. However, since the end of 2016, as the production technology has improved, the production scale of bacterial protein has increased. In addition, the ASP of bacterial protein has increased significantly due to the improvement of product quality. The ASP of bacterial protein for the six months ended 30 June 2017 was around RMB2,482 per tonne, representing an increase of RMB880, or about 54.9%, as compared to the corresponding period of 2016. Therefore, we decided to reclassify the revenue from bacterial protein to corn refined products for better revenue analysis.

On the other hand, the ASP of compound fertilisers for the six months ended 30 June 2017 was around RMB439, representing an increase of RMB136, or about 44.9%, as compared to the corresponding period of 2016. As the Group has continuously enhanced development of high value added fertilisers products, the ASP of fertilisers was in line with prevailing market conditions. The effect of the increase in ASP of fertilisers was offset by the decrease in sales volume. As a result, the reclassified revenue of fertilisers decreased from RMB166.5 million for the six months ended 30 June 2016 to RMB161.8 million for the six months ended 30 June 2017, representing a decrease of 2.8%.

### *Corn refined products*

As we reclassified bacterial protein into the corn refined products category, the revenue of corn refined products increased by about 26.8% for the six months ended 30 June 2017 as compared with the same period in 2016. It was mainly due to an increase in ASP of bacterial protein in the first half of 2017.

### *Starch sweeteners*

Turnover of starch sweeteners increased by about 3.5% in the first half of 2017, primarily due to an increase in ASP. The ASP of starch sweeteners increased from approximately RMB2,490 per tonne in the first half of 2016 to approximately RMB2,702 per tonne in the first half of 2017, whilst demand for our starch sweetener products was stable during this period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Threonine

Threonine is a growth product of the Group, with annual production capacity increasing to approximately 156,000 tonnes since the beginning of 2017. Threonine is classified as a major type product of animal nutrition in the Amino acid segment. It is an essential amino acid which maintains body protein balance and promotes the growth of living things, and our threonine is mainly used as an animal feed additive. The total revenue of threonine increased by about 51.6% in the first half of 2017 as compared to the corresponding period of 2016, primarily as a result of increased sales volume of threonine from approximately 47,021 tonnes in the first half of 2016 to approximately 76,036 tonnes in the first half of 2017. This was offset by the decrease in the ASP of threonine by 6.4%, from approximately RMB8,885 per tonne in the first half of 2016 to approximately RMB8,319 per tonne in the first half of 2017.

### 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 RMB455.5 million in the first half of 2017 as compared to approximately RMB314.9 million in the corresponding period of 2016. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end amino acid products by capitalising on our research and development capabilities and resources.

### Gross profit and gross profit margin

The gross profit of this segment is set out below:

	Six months ended 30 June		
	2017	2016	Change
Gross profit (RMB'000)	1,314,398	1,017,485	29.2%
Gross profit margin (%)	22.4	19.5	2.9pts.

## MANAGEMENT DISCUSSION AND ANALYSIS

Increasing gross profit contribution from threonine and high-end amino acids products, which have higher gross profit margins, resulted in an increase in the overall gross profit margin of the Amino acids segment. Gross profit increased to about RMB1,314.4 million and gross profit margin increased by 2.9 percentage points to 22.4% for the six months ended 30 June 2017. The Group has strengthened its product portfolio, such as animal nutrition and high-end amino acids products, and also maintained its competitive pricing strategy in order to expand its market share. As market conditions gradually return to normality and with the gradual resumption of growth in the future, we believe that the ASP of our major products will witness a return to stability going forward.

### Production costs

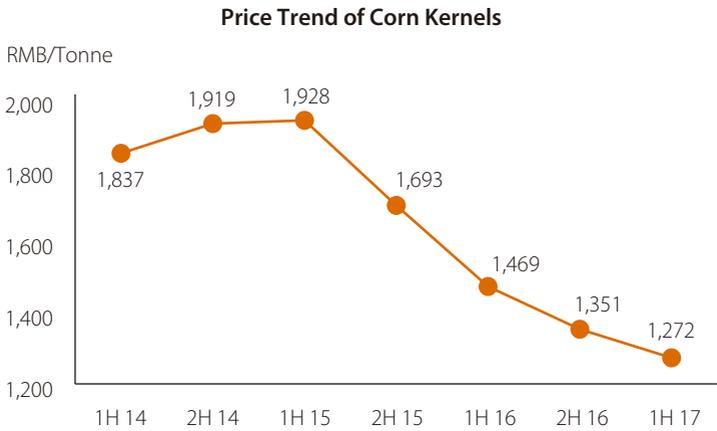
	Six months ended 30 June				Change %
	2017		2016		
	RMB'000	%	RMB'000	%	
Major raw materials					
• Corn kernels	2,410,522	47.7	2,397,326	55.7	0.6
• Liquid ammonia	96,854	1.9	62,178	1.4	55.8
• Sulphuric acid	43,842	0.9	52,093	1.2	(15.8)
Energy					
• Coal	669,318	13.3	429,377	10.0	55.9
Depreciation	383,593	7.6	343,447	8.0	11.7
Employee benefits	299,828	5.9	306,255	7.1	(2.1)
Others	1,147,355	22.7	710,761	16.6	61.4
Total cost of production	5,051,312	100.0	4,301,437	100.0	17.4

**MANAGEMENT DISCUSSION AND ANALYSIS**

**Corn kernels**

During the first half of 2017, corn kernels accounted for approximately 47.7% (1H 2016: 55.7%) of the total production cost of this segment, representing a decrease of 8.0 percentage points. The average price of corn kernels for six months ended 30 June 2017 was approximately RMB1,272 per tonne, representing a significant decrease of 13.4% compared to corresponding period of 2016. The decrease in average unit cost of corn kernels for the six months ended 30 June 2017 was due to weakness in demand and the overall economy.

The total cost of corn kernels increased by 0.6% in the first half of 2017, mainly due to the increase in consumption volume as production capacity increased, which was offset by the effect of a decrease in the ASP of corn kernels.



**Liquid ammonia**

Liquid ammonia accounted for approximately 1.9% (1H 2016: 1.4%) of total production cost in this segment in the first half of 2017. The average unit cost of liquid ammonia for the first half of 2017 decreased to approximately RMB2,245 per tonne, which represents a decrease of approximately RMB113 per tonne, or 4.8%, from the first half of 2016. As the ASP of liquid ammonia continuously decreased, we used more volume of liquid ammonia to replace synthetic ammonia which was produced by our company.



## MANAGEMENT DISCUSSION AND ANALYSIS

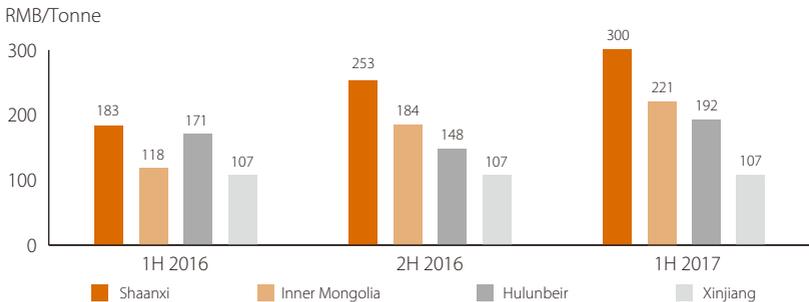
### *Sulphuric acid*

Sulphuric acid accounted for approximately 0.9% (1H 2016: 1.2%) of total production cost in this segment in the first half of 2017. The average unit cost of sulphuric acid decreased to approximately RMB198 per tonne, which represents a decrease of approximately RMB33 per tonne, or 14.3%, from the first half of 2016.

### *Coal*

Coal accounted for 13.3% (1H 2016: 10.0%) of total production cost in this segment in the first half of 2017. The average unit cost of coal for the first half of 2017 was RMB200 per tonne, which represents an increase of RMB52 per tonne, or 35.1%, from the first half of 2016. The increase in coal prices reflects a general increase in commodity prices as market demand increases.

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



## 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 %
	2017 Tonnes	2016 Tonnes	
MSG			
Annual designed production capacity (Note)	<b>615,000</b>	565,000	8.8
Actual production output	<b>612,193</b>	551,186	11.1
Utilisation rate	<b>99.5%</b>	97.6%	
Threonine			
Annual designed production capacity (Note)	<b>78,000</b>	68,000	14.7
Actual production output	<b>80,027</b>	55,631	43.9
Utilisation rate	<b>102.6%</b>	81.8%	
Fertilisers			
Annual designed production capacity (Note)	<b>540,000</b>	475,000	13.7
Actual production output	<b>546,542</b>	457,610	19.4
Utilisation rate	<b>101.2%</b>	96.3%	
Starch sweeteners			
Annual designed production capacity (Note)	<b>130,000</b>	130,000	–
Actual production output	<b>119,603</b>	129,299	(7.5)
Utilisation rate	<b>92.0%</b>	99.5%	

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 2017. The increase in annual production capacity of MSG were due to the implementation of new production technology in Inner Mongolia and Hulunbeir Plants completed at the end of 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Xanthan Gum Segment

The global market demand for xanthan gum returned to stability but was still at a low level in the first half of 2017. The global economy remained weak, especially the oil industry, which has continuously impacted the contribution of xanthan gum business to the Group. The Group has consistently maintained and increased its market share since 2009 and the total supply of the top three xanthan gum manufacturers continued to dominate the global market.

### Operational 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 2017 and 2016:

	Six months ended 30 June		Change
	2017	2016	%
Sales amount (RMB'000)	<b>332,023</b>	299,308	10.9
ASP (RMB/tonne)	<b>12,624</b>	11,522	9.6
Gross profit (RMB'000)	<b>87,209</b>	46,638	87.0
Gross profit margin (%)	<b>26.3</b>	15.6	10.7 pts.
Annual designed production capacity (tonnes) (Note)	<b>30,000</b>	36,500	(17.8)
Actual production output (tonnes)	<b>15,384</b>	37,760	(59.3)
Utilisation rate	<b>51.3%</b>	103.5%	

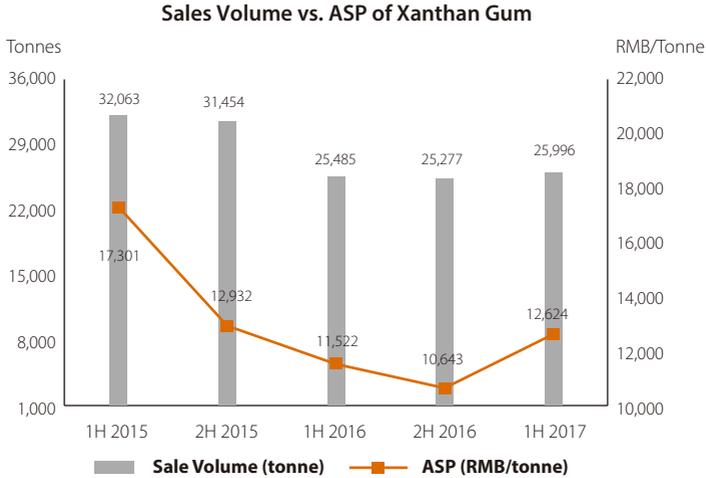
Note: The annual designed production capacity is expressed on pro-rata basis

Revenue generated from xanthan gum increased by 10.9% from RMB299.3 million in the first half of 2016 to RMB332.0 million in the first half of 2017. The increase in revenue was due to the increases in the ASP and sales volume during the period.

The Group's exports of xanthan gum decreased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed 83.7% and 79.4% of total sales of xanthan gum in the first half of 2016 and 2017, respectively, reflecting demand weakness in the global oil industry.

**MANAGEMENT DISCUSSION AND ANALYSIS**

**Sales volume and ASP**



Global demand for xanthan gum fluctuated during the six months ended 30 June 2017. Market demand was still weak in the first half of 2017, however, the market condition of the oil industry returned to stability. In addition, the Group continuously strengthened its effort to promote xanthan gum in the food industry. Sales volume increased by 2.0% and sales increased by 10.9% in the first half of 2017, respectively. The ASP of xanthan gum slightly increased to about RMB12,624 per tonne, representing an increase of 9.6%. As demand remains stable at a low level in the oil industry as well as other sectors, the ASP of xanthan gum is expected to remain stable at a relatively low level during the second half of 2017.

**Gross profit and gross profit margin**

Gross profit of the xanthan gum segment increased by about 87.0%, from approximately RMB46.6 million in the first half of 2016 to approximately RMB87.2 million in the first half of 2017. Gross profit margin increased as well, by 10.7 percentage points, in the first half of 2017, reflecting the general pricing of xanthan gum and the oil industry returning to stability.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Production costs

	Six months ended 30 June				
	2017		2016		Change %
	RMB'000	%	RMB'000	%	
Major raw materials					
• Corn kernels	<b>40,476</b>	<b>25.1</b>	124,077	40.2	(67.4)
• Soybeans	<b>10,771</b>	<b>6.7</b>	24,784	8.0	(56.5)
Energy					
• Coal	<b>35,507</b>	<b>22.1</b>	45,851	14.9	(22.6)
Depreciation	<b>14,704</b>	<b>9.1</b>	28,284	9.2	(48.0)
Employee benefit	<b>16,834</b>	<b>10.5</b>	39,447	12.8	(57.3)
Others	<b>42,649</b>	<b>26.5</b>	46,063	14.9	(7.4)
Total cost of production	<b>160,941</b>	<b>100.0</b>	308,506	100.0	(47.8)

As the market demand for xanthan gum has decreased in the past two years, the Group has changed part of its production capacity of xanthan gum to produce other high-end amino acid products. The actual production output of xanthan gum was about 15,384 tonnes in the first half of 2017, representing a reduction of 59.3% as compared to the corresponding period in 2016. Therefore, the total cost of production for xanthan gum fell to about RMB160.9 million, a decrease of 47.8% as compared to the corresponding period of 2016.

#### **Corn kernels**

During the first half of 2017, corn kernels represented approximately 25.1% (1H 2016: 40.2%) of the total production cost of this segment, representing a decrease of 15.1 percentage points. The average cost of corn kernels for the first half of 2017 was approximately RMB1,563 per tonne, which represents a decrease of approximately RMB79 per tonne, or 4.8%, from that of the corresponding period in 2016.

The cost of corn kernels decreased about 67.4%, from approximately RMB124.1 million in the first half of 2016 to approximately RMB40.5 million in the first half of 2017, mainly due to the reduction in production volume as the Group changed part of its production facility to other new higher margin products.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Soybeans***

During the first half of 2017, soybeans accounted for approximately 6.7% (1H 2016: 8.0%) of the total production cost of this segment. The price of soybeans increased from approximately RMB3,733 per tonne in the first half of 2016 to approximately RMB4,269 per tonne in the first half of 2017, representing an increase of 14.4%.

### ***Coal***

During the first half of 2017, coal accounted for approximately 22.1% (1H 2016: 14.9%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost utilising its strategic locations of IM Plant and Xinjiang Plant. The average unit cost of coal for the first half of 2017 was approximately RMB198 per tonne, which represents an increase of approximately RMB83 per tonne, or 72.2%, from that of the first half of 2016.

### ***Other production costs***

The cost of employee benefits and depreciation in the first half of 2017 decreased as compared to the corresponding period of 2016, mainly due to the reduction in production volume as the Group changed part of its production facility to other higher margin products.

Although the actual production output of xanthan gum decreased, the costs of fixed consumable goods were maintained during the period. In addition, the Group continued to strengthen the research and development of some new colloid such as welan gum. The relevant production and research and development costs are classified in other production costs. Therefore, other production costs slightly decreased for the period.

## **Other Financial Information**

### **Selling and marketing expenses**

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

### **Administrative expenses**

Administrative expenses decreased by approximately RMB50.9 million, or 18.2%, in the first half of 2017, as the one-off expenses for our Proposed Spin-off and listing application took place in the first half of 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Finance costs (net)

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

Interest expense decreased by approximately RMB61.7 million due to (1) a decrease in bank borrowings as our working capital increased, (2) a share placement during the period, and (3) the full conversion of the convertible bonds due in 2018 into ordinary shares of the Company by the bondholders during the six months ended 30 June 2017.

During the first half of 2017, the Group recorded an exchange gain on financing activities amounting to approximately RMB17.9 million, mainly due to the exchange gain of current bank borrowings denominated in USD.

### Other income

In the first half of 2017, other income amounted to RMB124.4 million, which was mainly comprised of the income from the sales of waste products, amortisation of deferred income and government grants.

### Income tax expense

The income tax expenses for the six months ended 30 June 2017 mainly represented the PRC Enterprise Income Tax ("EIT"). Two subsidiaries of the Group, Shandong Fufeng and Shenhua Pharmaceutical, have obtained the approvals to become new and high-technology enterprises and had been entitled to a preferential income tax rate of 15% (1H2016: 15%). The qualification of new and high-technology enterprise is subject to redetermination for each three year interval.

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

Four subsidiaries of the Group, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (1H 2016: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (1H 2016: 25%).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Proposed Spin-off

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

### Outlook for Second Half of 2017

#### Constructing a new corn processing plant and further expand the businesses of animal nutrition and food additive

In order to take full advantage of corn production capacity in Heilongjiang, the Company is constructing a new corn processing project in Qiqihar City, Heilongjiang Province, to sustain the development of the animal nutrition and food additive businesses. Current production capacity of the first phase amounts to 200,000 tonnes of starch sweeteners and 100,000 tonnes of threonine. The project commenced construction in the first half of 2017 and is scheduled to begin pilot production at the end of this year. In the second half of 2017, we plan to build another 200,000 tonnes of production capacity of lysine and other products, which is expected to start pilot production in the middle of next year.

#### Amino acid segment

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Xanthan gum segment

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

## Future Plan and Recent Development

### Enhancing our competitive strengths in global amino acid market

- With the evolving competitive landscape in the global amino acid market, an increasing number of international leading enterprises have decided to reduce or cut their own production capacity and outsource their production processes. This creates opportunities for the Group to expand our share of the amino acid market based on our well established position in the threonine market. We will speed up our development pace to launch the lysine product and tap the animal nutrition market;
- We are communicating and negotiating with various biochemical enterprises which possess leading technologies and we actively seek comprehensive cooperation in respect to the research and development and production of new amino acid products to increase the proportion of high value-added products and further raise the threshold of entry and barrier of competition.

### Increasing effort in technology enhancement

The Group will increase efforts in technological enhancement and process improvement, which can promote the application of new fermentation agents, raise the output of critical processes, reduce unit consumption and production costs, and enhance product benefit.

### Expanding overseas market share and improving customers' satisfaction

- On top of the strong growth momentum in export market in the first half of the year, the Group will increase its marketing efforts in key overseas markets such as Southeast Asia and South America to achieve significant improvement in the proportion of export sales;
- In respect to the domestic market, the Group will focus on expanding business channels and extending customer coverage. Through introducing a more competitive incentive mechanism, we will be able to increase the proportion of direct sales and improve customers' satisfaction and loyalty, thereby extending the Group's leading position and competitive edges in fermentation business from production-side to market-side and customer-side.

## MANAGEMENT DISCUSSION AND ANALYSIS

Going forward, the Group will continue to strengthen its overall brand building and vigorously increase sales and promotion of high-end amino acid products in the health and wellness industry in China, including collaboration with market leaders, in order to create a new growth driver for the Group.

### Liquidity and financial resources

As at 30 June 2017, the Group's cash and cash equivalent and restricted bank deposits were RMB1,664.0 million (31 December 2016: RMB1,422.1 million) whereas current bank borrowings were approximately RMB1,292.7 million (31 December 2016: RMB1,176.8 million). Non-current bank borrowings and non-current other borrowings (including the balances of corporate bonds) were approximately RMB252.4 million and RMB993.6 million, respectively (31 December 2016: nil and RMB1,923.2 million).

### Convertible bonds

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

### Corporate bonds

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

### Share placement

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Material acquisition or disposal of subsidiary and associated company

The Group had no material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2017.

### Employees

As at 30 June 2017, the Group had approximately 7,500 employees (30 June 2016: 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 Scheme" under the "Other Information" section below for the share options granted to certain Directors and employees of the Group after the IPO.

### Charges on assets

As at 30 June 2017, there were no charges on assets for bank borrowings. (31 December 2016: certain restricted bank deposits of the Group amounted to RMB307.5 million were pledged to certain banks to secure bank borrowings of approximately RMB307.5 million.)

The non-current bank borrowings are guaranteed 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, under an inter-creditor agreement. 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 2017, the total assets of the Group amounted to approximately RMB15,563.6 million (31 December 2016: RMB14,456.1 million) whereas the total borrowings amounted to RMB2,538.7 million (31 December 2016: RMB3,100.0 million). As at 30 June 2017, the gearing ratio was approximately 16.3% (31 December 2016: 21.4%). 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 operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and foreign currency bank borrowings. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The Group slowed down the exchange settlement as a result of the devaluation of the RMB. The Group manages foreign exchange risk arising from proceeds from bank borrowings by remitting the necessary funds to the PRC and using the proceeds based on operational needs and foreign exchange market situation. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the six months ended 30 June 2017.

### Dividend

The Board has resolved to pay an interim dividend of HK8.8 cents per Share for the year ended 31 December 2017, payable on or before 29 September 2017 to the Shareholders whose names appear on the register of members of the Company on 21 September 2017.

### Closure of register of members

The register of members of the Company will be closed from Monday, 18 September 2017 to Thursday, 21 September 2017 (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, 15 September 2017.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	7,901,626	7,858,775
Leasehold land payments	7	1,405,749	1,413,942
Intangible assets	7	8,350	9,108
Investments accounted for using the equity method		30,699	30,647
Deferred income tax assets		169,007	184,396
Long-term bank deposits	9	20,100	20,100
<b>Total non-current assets</b>		<b>9,535,531</b>	<b>9,516,968</b>
<b>Current assets</b>			
Inventories		2,546,598	2,481,911
Trade and other receivables	8	1,817,519	1,035,076
Cash and bank balances	9	1,663,973	1,422,147
<b>Total current assets</b>		<b>6,028,090</b>	<b>4,939,134</b>
<b>Total assets</b>		<b>15,563,621</b>	<b>14,456,102</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Shareholders</b>			
Share capital	10	244,436	207,222
Share premium	10	1,857,074	462,639
Other reserves		325,334	319,980
Retained earnings		6,469,741	5,826,023
<b>Total equity</b>		<b>8,896,585</b>	<b>6,815,864</b>

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	11	1,245,993	1,923,185
Deferred income		702,316	707,501
Deferred income tax liabilities		16,650	16,650
<b>Total non-current liabilities</b>		<b>1,964,959</b>	<b>2,647,336</b>
<b>Current liabilities</b>			
Trade, other payables and accruals	12	3,345,366	3,721,615
Current income tax liabilities		63,962	94,494
Borrowings	11	1,292,749	1,176,793
<b>Total current liabilities</b>		<b>4,702,077</b>	<b>4,992,902</b>
<b>Total liabilities</b>		<b>6,667,036</b>	<b>7,640,238</b>
<b>Total equity and liabilities</b>		<b>15,563,621</b>	<b>14,456,102</b>

The notes on pages 33 to 54 are an integral part of these condensed consolidated interim financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Six months ended 30 June	
	Note	2017 RMB'000	2016 RMB'000
Revenue	6	<b>6,210,619</b>	5,512,484
Cost of sales		<b>(4,809,012)</b>	(4,448,361)
<b>Gross profit</b>		<b>1,401,607</b>	1,064,123
Other income	13	<b>124,373</b>	123,329
Selling and marketing expenses		<b>(489,830)</b>	(351,001)
Administrative expenses		<b>(228,201)</b>	(279,115)
Other operating expenses		<b>(20,992)</b>	(23,434)
Other gain		<b>3,923</b>	13,878
<b>Operating profit</b>	14	<b>790,880</b>	547,780
Finance income		<b>22,410</b>	1,652
Finance costs		<b>(42,993)</b>	(116,285)
Finance costs – net	15	<b>(20,583)</b>	(114,633)
Share of profit of investments accounted for using the equity method		<b>53</b>	–
<b>Profit before income tax</b>		<b>770,350</b>	433,147
Income tax expense	16	<b>(127,790)</b>	(82,698)
<b>Profit for the period and attributable to the Shareholders</b>		<b>642,560</b>	350,449

**INTERIM CONDENSED  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		<b>Unaudited Six months ended 30 June</b>	
	Note	<b>2017 RMB'000</b>	2016 RMB'000
<b>Other comprehensive income for the period</b>		–	–
<b>Total comprehensive income for the period</b>		<b>642,560</b>	350,449
<b>Total comprehensive income attributable to the Shareholders</b>		<b>642,560</b>	350,449
<b>Earnings per share for profit attributable to the Shareholders during the period</b> (expressed in RMB cents per share)			
– Basic	17	<b>27.98</b>	16.48
– Diluted	17	<b>27.93</b>	15.75

The notes on pages 33 to 54 are an integral part of these condensed consolidated interim financial information.

## 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 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
<b>Transactions with Shareholders, recognised directly in equity</b>					
Employees share option scheme:					
– Value of employee services	-	-	3,990	-	3,990
Dividends	-	(23,223)	-	-	(23,223)
<b>Total transactions with Shareholders, recognised directly in equity</b>	-	(23,223)	3,990	-	(19,233)
<b>Balance at 30 June 2016</b>	<b>207,222</b>	<b>531,934</b>	<b>231,645</b>	<b>5,167,474</b>	<b>6,138,275</b>
Balance at 1 January 2017	207,222	462,639	319,980	5,826,023	6,815,864
Total comprehensive income for the period ended 30 June 2017	-	-	-	642,560	642,560
<b>Transactions with Shareholders, recognised directly in equity</b>					
Employees share option scheme:					
– Value of employee services	-	-	6,512	-	6,512
– Expiration of options issued	-	-	(1,158)	1,158	-
Conversion of convertible bonds	24,807	904,513	-	-	929,320
Issuance of ordinary shares	12,407	666,737	-	-	679,144
Dividends	-	(176,815)	-	-	(176,815)
<b>Total transactions with Shareholders, recognised directly in equity</b>	<b>37,214</b>	<b>1,394,435</b>	<b>5,354</b>	<b>1,158</b>	<b>1,438,161</b>
<b>Balance at 30 June 2017</b>	<b>244,436</b>	<b>1,857,074</b>	<b>325,334</b>	<b>6,469,741</b>	<b>8,896,585</b>

The notes on pages 33 to 54 are an integral part of these condensed consolidated interim financial information.

## INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2017 RMB'000 Unaudited	2016 RMB'000 Unaudited
<b>Cash flows from operating activities</b>		
Cash generated from operations	292,479	1,328,827
Interest paid	(18,137)	(83,291)
Income taxes paid	(142,933)	(97,526)
	<u>131,409</u>	<u>1,148,010</u>
<b>Net cash flows generated from operating activities</b>		
	<u>131,409</u>	<u>1,148,010</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(484,989)	(689,151)
Payments of leasehold land	(3,713)	(80,636)
Purchase of intangible assets	(28)	(163)
Payments of plant relocation expenses	(153)	(4,855)
Proceeds from disposal of property, plant and equipment	1,976	1,571
Assets-related government grants received	56,711	69,078
Interest received	4,526	1,652
Proceeds from term deposits	-	145,000
Payment for term deposits	(5,000)	-
	<u>(430,670)</u>	<u>(557,504)</u>
<b>Net cash (used in)/generated from investing activities</b>		
	<u>(430,670)</u>	<u>(557,504)</u>

## INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
		Unaudited	Unaudited
	Note		
<b>Cash flows from financing activities</b>			
Net proceeds from shares issued		679,143	–
Proceeds from bank borrowings	11	697,235	675,489
Repayments of bank borrowings	11	(311,035)	(277,600)
Redemption of medium-term notes	11	–	(600,000)
Dividends paid to the Company's shareholders	18	(176,815)	(23,223)
<b>Net cash used in financing activities</b>		<b>888,528</b>	<b>(225,334)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<b>589,267</b>	365,172
Cash and cash equivalents at beginning of the period		<b>959,686</b>	776,880
<b>Cash and cash equivalents at end of the period</b>		<b>1,548,953</b>	1,142,052

The notes on pages 33 to 54 are an integral part of these condensed consolidated interim financial information.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. General Information

Fufeng Group Limited (the “Company”) and its subsidiaries (together, the “Group”) manufacture and sell fermentation-based food additive and biochemical products and starch-based products. The Group has manufacturing plants in Shandong Province, Shaanxi Province, Jiangsu Province, Heilongjiang Province, Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region of the People’s Republic of China (the “PRC”) and sells mainly to customers located in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company has its shares listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in RMB, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 22 August 2017.

This condensed consolidated interim financial information has not been audited.

#### Significant events and transactions

The Group is constructing a new corn processing project in Qiqihar City, Heilongjiang Province to sustain the development of businesses of animal nutrition and food additive of the Group in the first half of 2017. The first phase of the new plant is expected to be completed by the end of 2017.

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

The Group issued RMB975,000,000 convertible bonds with a fixed coupon rate of 3.0% per year in 2013 with 5-year terms (“2013 CB”). As at 31 December 2016, the carrying amount of 2013 CB was RMB931,944,000. During the six months ended 30 June 2017, all 2013 CB were fully converted to 280,049,404 common shares.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 2. Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2017 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 2016, which have been prepared in accordance with HKFRS.

### 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 2016, 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.

The adoption of the new amendments of HKFRSs that are effective for the first time for this interim period do not have any material impact on the Group.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

The following new standards, amendments and interpretations of HKFRSs have been issued and are relevant to the Group's operations but they are not yet effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 2 (Amendment)	Share-based payment	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKAS 40 (Amendment)	Investment Property	1 January 2018
HKAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group will apply the new standards, amendments and interpretations of HKFRSs described above when they become effective. The Group is in the process of making an assessment on the impact of these new standards and amendments of HKFRSs and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position.

### 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 2016.

## 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 2016.

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 2016 year end, there was no material change 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 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 6. Segment Information

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

The executive directors consider the business from a product perspective and accordingly, the Group's operations are mainly organised under Amino acid segment and Xanthan gum segment. The products of the business segment are:

- manufacturing and sales of amino acid, including 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 70% (30 June 2016: 76%) 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

The revenue of the Group for the six months ended 30 June 2017 and 2016 are set out as follows:

	Six months ended 30 June	
	2017 RMB'000 Unaudited	2016 RMB'000 Unaudited
MSG	<b>2,998,000</b>	3,066,942
Corn refined products	<b>988,587</b>	779,922
Threonine	<b>631,338</b>	416,351
High-end amino acid products	<b>455,494</b>	314,943
Xanthan gum	<b>332,023</b>	299,308
Starch sweeteners	<b>310,909</b>	300,445
Glutamic acid	<b>226,215</b>	70,564
Fertilisers	<b>161,805</b>	166,510
Corn oil	<b>4,749</b>	15,391
Others	<b>101,499</b>	82,108
	<b>6,210,619</b>	5,512,484

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

The segment information for the six months ended 30 June 2017 is as follows:

	Amino acid RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	5,878,596	332,023	–	6,210,619
Segment results	766,576	48,783	(24,479)	790,880
Finance costs – net				(20,583)
Share of profit of investments accounted for using the equity method				53
Profit before income tax				770,350
Income tax expenses				(127,790)
Profit for the period				642,560

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	411,233	33,055	637	444,925
Amortisation of leasehold land payments	10,622	1,241	43	11,906
Amortisation of intangible assets	786	–	–	786
Gain on disposal of property, plant and equipment	1,291	–	–	1,291
Loss on disposal of property, plant and equipment	228	–	–	228

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

The segment assets and liabilities at 30 June 2017 are as follows:

	Amino acid RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Total assets	<u>9,786,329</u>	<u>4,106,802</u>	<u>1,670,490</u>	<u>15,563,621</u>
Total liabilities	<u>4,173,230</u>	<u>1,202,621</u>	<u>1,291,185</u>	<u>6,667,036</u>

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	<u>5,213,176</u>	<u>299,308</u>	<u>–</u>	<u>5,512,484</u>
Segment results	553,724	3,461	(9,405)	547,780
Finance costs – net				<u>(114,633)</u>
Profit before income tax				433,147
Income tax expenses				<u>(82,698)</u>
Profit for the period				<u>350,449</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

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 31 December 2016 are as follows:

	Amino acid RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Total assets	9,919,823	3,769,193	767,086	14,456,102
Total liabilities	4,833,050	908,334	1,898,854	7,640,238

## NOTES TO THE 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
<b>Six months ended 30 June 2017</b>				
<b>Opening net book amount at 1 January 2017</b>	1,413,942	7,858,775	9,108	9,281,825
Additions	3,713	488,689	28	492,430
Disposals	-	(913)	-	(913)
Depreciation and amortisation	(11,906)	(444,925)	(786)	(457,617)
<b>Closing net book amount at 30 June 2017</b>	<b>1,405,749</b>	<b>7,901,626</b>	<b>8,350</b>	<b>9,315,725</b>
<b>Six months ended 30 June 2016</b>				
<b>Opening net book amount at 1 January 2016</b>	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	7,772	67,405	2,218	77,395
Depreciation and amortisation	(14,571)	(412,126)	(134)	(426,831)
<b>Closing net book amount at 30 June 2016</b>	<b>1,583,897</b>	<b>7,606,137</b>	<b>3,298</b>	<b>9,193,332</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 8. Trade and other Receivables

	As at	
	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
Trade receivables (a)	554,036	388,654
Less: provision for impairment of trade receivables	(285)	(285)
Trade receivables, net	553,751	388,369
Notes receivables (b)	352,091	398,810
Deposits and others	43,896	63,041
Loans to employees	3,529	1,715
– Loans to key management	–	–
– Loans to other employees	3,529	1,715
Value-added tax for future deduction	60,360	26,894
Trade and other receivables excluding prepayments	1,013,627	878,829
Prepayments for raw materials	803,892	156,247
	<b>1,817,519</b>	<b>1,035,076</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

- (a) At 30 June 2017 and 31 December 2016, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at	
	<b>30 June 2017 RMB'000 Unaudited</b>	31 December 2016 RMB'000 Audited
Within 3 months	<b>450,815</b>	309,683
3–12 months	<b>93,567</b>	64,622
Over 12 months	<b>9,654</b>	14,349
	<b>554,036</b>	388,654

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 2017, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB279,695,000 (31 December 2016: RMB387,239,000) applied for settling the amounts payable to the Group's suppliers.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 9. Long-Term Bank Deposits and Cash and Bank Balances

	As at	
	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
Long-term bank deposits	20,100	20,100
Cash and cash equivalents		
– Cash on hand	582	390
– Cash in bank	1,548,371	959,296
	1,548,953	959,686
Term deposits over 3 months and within one year	7,000	2,000
Cash and bank balances	1,555,953	961,686
Restricted bank deposits	108,020	460,461
Total cash and bank balances	1,663,973	1,422,147
Total long-term bank deposits and cash and bank balances	1,684,073	1,442,247

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**10. Share Capital and Share 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
<b>Opening balance at 1 January 2016</b>	10,000,000	2,126,685	207,222	555,157	762,379
Dividends	–	–	–	(23,223)	(23,223)
<b>At 30 June 2016</b>	<u>10,000,000</u>	<u>2,126,685</u>	<u>207,222</u>	<u>531,934</u>	<u>739,156</u>
<b>Opening balance at 1 January 2017</b>	<b>10,000,000</b>	<b>2,126,685</b>	<b>207,222</b>	<b>462,639</b>	<b>669,861</b>
Conversion of convertible bonds	–	280,049	24,807	904,513	929,320
Issuance of ordinary shares	–	140,000	12,407	666,737	679,144
Dividends	–	–	–	(176,815)	(176,815)
<b>At 30 June 2017</b>	<u>10,000,000</u>	<u>2,546,734</u>	<u>244,436</u>	<u>1,857,074</u>	<u>2,101,510</u>

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**11. Borrowings**

	As at	
	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
<b>Non-current</b>		
– Bank borrowings, unsecured	252,421	–
– Convertible bonds	–	991,241
– Corporate bonds	993,572	931,944
	<b>1,245,993</b>	1,923,185
<b>Current</b>		
– Bank borrowings, unsecured	1,292,749	869,295
– Bank borrowings, secured	–	307,498
	<b>1,292,749</b>	1,176,793
	<b>2,538,742</b>	3,099,978

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 11. Borrowings (Continued)

Movements in borrowings were analysed as follows:

	RMB'000
<b>Six months ended 30 June 2016</b>	
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 borrowings	(277,600)
Repayments of medium-term note	(600,000)
Amortisation of transaction cost:	
– Senior notes	2,232
– Convertible bonds – liability component	14,869
– Medium-term note	622
Exchange differences	11,858
	<u>3,685,711</u>
<b>Closing amount as at 30 June 2016</b>	
<b>Six months ended 30 June 2017</b>	
Opening amount as at 1 January 2017	<b>3,099,977</b>
New borrowings	<b>697,235</b>
Repayments of bank borrowings	<b>(311,035)</b>
Conversion of convertible bonds	<b>(931,944)</b>
Amortisation of transaction cost:	
– Corporation bonds	<b>2,332</b>
Exchange differences	<b>(17,823)</b>
	<u><b>2,538,742</b></u>
<b>Closing amount as at 30 June 2017</b>	

Interest expenses on borrowings for the six months ended 30 June 2017 were RMB42,993,000 (30 June 2016: RMB104,701,000).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 12. Trade, other Payables and Accruals

	As at	
	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
Trade payables (a)	1,285,253	1,214,352
Advances from customers	618,143	693,249
Payables for property, plant and equipment	527,849	746,611
Bank acceptance notes payable	36,500	255,300
Government compensation related to property, plant and equipment disposal received in advance	139,778	139,778
Salaries, wages and staff welfares payables	392,340	398,146
Interest payables – current portion	32,760	12,444
Government grants received in advance	39,597	16,432
Dividends payable	407	407
Other payables and accruals	272,739	244,896
	<b>3,345,366</b>	<b>3,721,615</b>

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

	As at	
	30 June 2017 RMB'000 Unaudited	31 December 2016 RMB'000 Audited
Within 3 months	795,534	875,365
3 to 6 months	235,624	220,871
6 to 12 months	147,512	72,489
1 to 2 years	78,838	38,662
Over 2 years	27,745	6,965
	<b>1,285,253</b>	<b>1,214,352</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 13. Other Income

	Six months ended 30 June	
	2017 RMB'000 Unaudited	2016 RMB'000 Unaudited
Sales of waste products	48,985	57,793
Amortisation of deferred income	38,731	39,592
Government grants relating to expenses	16,879	14,581
Others	19,778	11,363
	<b>124,373</b>	<b>123,329</b>

### 14. Operating Profit

An analysis of the amounts presented as operating items in the financial information is given below.

	Six months ended 30 June	
	2017 RMB'000 Unaudited	2016 RMB'000 Unaudited
Amortisation of leasehold land payments	11,906	14,571
Amortisation of intangible assets	786	134
Depreciation of property, plant and equipment	444,925	412,126
Value on employee services for the share option schemes	6,512	3,990
Inventory write-down – net	–	22,007
Plant relocation expenses	153	4,855
Loss on disposal of property, plant and equipment	228	463

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 15. Finance Costs – Net

	Six months ended 30 June	
	2017 RMB'000 Unaudited	2016 RMB'000 Unaudited
Interest expense	42,993	104,701
Foreign exchange losses on financing activities	–	11,584
<b>Finance costs</b>	<b>42,993</b>	<b>116,285</b>
Interest income	(4,526)	(1,652)
Foreign exchange gains on financing activities	(17,884)	–
<b>Finance income</b>	<b>(22,410)</b>	<b>(1,652)</b>
<b>Net finance costs</b>	<b>20,583</b>	<b>114,633</b>

### 16. Income Tax Expense

	Six months ended 30 June	
	2017 RMB'000 Unaudited	2016 RMB'000 Unaudited
Current income tax		
– PRC enterprise income tax	110,737	103,479
– Hong Kong enterprise income tax	1,135	–
– U.S. enterprise income tax	528	102
– Singapore enterprise income tax	–	43
Deferred income tax	15,390	(20,926)
	<b>127,790</b>	<b>82,698</b>

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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 16. Income Tax Expense *(Continued)*

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

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 profile 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 profile of the subsidiary established in the U.S. in accordance with the U.S. tax laws and regulations.

### 17. Earnings Per Share

	Six months ended 30 June	
	2017 Unaudited	2016 Unaudited
Earnings per share for profit attributable to the Shareholders (RMB cents per share)		
– basic	<b>27.98</b>	16.48
– diluted	<b>27.93</b>	15.75

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 2017 was RMB27.98 cents and RMB27.93 cents respectively (equivalent to HK32.24 cents and HK32.18 cents) (1H 2016: RMB16.48 cents and RMB15.75 cents respectively (equivalent to HK19.28 cents and HK18.43 cents)).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 18. Dividends

On 21 March 2017, the Board proposed a final dividend in respect of the year ended 31 December 2016 of HKD165,881,000 (equivalent to RMB147,651,000), representing HK7.8 cents (equivalent to RMB6.94 cents) per share, which was added to HKD198,645,000 (equivalent to RMB176,815,000) after the conversion of convertible bonds during the six months ended 30 June 2017. The final dividend was paid in June 2017.

At a meeting held on 22 August 2017, the Board proposed an interim dividend of HKD224,113,000 (equivalent to RMB191,298,000) (1H2016: HKD80,814,000 (equivalent to RMB69,295,000)), representing HK8.8 cents (equivalent to RMB7.51 cents) (1H2016: HK3.8 cents (equivalent to RMB3.26 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 2017.

### 19. Contingent Liabilities

As at 30 June 2017 and 2016, the Group had no material contingent liabilities.

### 20. Related Party Transactions

Key management compensation is set out below:

	Six months ended 30 June	
	2017 RMB'000 Unaudited	2016 RMB'000 Unaudited
Salaries and allowances	9,371	9,385
Pension costs-defined contribution plan	337	443
Share options granted	5,354	3,990
	<b>15,062</b>	<b>13,818</b>

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.

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**21. Events Occurring After the Balance Sheet Date**

Details of the interim dividend proposed are given in Note 18.

**22. 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 16 August 2017 and 22 August 2017, respectively.



## OTHER INFORMATION

### Corporate Governance

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Listing Rules and came into full effect on 1 April 2012. For the six months ended 30 June 2017, the Company has complied with the Code Provisions of the Revised CG Code except for the following: Code provision A.6.7 of the Revised Code: The Independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company.

Due to other commitments, Mr. Qi Qing Zhong, an independent non-executive Director, did not attend the annual general meeting of the Company held on 16 May 2017. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2017.

### 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 2017.

## OTHER INFORMATION

## Share Option Scheme

The Company granted options to subscribe for an aggregate of 16,600,000 Shares, 14,700,000 Shares and 300,000 Shares on 9 April 2015, 9 November 2016 and 30 December 2016 respectively to Directors and eligible employees. Details of the share options granted and outstanding for the period ended 30 June 2017, are as follows:

Director and eligible employees	Note	Number of share options				At 30 June 2017	Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
		At 1 January 2017	Granted during the Period	Exercised during the Period	Lapsed during the Period				
Eligible employees	A	9,600,000	-	-	-	9,600,000	9/4/2015	5.69	9/4/2016 – 8/4/2020
Sun Yu Guo (Independent non-executive Director)	B	300,000	-	-	-	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Zheng Yu (Independent non-executive Director)	B	300,000	-	-	-	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Qi Qingzhong (Independent non-executive Director)	B	300,000	-	-	-	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	13,000,000	-	-	-	13,000,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	C	300,000	-	-	-	300,000	30/12/2016	3.82	30/12/2018 – 29/12/2022
		<u>23,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,800,000</u>			

**OTHER INFORMATION**

A) 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 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%

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 RMB17,515,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	<b>Granted on 9 November 2016</b>
Average share price	HKD3.45
Exercise price	HKD3.50
Expected life of options	6.0 years
Expected volatility	44.79%
Expected dividend yield	2.15%
Risk free rate	1.39%



## OTHER INFORMATION

- C) 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 RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	<b>Granted on 30 December 2016</b>
Average share price	HKD3.81
Exercise price	HKD3.82
Expected life of options	6.0 years
Expected volatility	44.52%
Expected dividend yield	2.18%
Risk free rate	1.70%

## Directors' 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 2017, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### Long position

Name of Director	Name of company	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
Li Xuechun	The Company	Interests of controlled corporation (Note 1)	991,638,461 Shares	38.94%
Li Deheng	The Company	Interests of controlled corporation (Note 2)	33,320,160 Shares	1.31%
Zhao Qiang	The Company	Beneficial interest (Note 3)	5,000,000 Shares	0.20%
Sun Yu Guo	The Company	Beneficial interest (Note 4)	300,000 Shares	0.01%
Zheng Yu	The Company	Beneficial interest (Note 5)	300,000 Shares	0.01%
Qi Qing Zhong	The Company	Beneficial interest (Note 6)	300,000 Shares	0.01%

## 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. The interest in these Shares is held by Empire Spring Investments Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Li Deheng, an executive director of the Company. Accordingly, Mr Li Deheng is deemed to be interested in all Shares held by Empire Spring Investments Limited under the SFO.
3. These shares represented the Shares which might be allotted and issued to Mr. Zhao Qiang, an Executive Director who was appointed on 5 June 2017, upon the exercise in full of the option granted to him.
4. These shares represented the Shares which might be allotted and issued to Mr. Sun Yu Guo, an Independent non-executive Director who was appointed on 23 November 2015, upon the exercise in full of the option granted to him.
5. These shares represented the Shares which might be allotted and issued to Ms. Zheng Yu, an Independent non-executive Director who was appointed on 31 December 2012, upon the exercise in full of the option granted to her.
6. These shares represented the Shares which might be allotted and issued to Mr. Qi Qing Zhong, an Independent non-executive Director who was appointed on 1 November 2014, upon the exercise in full of the option granted to him.

Save as disclosed above, as at 30 June 2017, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## OTHER INFORMATION

### Interests of Person Holding 5% or More Interests

As at 30 June 2017, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

#### Long position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
Motivator Enterprises Limited (Note 1)	The Company	Beneficial interests	991,638,461 Shares	38.94%
Shi Guiling (Note 2)	The Company	Interests of spouse	991,638,461 Shares	38.94%
Treetop Asset Management SA	The Company	Beneficial interests	326,973,314 Shares	12.84%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.
2. Ms. Shi Guiling is the spouse of Mr. Li Xuechun. Accordingly, she is also deemed to be interested in the 991,638,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

Save as disclosed above, as at 30 June 2017, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

## GLOSSARY

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located in Baoji City, Shaanxi Province, the PRC
Board	the board of Directors
Company	Fufeng Group Limited, a company incorporated in the Cayman Islands with limited liability, whose share are listed on the Main Board of the Stock Exchange
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

## 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 subsidiary 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 with par value of HKD0.10 each
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 report
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.), an indirect wholly-owned subsidiary of the Company
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region, the PRC
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

