Fufeng Group Limited
阜豐集團有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 546)

2018
Interim Report

CONTENTS

CORPORATE INFORMATION

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MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Overview

In the first half of 2018, the Group continued to be confronted with challenging factors, including but not limited to: the ongoing lackluster conditions in the domestic catering and consumer markets, intensified sector competition, and the significant increase in raw material costs such as corn kernels and coal during the six months ended 30 June 2018, as compared to the same period in 2017. Although committed to making necessary ongoing investments for implementing its long-term development strategy, the Group also had to actively implement cost controls in order to address these challenges. In terms of the MSG business, the Group faced lackluster conditions in the domestic catering and consumer markets as well as pricing pressure due to market competition. Despite these market conditions, the Group focused on increasing its market share and sales volume by leveraging its cost advantages to adopt competitive pricing. However, the significant increase in raw material costs, particularly corn kernels and coal, resulted in a significant decrease in the Group's gross profit and gross profit margin of MSG business during the period.

As the leader in the industry, the Group achieved stable development for 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.

The Group continued to strategically utilise the production facility and capacity of each plant in order to match ongoing market demand. The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. The Group also actively explored the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty and food additives mainly as starch sweeteners, 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 2018, the Group actively strengthened our competitiveness and constantly improved the production technology to achieve better cost effectiveness and help stabilise our profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

The strategy of our product development is mainly divided into four categories: 1. Food additives (key products include MSG, glutamic acid, compound seasoning, starch sweeteners, corn oil etc.), 2. Animal nutrition (key products include threonine, corn refined products etc.), 3. Colloid (key products include xanthan gum, welan gum, pectin etc.), and 4. High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid etc.).

MSG industry consolidation continued during the period under review. As the central government further strengthened the environmental policies, some production capacities in the sector were eliminated. However, the costs of core materials, including corn kernels and coal, recorded an upward trend during the first half of 2018, which led to a significant increase in production costs and a decrease in the gross profit margin of our key products. The Group recorded a significant decrease in its overall gross profit and net profit during the first half of 2018 compared to the corresponding period of 2017.

Overall revenue of the Group slightly increased for the six months ended 30 June 2018, and the Group was able to rely on the growth products such as starch sweeteners and threonine and effective implementation of cost controls to maintain its overall profitability. The high-end amino acid products successfully expanded in terms of product development and market share, and we are more confident that we can become one of the world's leading suppliers of threonine and high-end amino acid products. The Group has further enhanced its business strategy to adjust its production capacities according to market demand. The strategy not only fully utilizes the cost advantages of the Group but also leverages on the Group's pricing power to maximize its profitability.

Our Amino acid segment is primarily made up of three main category products including Food additives (key products include MSG and starch sweeteners), Animal nutrition (key products include threonine and corn refined products) and High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid).

In terms of Food additives business, the ASP and sales volume of MSG slightly increased in the first half of 2018. However, costs of major raw materials, particularly corn kernels and coal, increased significantly during the period. The Group continued to face lackluster conditions in the domestic catering and consumer markets as well as pricing pressure due to market competition. Despite the market conditions, the Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing. The Group recorded a significant decrease in gross profit and gross profit margin of the MSG business, which negatively affected the result contribution from the MSG business during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

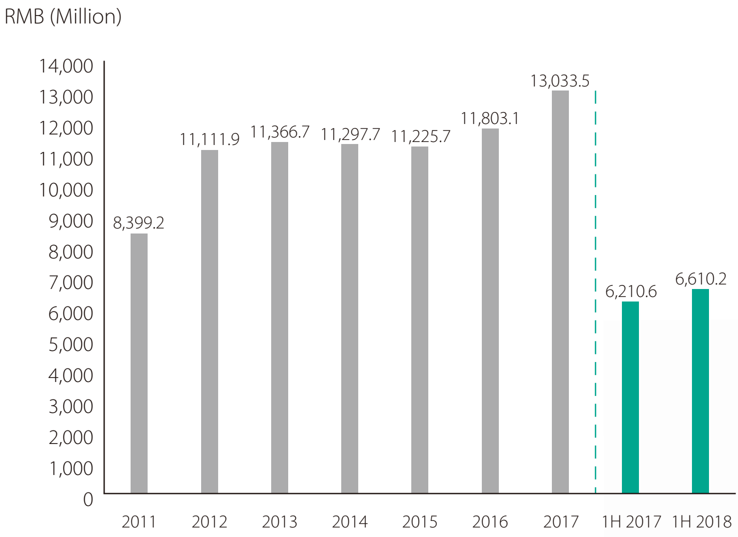
On the other hand, the new Longjiang Plant phase one has commenced production since the first half of 2018 and the annual production capacity of starch sweeteners increased to 420,000 tonnes. The sales revenue from starch sweeteners significantly increased to RMB433.6 million, a 39.5% increase, as compared to the corresponding period of 2017.

In terms of Animal nutrition business, the Group recorded a slightly increased contribution from the sales of threonine and the expansion of threonine continued to increase its revenue contribution to the Group.

On the other hand, the sales of high-end amino acid products decreased during the six months ended of 30 June 2018, mainly due to the restructuring of our internal products portfolio, lackluster conditions in the domestic consumer markets and stiff market competition.

As another key business segment of the Group, our Xanthan gum business has returned to stability since the second half of 2017 as market conditions in the oil industry recover. The ASP of xanthan gum increased to RMB15,004 per tonne, representing an increase of 18.9% during the six months ended of 30 June 2018, as compared to the corresponding period of 2017. The Xanthan gum business demonstrated a recovering trend in the first half of 2018. During the period, we slightly increased the annual production capacity of xanthan gum to 65,000 tonnes by means of a new production line commencing operation in our Xinjiang Plant. The Group, as the largest xanthan gum manufacturer in the world, continued to dominate the global market share during the six months ended of 30 June 2018.

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



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2018, the Group's revenue increased to approximately RMB6,610.2 million, as compared to approximately RMB6,210.6 million for the six months ended 30 June 2017. The increase in revenue was primarily due to (1) the increase in annual production capacity of starch sweeteners and threonine in the new Longjiang Plant, and (2) the increase in the sales volume of MSG, starch sweeteners, threonine and xanthan gum.

The Group's overall gross profit decreased from approximately RMB1,401.6 million in the first half of 2017 to approximately RMB1,121.5 million in the first half of 2018. This represents a decrease of 20.0%, primarily due to the increase in the major raw material costs, particularly corn kernels and coal.

In the first half of 2018, the ASP of the MSG increased slightly by 6.6% compared to the corresponding period of 2017, which was not sufficient to cover the significant increases of the average price of corn kernels and coal. On the other hand, the ASP of xanthan gum increased by 18.9% compared to the corresponding period of 2017, as market conditions of xanthan gum demonstrated an upward trend in the global oil industry.

In view of the challenging market conditions, the Group had to continue actively implementing cost controls and managed to undertake a technological enhancement to its production processes, which contributed to improvements in production efficiency and cost structure. The significantly decreased gross profit margin of the Amino acid segment in the first half of 2018 was mainly due to the increase in major raw material costs. Meanwhile, the effect could not be fully transferred to customers by increasing the price of MSG and other major products.

The production of MSG decreased by approximately 20.2% while sales volume slightly increased by 3.8% in the first half of 2018 as compared to the first half of 2017, respectively. The production volume of MSG decreased, which was mainly due to the change of business strategy to adjust the production capacity of MSG according to market demand. The strategy not only fully utilised the cost advantages of the Group but also leveraged on the Group's pricing power to maximise its profitability.

The production and sales volume of starch sweeteners increased by approximately 48.1% and 38.8% in the first half of 2018 as compared to the first half of 2017, respectively. The production volume increased as a result of the new production capacity of starch sweeteners commencing operation in our new Longjiang Plant.

Animal nutrition and high-end amino acid business

We continued the development of our threonine business. Threonine is a type of amino acid which is used as animal feed additives. During the six months ended of 30 June 2018, the sales of threonine reached approximately RMB668.9 million, representing an increase of 5.9% as compared to the first half of 2017. The Group sold approximately 79,407 tonnes of threonine in the first half of 2018, as compared to 76,036 tonnes in the first half of 2017.

In January 2018, the Group and Evonik entered into a cooperation agreement for the production of ThreAMINO® (L-Threonine). The Group will manufacture ThreAMINO® on behalf of Evonik and the collaboration enables Evonik to ensure a reliable supply of L-Threonine worldwide. The strategic partnership further strengthened the Group's market leadership in threonine, which is the new growth driver of the Group.

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 2018, the sales of high-end amino acid products reached approximately RMB419.8 million, representing a decrease of 7.8% as compared to the first half of 2017. 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 one of the world's top three producers and suppliers 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 for bulk trade to those of high-end products.

The production and sales volume of xanthan gum increased by 64.1% and 0.2%, respectively, in the first half of 2018 as compared to the first half of 2017. The production volume of xanthan gum increasing significantly during the period was mainly due to the reducing closing stock level in 2017.

Overall, the diversity of the Group's product portfolio allowed the Group to maintain its overall revenue growth momentum in the first half of 2018.

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
	2018	2017	**%**
Turnover (RMB'000)	**6,610,222**	6,210,619	6.4
Gross profit (RMB'000)	**1,121,477**	1,401,607	(20.0)
Gross profit margin (%)	**17.0**	22.6	(5.6) ppts.

As weakness in China's economy continued and major raw material costs increased in the first half of 2018, the performance of the Group in terms of gross profit and gross profit margin was significantly affected, especially reflected in the MSG business. Although the ASP of MSG slightly increased during the period, it could not offset the effect from an increase in raw material costs, particularly corn kernels and coal. Although the ASP of other main products such as threonine, high-end amino acid and starch sweeteners recorded slight increases compared to the corresponding period of 2017, overall gross profit decreased by 20.0% in the first half of 2018.

On the other hand, the market condition of xanthan gum stabilised, resulting in the ASP of xanthan gum increasing in the first half of 2018. The result contribution from Xanthan gum segment increased for the six months ended of 30 June 2018.

Profit attributable to the Shareholders

	Six months ended 30 June		
	2018 **RMB'000**	2017 RMB'000	**Change** **%**
As reported	**314,998**	642,560	(51.0)

Our profit attributable to the Shareholders decreased by 51.0% for the six months ended 30 June 2018 as compared to the corresponding period in 2017.

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 main categories of products: 1. Food additives (key products include MSG, glutamic acid, compound seasoning, starch sweeteners, corn oil etc.), 2. Animal nutrition (key products include threonine, 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 2018			Six months ended 30 June 2017			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	6,222,207	388,015	6,610,222	5,878,596	332,023	6,210,619	5.8	16.9	6.4
Gross profit	997,028	124,449	1,121,477	1,314,398	87,209	1,401,607	(24.1)	42.7	(20.0)
Gross profit ratio	16.0%	32.1%	17.0%	22.4%	26.3%	22.6%	(6.4) ppts.	5.8 ppts.	(5.6) ppts.
Segment results	347,337	101,856		766,576	48,783		(54.7)	108.8	
Segment net assets									
Assets	12,854,755	4,106,911		9,786,329	4,106,802		31.4	0.0	
Liabilities	6,234,387	1,058,955		4,173,230	1,202,621		49.4	(11.9)	

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

Amino acid segment

Amino acid segment mainly includes the sales of three main categories products including Food additives (key products include MSG and starch sweeteners), Animal nutrition (key products include threonine and corn refined products) and High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid) and other related products.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and average selling price ("ASP")

Revenue generated from the sales of the Amino acid segment products increased to RMB6,222.2 million in the first half of 2018, representing an increase of RMB343.6 million, or 5.8%, as compared to the corresponding period of 2017, mainly attributed to the increase in the revenue of MSG and starch sweeteners. The increased revenue of MSG was primarily due to the effect of an increase in the sales volume and slight increase in ASP of MSG during the period. The sales volume of MSG was approximately 568,439 tonnes in the first half of 2018, representing a slight increase of 3.8% as compared with the corresponding period of 2017, which was mainly due to increased marketing efforts and competitive pricing. In addition, the revenue of starch sweeteners increased, primarily due to the effect of an increase in the sales volume of starch sweeteners during the period. The sales volume of starch sweeteners was approximately 159,478 tonnes in the first half of 2018, representing an increase of 38.8% as compared with the corresponding period of 2017, largely a result of the added production capacity of starch sweeteners in the new Longjiang Plant which has commenced operations since the first half of 2018.

The table below sets out the revenue of the products in this segment for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June		
Product	**2018 RMB'000**	2017 RMB'000	**Change %**
MSG	**3,322,145**	2,998,000	10.8
Glutamic acid	**171,128**	226,215	(24.4)
Fertilisers	**143,574**	161,805	(11.3)
Corn refined products	**844,380**	988,587	(14.6)
Starch sweeteners	**433,612**	310,909	39.5
Threonine	**668,880**	631,338	5.9
High-end amino acid products	**419,846**	455,494	(7.8)
Corn oil	**4,401**	4,749	(7.3)
Compound seasoning	**10,882**	9,615	13.2
Synthetic ammonia	**94,208**	8,850	964.5
Others	**109,151**	83,034	31.5
	6,222,207	5,878,596	5.8

MANAGEMENT DISCUSSION AND ANALYSIS

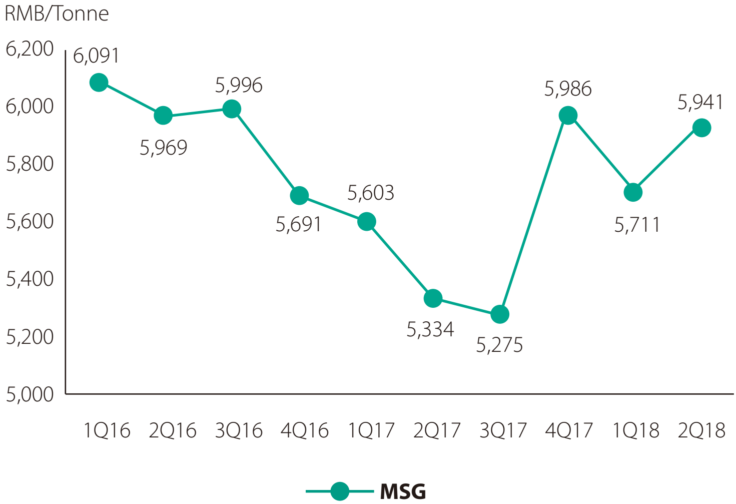
Detail sales and gross profit analysis by three major categories in amino acid segment:

	Food additives RMB'000 Unaudited	Animal nutrition RMB'000 Unaudited	High-end amino acid RMB'000 Unaudited	Others RMB'000 Unaudited	Total RMB'000 Unaudited
Revenue	3,942,168	1,513,260	498,324	268,455	6,222,207
Gross profit	447,637	313,318	206,768	29,305	997,028
Gross profit margin	11.4%	20.7%	41.5%	10.9%	16.0%

Food additives

MSG

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 2016 to the second quarter of 2018:



The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. While the ASP increased by 6.6%, from RMB5,475 per tonne in the first half of 2017 to RMB5,838 per tonne in the first half of 2018, sales volume increased by 3.8%, from 547,672 tonnes in the first half of 2017 to 568,439 tonnes in the first half of 2018. As a result, turnover of MSG increased by 10.8% in the first half of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2018, 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. Exports of MSG products decreased from approximately RMB602.2 million in the first half of 2017 to approximately RMB514.9 million in the first half of 2018.

Starch sweeteners

Turnover of starch sweeteners increased by approximately 39.5% in the first half of 2018, which was primarily due to an increase in sales volume of starch sweeteners to approximately 159,478 tonnes in the first half of 2018. The annual production capacity of starch sweeteners increased to 420,000 tonnes as the new Longjiang Plant commenced operation in the first half of 2018. The ASP of starch sweeteners was relatively stable, increasing approximately RMB2,702 per tonne in the first half of 2017 to approximately RMB2,778 per tonne in the first half of 2018, whilst demand for our starch sweeteners was also stable during this period. It became apparent that our new production capacity of starch sweeteners can be properly absorbed by the market demand during the period.

Animal nutrition

Threonine

Threonine is a growth product of the Group, with annual production capacity increasing to 243,000 tonnes as the new Longjiang Plant commenced operation in the first half of 2018. Threonine is classified as a major type of our animal nutrition product 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 animal feed additives. The total revenue of threonine increased by about 5.9% in the first half of 2018 as compared to the corresponding period of 2017, which was primarily due to the increased sales volume of threonine from approximately 76,036 tonnes in the first half of 2017 to approximately 79,407 tonnes in the first half of 2018. The ASP of threonine was stable, slightly decreasing from approximately RMB8,319 per tonne in the first half of 2017 to approximately RMB8,311 per tonne in the first half of 2018.

Corn refined products

Bacterial protein are classified into the corn refined products category and the revenue of corn refined products decreased by about 14.6% for the six months ended 30 June 2018 as compared to the same period in 2017. This was mainly due to a decrease in the ASP of bacterial protein from RMB2,482 per tonne in the first half of 2017 to RMB2,226 per tonne in the corresponding period of 2018, representing a decrease of 10.3%.

High-end amino acid products

The total sales amount of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid etc, decreased to approximately RMB419.8 million in the first half of 2018 as compared to approximately RMB455.5 million in the corresponding period of 2017. 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.

Others

Fertilisers

The ASP of compound fertilisers for the six months ended 30 June 2018 was approximately RMB369 per tonne, representing a decrease of RMB70, or about 15.9%, as compared to the corresponding period of 2017. Due to weak market demand, the ASP of fertilisers was in line with prevailing market conditions. As a result, the revenue of fertilisers decreased from RMB161.8 million for the six months ended 30 June 2017 to RMB143.6 million for the six months ended 30 June 2018. As the Group has continuously enhanced development of high value added fertilisers products, the ASP of fertilisers was in line with prevailing market conditions.

Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

	Six months ended 30 June		
	2018	2017	**Change**
Gross profit (RMB'000)	**997,028**	1,314,398	(24.1)%
Gross profit margin (%)	**16.0**	22.4	(6.4) ppts.

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The decreasing gross profit contribution from amino acid segment was mainly due to increases in major raw material costs as well as pricing pressure due to market competition. Gross profit decreased to RMB997.0 million and gross profit margin decreased by 6.4 percentage points to 16.0% for the six months ended 30 June 2018. The Group strengthened the portfolio of our products, such as starch sweeteners, 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 normal 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				
	2018		2017		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials					
• Corn kernels	**2,191,704**	**43.7**	2,410,522	47.7	(9.1)
• Liquid ammonia	**72,068**	**1.4**	96,854	1.9	(25.6)
• Sulphuric acid	**48,347**	**1.0**	43,842	0.9	10.3
Energy					
• Coal	**734,533**	**14.7**	669,318	13.3	9.7
Depreciation	**388,444**	**7.8**	383,593	7.6	1.3
Employee benefits	**293,922**	**5.9**	299,828	5.9	(2.0)
Others	**1,283,148**	**25.5**	1,147,355	22.7	11.8
Total cost of production	**5,012,166**	**100.0**	5,051,312	100.0	(0.8)

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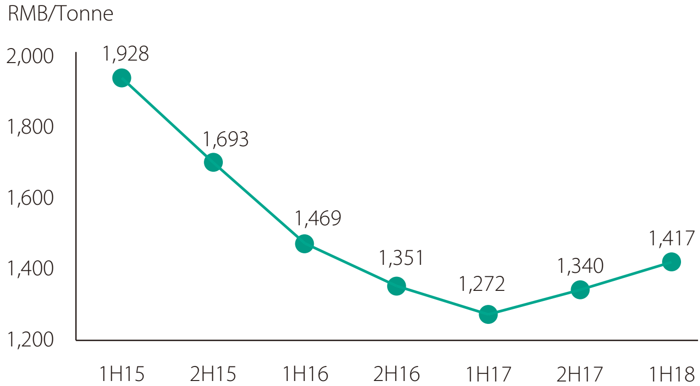
Corn kernels

During the first half of 2018, corn kernels accounted for approximately 43.7% (1H 2017: 47.7%) of the total production cost of this segment, representing a decrease of 4.0 percentage points. The average price of corn kernels for six months ended 30 June 2018 was approximately RMB1,417 per tonne, representing a significant increase of 11.4% as compared to the corresponding period of 2017. The increase in average unit cost of corn kernels for the six months ended 30 June 2018 was due to strength in demand and the overall economy.

The total cost of corn kernels decreased by 9.1% in the first half of 2018, which was mainly due to the decrease in consumption volume as the actual production volume of MSG decreased during the period.

Price Trend of Corn Kernels



Liquid ammonia

Liquid ammonia accounted for approximately 1.4% (1H 2017: 1.9%) of total production cost in this segment in the first half of 2018. The average unit cost of liquid ammonia for the first half of 2018 increased to approximately RMB2,774 per tonne, which represents an increase of approximately RMB529 per tonne, or 23.6%, from the first half of 2017. As the ASP of liquid ammonia continuously increased, we used less volume of liquid ammonia which was substituted by composite ammonia produced by our company. The total cost of liquid ammonia decreased by 25.6% in the first half of 2018, which was mainly due to the decrease in consumption volume as actual production volume of MSG decreased during the period. In addition, the ASP of liquid ammonia significantly increased, we use more volume of synthetic ammonia, which was produced by our company, to replace liquid ammonia.

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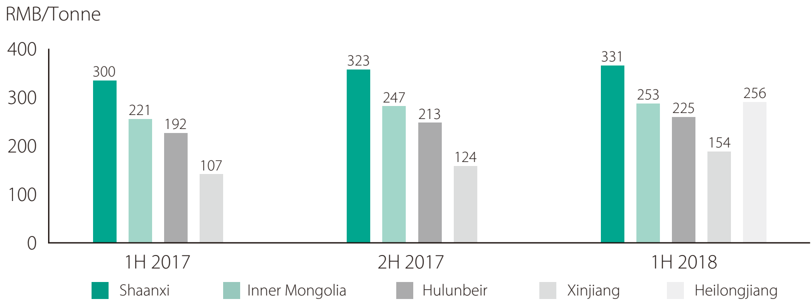
Sulphuric acid

Sulphuric acid accounted for approximately 1.0% (1H 2017: 0.9%) of total production cost in this segment in the first half of 2018. The average unit cost of sulphuric acid increased to approximately RMB393 per tonne, which represents an increase of approximately RMB195 per tonne, or 98.5%, from the first half of 2017.

Coal

Coal accounted for 14.7% (1H 2017: 13.3%) of total production cost in this segment in the first half of 2018. The average unit cost of coal for the first half of 2018 was RMB231 per tonne, which represents an increase of RMB31 per tonne, or 15.5%, from the first half of 2017. 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, Shaanxi and Heilongjiang, with access to lower-cost coal in the regions, are instrumental in strengthening the Group's pricing power despite the overall increase in coal prices. The chart below shows coal costs at each of our plants in Shaanxi, Inner Mongolia, Hulunbeir, Xinjiang and Heilongjiang:



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 2018 Tonnes	2017 Tonnes	Change %
MSG			
Annual designed production capacity (Note)	**665,000**	615,000	8.1
Actual production output	**488,405**	612,193	(20.2)
Utilisation rate	**73.4%**	99.5%	
Threonine			
Annual designed production capacity (Note)	**107,000**	78,000	37.2
Actual production output	**92,848**	80,027	16.0
Utilisation rate	**86.8%**	102.6%	
Fertilisers			
Annual designed production capacity (Note)	**540,000**	540,000	–
Actual production output	**409,778**	546,542	(25.0)
Utilisation rate	**75.9%**	101.2%	
Starch sweeteners			
Annual designed production capacity (Note)	**175,000**	130,000	34.6
Actual production output	**177,154**	119,603	48.1
Utilisation rate	**101.2%**	92.0%	

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

Utilisation rates kept stable in the first half of 2018 with the exception of the utilisation rate of production capacity of MSG, which decreased to 73.4%. This represents the changing business strategy of MSG, in which the Group decides the production volume according to market demand in order to minimise the risk from pricing competition. The increase in annual production capacity of starch sweeteners to 420,000 tonnes was due to the production capacity in the new Longjiang Plant commencing operations in the first half of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Xanthan gum segment

The global market demand for xanthan gum trended upward in the first half of 2018, which was mainly due to a recovery in the global oil industry. The Group continued to maintain and increase its market share 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 2018 and 2017:

	Six months ended 30 June		Change
	2018	2017	**%**
Sales amount (RMB'000)	**388,015**	332,023	16.9
ASP (RMB/tonne)	**15,004**	12,624	18.9
Gross profit (RMB'000)	**124,449**	87,209	42.7
Gross profit margin (%)	**32.1**	26.3	5.8 ppts.
Annual designed production capacity (tonnes) (Note)	**31,667**	30,000	5.6%
Actual production output (tonnes)	**25,252**	15,384	64.1
Utilisation rate	**79.7%**	51.3%	28.4 ppts.

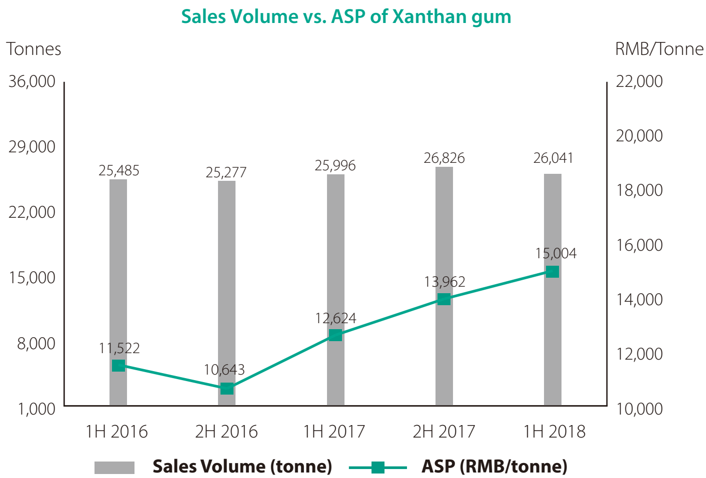
Note: The annual designed production capacity is expressed on pro-rata basis

Revenue generated from xanthan gum increased by 16.9% from RMB332.0 million in the first half of 2017 to RMB388.0 million in the first half of 2018. 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 79.4% and 77.1% of total sales of xanthan gum in the first half of 2017 and 2018, respectively, reflecting the volatile condition of the global oil industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales volume and ASP



Global demand for xanthan gum was stable and slightly increased during the six months ended 30 June 2018. Market demand demonstrated an upward trend in the first half of 2018, therefore, the market condition of the oil industry returned to slight growth. Sales volume increased by 0.2% and sales increased by 16.9% in the first half of 2018, respectively. The ASP of xanthan gum increased to RMB15,004 per tonne, representing an increase of 18.9%. The Group expects this to continue in the foreseeable future 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 and have slight growth during the second half of 2018.

Gross profit and gross profit margin

Gross profit of the xanthan gum segment increased by about 42.7%, from approximately RMB87.2 million in the first half of 2017 to approximately RMB124.4 million in the first half of 2018. Gross profit margin increased as well, by 5.8 percentage points, in the first half of 2018, 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				
	2018		2017		Change
	RMB'000	%	RMB'000	%	%
Major raw materials					
• Corn kernels	**79,098**	**27.6**	40,476	25.1	95.4
• Soybeans	**17,404**	**6.1**	10,771	6.7	61.6
Energy					
• Coal	**64,518**	**22.6**	35,507	22.1	81.7
Depreciation	**21,349**	**7.5**	14,704	9.1	45.2
Employee benefit	**23,408**	**8.2**	16,834	10.5	39.1
Others	**80,301**	**28.0**	42,649	26.5	88.3
Total cost of production	**286,078**	**100.0**	160,941	100.0	77.8

As the market demand for xanthan gum has returned to stability since the second half of 2017, the annual production capacity of xanthan gum has increased to 65,000 tonnes since March 2018. The actual production output of xanthan gum increased to 25,252 tonnes in first half of 2018, representing an increase of 64.1% as compared to the corresponding period in 2017. Therefore, the total costs of production for xanthan gum increased to RMB286.1 million, an increase of 77.8%, as compared to the corresponding period of 2017.

Corn kernels

During the first half of 2018, corn kernels represented approximately 27.6% (1H 2017: 25.1%) of the total production cost of this segment, representing an increase of 2.5 percentage points. The average cost of corn kernels for the first half of 2018 was approximately RMB1,717 per tonne, which represents an increase of approximately RMB154 per tonne, or 9.9%, from that of the corresponding period in 2017.

The cost of corn kernels increased 95.4%, from approximately RMB40.5 million in the first half of 2017 to approximately RMB79.1 million in the first half of 2018, mainly due to the increase in price of corn kernels and production volume of xanthan gum.

Soybeans

During the first half of 2018, soybeans accounted for approximately 6.1% (1H 2017: 6.7%) of the total production cost of this segment. Soybeans prices decreased from approximately RMB4,269 per tonne in the first half of 2017 to approximately RMB3,878 per tonne in the first half of 2018, representing a decrease of 9.2%.

Coal

During the first half of 2018, coal accounted for approximately 22.6% (1H 2017: 22.1%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost utilizing its strategic locations of IM Plant and Xinjiang Plant. The average unit cost of coal for the first half of 2018 was approximately RMB231 per tonne, which represents an increase of approximately RMB33 per tonne, or 16.7%, from that of the first half of 2017.

Other production costs

The cost of employee benefits and other production costs in the first half of 2018 increased as compared to the corresponding period of 2017, mainly due to the other production costs increasing in line with the increases in production volume.

Other financial information

Selling and marketing expenses

An increase in selling and marketing expenses was 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 increased by approximately RMB26.1 million, or 11.4%, in the first half of 2018. The increase was mainly due to the new Longjiang Plant construction being completed and commencing operations in the beginning of 2018.

Finance costs (net)

The finance costs (net) of the Group in the first half of 2018 included two main parts: interest expense and exchange gain or loss on financial activities.

Interest expense increased by approximately RMB14.0 million, due to (1) an increase in bank borrowings as our working capital from operations increased, and (2) the interest rate of bank borrowings increased during the six months ended 30 June 2018.

During the first half of 2018, the Group recorded an exchange loss on financing activities amounting to approximately RMB13.5 million, mainly due to the exchange loss of current bank borrowings denominated in USD.

Depreciation

Depreciation expense of the Group increased by approximately RMB25.0 million, or approximately 5.6%, from approximately RMB444.9 million in the first half of 2017 to approximately RMB469.9 million in the first half of 2018. The increase was mainly due to the commencing of operations at the new Longjiang Plant since the beginning of 2018.

Other income

In the first half of 2018, other income amounted to RMB131.2 million, which mainly comprised the income from the sales of waste products, amortization of deferred income and government grants.

Continuing connected transaction

On 5 July 2017, the Company and Inner Mongolia Wo Feng Agricultural Development Company Limited (內蒙古沃豐農業發展有限公司, the "Purchaser") entered into the Procurement Framework Agreement, pursuant to which the Company has agreed to supply the Purchaser fertiliser products during the term of the Procurement Framework Agreement. Pursuant to the Procurement Framework Agreement, the Company shall supply fertiliser products to the Purchaser on normal commercial terms, of which the sale price shall not be lower than the price of similar products sold by the Company to independent third parties in its ordinary course of business. As at the date of the Procurement Framework Agreement, 68.06% equity interest of the Purchaser is held by Ms. Li Hongyu, the daughter of Mr. Li Xuechun, an executive Director and the chairman of the Board, and sister of Mr. Li Guangyu, an executive Director. Therefore the Purchaser is a connected person of the Company. The Company considers that working with the Purchaser, which has assembled an experienced and professional team to operate its fertiliser business and has in place an extensive sales and distribution network, will be beneficial to the future development of the fertiliser business of the Group.

The Procurement Framework Agreement can (i) promote sales growth of the Group's fertilisers; (ii) expand the sales channel and market penetration of the Group's fertilisers; and (iii) enhance the recognition and competitiveness of the Group's fertilisers in the PRC market by leveraging on the Purchaser's sales network and experienced sales team in the fertiliser industry.

The Company estimated that its sales volume of fertiliser products to the Purchaser under the Procurement Framework Agreement would be 120,000 tonnes, 250,000 tonnes and 350,000 tonnes for the years ending 31 December 2017, 2018 and 2019, respectively. The annual cap of the revenue would be RMB54 million, RMB112.5 million and RMB157.5 million for the years ending 31 December 2017, 2018 and 2019, respectively. During the first half of 2018, the sales volume of fertilisers to the Purchaser under the Procurement Framework Agreement was approximately 74,035 tonnes, resulting in sales revenue of RMB36.2 million.

The independent non-executive Directors have reviewed the continuing connected transactions under the Procurement Framework Agreement and confirm that the transactions have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The audit committee of the Company have also reviewed the continuing connected transactions under the Procurement Framework Agreement and confirm that nothing has come to their attention that causes them to believe that the continuing connected transactions: (1) have not been approved by the Board; (2) were not, in all material respects, in accordance with the pricing policies of the Group; (3) were not entered into, in all material respects, in accordance with the Procurement Framework Agreement; or (4) have exceeded the cap.

Income tax expense

The income tax expenses for the six months ended 30 June 2018 mainly represented the PRC Enterprise Income Tax ("EIT"). Two subsidiaries of the Group including Shandong Fufeng and Shenhua Pharmaceutical, have obtained the approvals to become a new and high-technology enterprise and had been entitled to a preferential income tax rate of 15% (1H 2017: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Four subsidiaries of the Group, including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, 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 2017: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (1H 2017: 25%).

Outlook for second half of 2018

Amino acid segment

The Group will continuously explore the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty and food additives mainly as starch sweeteners, in order to improve product class and 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. Therefore, 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.

Xanthan gum segment

Although the market condition of xanthan gum remained slow recovery, the demand for xanthan gum stabilised in the first half of 2018 and the Group will strengthen our effort to promote xanthan gum in the food industry. By leveraging on our leading position in the xanthan gum market, the Group will continue to optimise its customer mix and gain market share and we believe that we can act as a leader to bring the industry out of the low tide in 2018.

Future Plan and Recent Development

I. Completion and commencement of the second phase of the Longjiang base

The second phase of the Longjiang base in Qiqihar Heilongjiang will commence pilot production as planned in the fourth quarter of this year, adding 300,000 tonnes of starch sweeteners and 200,000 tonnes of lysine to our production capacity. Meanwhile, by fully capitalizing on its regional resource advantages and cost advantages, the Group occupies a dominant position in the market competition in terms of crystalline glucose products. Our long-term goal is to replace the other high-cost production capacities in North China and other regions in China. The production and sales of lysine products will enrich the Group's existing animal nutrition products package to be more complete and comprehensive. In combination with the current threonine and tryptophan products, the distribution and integrated sales of the "lysine – threonine – tryptophan" structure will provide a "package" solution for feed enterprises and breeding customers, enabling stronger overall competitiveness of the Group's animal nutrition products.

II. Favourable position in the MSG industry fully utilised to improve efficiency

Starting from the middle of this year, the MSG industry, under the combined effects of market factors and environmental inspections, began to face the scenario of "discontinued/limited production", a condition which has not been seen for years and has led to a significant reduction in the production and supply of MSG in the domestic market. It is estimated that the overall supply of the industry will be lower than last year. Such "supply side" reduction and exclusion have created favorable conditions for leading enterprises in the industry to divert cost pressure and increase the price of MSG products. At present, the competition landscape of the MSG industry has become increasingly clear, in which case, the general supply of the industry is stable despite a decline, while the demand is expected to remain stable for a long time. In this regard, the MSG market will ride out the long-term situation where "supply exceeds demand", and is expected to make a good contribution to the Group in terms of product efficiency and return on investment.

III. Completion of the sale of the land parcel in Baoji for returns on investments

On 1 August 2018, the Group announced the sale of the parcel of land in Baoji City, Shaanxi Province, PRC for an aggregate consideration of RMB1,792.3 million. The transaction is estimated to result in a one-off gain of approximately RMB1 billion to the Group and will contribute to the cash flow in the coming months.

Liquidity and financial resources

As at 30 June 2018, the Group's cash and cash equivalent and restricted bank deposits were RMB822.2 million (31 December 2017: RMB515.4 million) whereas current bank borrowings and current other borrowing (including the balances of corporate bonds) were approximately RMB1,828.1 million and RMB998.4 million (31 December 2017: RMB415.0 million and RMB995.9 million). Non-current bank borrowings were approximately RMB570.5 million (31 December 2017: RMB560.3 million).

Corporate Bonds

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

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

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 2018.

Employees

As at 30 June 2018, the Group had approximately 12,000 employees (31 December 2017: 9,500 employees). Employees' remunerations are paid in accordance with relevant PRC policies. Appropriate salaries and bonuses are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Schemes" under the "Other Information" section below for the share options granted to certain Directors and employees of the Group pursuant to the Post-IPO and New Share option schemes.

Charges on assets

As at 30 June 2018, there were no charges on assets for bank borrowings (31 December 2017: Nil).

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 2018, the total assets of the Group amounted to approximately RMB17,744.9 million (31 December 2017: RMB15,966.5 million) whereas the total borrowings amounted to RMB3,397.0 million (31 December 2017: RMB1,971.2 million). As at 30 June 2018, the gearing ratio was approximately 19.1% (31 December 2017: 12.3%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and 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 2018.

Dividend

The Board has resolved to pay an interim dividend of HK4.2 cents per Share for the year ended 31 December 2018, payable on or before 28 September 2018 to the Shareholders whose names appear on the register of members of the Company on 20 September 2018.

Closure of register of members

The register of members of the Company will be closed from Monday, 17 September 2018 to Thursday, 20 September 2018 (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, 14 September 2018.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

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

Introduction

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

Scope of Review

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

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Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 August 2018

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General Information

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

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

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

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

This condensed consolidated interim financial report has not been audited.

Significant events and transactions

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

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

2. Basis of Preparation

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

3. Accounting Policies

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

(a) New and amended standards adopted by the Group

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

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

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

(b) New standards and interpretations not yet adopted

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

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

3. Accounting Policies *(Continued)*

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

i) HKFRS 16, *Leases*

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group had non-cancellable operating lease commitments of RMB1,875,000. The Group estimates that all of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

3. Accounting Policies *(Continued)*

(c) Changes in accounting policies

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

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

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

There is no significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instruments that are classified as available-for-sale financial assets;
- Debt instruments classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

3. Accounting Policies *(Continued)*

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

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

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

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

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

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

3. Accounting Policies *(Continued)*

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

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

Financial assets – impairment

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

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

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

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

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

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

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

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

3. Accounting Policies *(Continued)*

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

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

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

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

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

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

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

3. Accounting Policies *(Continued)*

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

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

Revenue Recognition

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

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location for domestic sales or have been shipped on board for overseas sales. The risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

Contract Liability

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

4. Estimates

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

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

5. Financial Risk Management

5.1 Financial risk factors

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

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

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

5.2 Credit risk

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

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

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

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

5. Financial Risk Management *(Continued)*

5.2 Credit risk *(Continued)*

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

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

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

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

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

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

5. Financial Risk Management *(Continued)*

5.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and available credit facilities to meet obligations when they arise. Management monitors the funding requirements of the Group and the availability of credit facilities in order to ensure the liquidity of the Group. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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

5. Financial Risk Management *(Continued)*

5.4 Fair value estimation

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

6. Segment Information

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

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

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

- manufacturing and sales of xanthan gum.

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

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

6. Segment Information *(Continued)*

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

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

6. Segment Information *(Continued)*

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

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

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

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Depreciation of property, plant and equipment	439,576	29,851	487	469,914
Amortisation of leasehold land payments	11,076	1,282	43	12,401
Amortisation of intangible assets	1,144	–	–	1,144
Reversal of impairment charges for property, plant and equipment (Note 7(a))	56,513	–	–	56,513
Gain on disposal of leasehold land payments	5,900	–	–	5,900
Gain on disposal of property, plant and equipment	379	–	–	379

6. Segment Information *(Continued)*

The segment assets and liabilities at 30 June 2018 are as follows:

	Amino acid RMB'000	**Xanthan gum RMB'000**	**Unallocated RMB'000**	**Group RMB'000**
Total assets	**12,854,755**	**4,106,911**	**783,199**	**17,744,865**
Total liabilities	**6,234,387**	**1,058,955**	**898,075**	**8,191,417**

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

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

6. Segment Information *(Continued)*

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

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Depreciation of property, plant and equipment	411,233	33,055	637	444,925
Amortisation of leasehold land payments	10,622	1,241	43	11,906
Amortisation of intangible assets	786	–	–	786
Gain on disposal of property, plant and equipment	1,291	–	–	1,291
Loss on disposal of property, plant and equipment	228	–	–	228

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

	Leasehold land payments RMB'000	Property, plant and equipment RMB'000	Intangible assets RMB'000	Total RMB'000
Six months ended 30 June 2018				
Opening net book amount at 1 January 2018	**1,393,941**	**9,234,061**	**17,791**	**10,645,793**
Additions	**108,390**	**1,137,546**	**2,265**	**1,248,201**
Disposals	**(5,890)**	**(115)**	**–**	**(6,005)**
Depreciation and amortisation	**(12,401)**	**(469,914)**	**(1,144)**	**(483,459)**
Reversal of impairment charge (a)	**–**	**56,513**	**–**	**56,513**
Transferred to assets of disposal group classified as held for sale (Note 10)	**(709,082)**	**–**	**–**	**(709,082)**
Closing net book amount at 30 June 2018	**774,958**	**9,958,091**	**18,912**	**10,751,961**
Six months ended 30 June 2017				
Opening net book amount at 1 January 2017	1,413,942	7,858,775	9,108	9,281,825
Additions	3,713	488,689	28	492,430
Disposals	–	(913)	–	(913)
Depreciation and amortisation	(11,906)	(444,925)	(786)	(457,617)
Closing net book amount at 30 June 2017	1,405,749	7,901,626	8,350	9,315,725

7. Leasehold Land Payments, Property, Plant and Equipment and Intangible Assets *(Continued)*

(a) Due to the increase of sulphuric acid market purchase price, the Group has put an idle workshop back into the production of sulphuric acid for its own use since January 2018. Although the sulphuric acid is used internally as a raw material of MSG, the group of assets in the sulphuric acid workshop, reported under Amino acid segment, has been identified as one cash-generating unit because there is an active market exists for sulphuric acid. This group of assets in the sulphuric acid work had been fully impaired in prior years. The Group reassessed its recoverable amount using the value in use method to be RMB56,513,000 as at 30 June 2018. Therefore, of the total impairment provision of RMB83,686,000 set aside in prior years, RMB56,513,000 was reversed (six months ended 30 June 2017: nil) during the six months ended 30 June 2018, which was credited to "Cost of sales" in the consolidated income statement.

The value in use calculation used pre-tax cash flow projections based on the financial budgets approved by management. The pre-tax discount rate used in the calculations was 13%.

8. Trade and Other Receivables

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade receivables (a)	**529,490**	509,204
Less: provision for impairment of trade receivables	**(20,510)**	(20,258)
Trade receivables, net	**508,980**	488,946
Notes receivables (b)	**716,706**	562,423
Deposits and others	**130,966**	46,553
Loans to employees	**2,301**	2,299
– Loans to key management	**–**	–
– Loans to other employees	**2,301**	2,299
Value-added tax for future deduction	**249,824**	193,258
Trade and other receivables excluding prepayments	**1,608,777**	1,293,479
Prepayments for raw materials	**674,045**	68,080
	2,282,822	1,361,559

8. Trade and Other Receivables *(Continued)*

(a) At 30 June 2018 and 31 December 2017, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**369,998**	402,822
3–12 months	**108,486**	60,765
Over 12 months	**51,006**	45,617
	529,490	509,204

The Group sells its products to customers and received settlement either in cash or in form of bank acceptance notes upon delivery of goods. The bank acceptance notes are usually with maturity dates within six months. Major customers with good payment history are normally offered credit terms for no more than three months.

(b) As at 30 June 2018, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB615,218,000 (31 December 2017: RMB509,926,000) applied for settling the amounts payable to the Group's suppliers.

9. Cash and Bank Balances

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Cash and cash equivalents		
– Cash on hand	**892**	472
– Cash in bank	**754,350**	419,016
	755,242	419,488
Term deposits over 3 months and within one year	**22,000**	22,100
Cash and bank balances	**777,242**	441,588
Restricted bank deposits	**44,913**	73,856
Total cash and bank balances	**822,155**	515,444

10. Assets/Liabilities of Disposal Group Held for Sale

In January 2018, the Group decided to sell the leasehold land owned by two of its subsidiaries, namely Baoji Dingfeng Properties Co., Ltd. ("Baoji Dingfeng") and Baoji Baofeng Properties Co., Ltd. ("Baoji Baofeng"), and initiated the plan to locate a buyer. In June 2018, a third-party buyer has been located and the Group was in the process of actively negotiating with the buyer the principal terms of transfer of all the equity interests in the two subsidiaries. The sale was expected to be completed within one year from 30 June 2018. Therefore, the assets and liabilities of the two aforementioned subsidiaries were classified as held for sale at 30 June 2018 under the unallocated segment.

In August 2018, the Group signed the final sales and purchase agreements with the buyer. The Group estimated the consideration of the sale to be approximately RMB1,792.3 million, which will result in a gain of approximately RMB1 billion to be recognized in the second half year of 2018.

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

	2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Leasehold land payments	**709,082**	–
Current assets		
Cash and bank balances	**19**	–
Total assets	**709,101**	–

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

	2018 RMB'000	2017 RMB'000
LIABILITIES		
Current liabilities		
Trade, other payables and accruals	**1,199**	–
Total liabilities	**1,199**	–

11. Share Capital and Share Premium

	Number of authorised shares	Number of issued and fully paid shares	Amount		
			Ordinary shares	Share premium	Total
	'000	'000	RMB'000	RMB'000	RMB'000
Opening balance at 1 January 2017	10,000,000	2,126,685	207,222	462,639	669,861
Conversion of convertible bonds	–	280,049	24,807	904,513	929,320
Issuance of ordinary shares	–	140,000	12,407	666,737	679,144
Dividends	–	–	–	(176,815)	(176,815)
At 30 June 2017	10,000,000	2,546,734	244,436	1,857,074	2,101,510
Opening balance at 1 January 2018	**10,000,000**	**2,546,734**	**244,436**	**1,736,726**	**1,981,162**
Dividends	**–**	**–**	**–**	**(226,158)**	**(226,158)**
At 30 June 2018	**10,000,000**	**2,546,734**	**244,436**	**1,510,568**	**1,755,004**

12. Borrowings

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Non-current		
– Bank borrowings, unsecured	**570,517**	560,265
	570,517	560,265
Current		
– Bank borrowings, unsecured	**1,828,146**	415,000
– Corporate bonds	**998,376**	995,939
	2,826,522	1,410,939
	3,397,039	1,971,204

The carrying amount and fair value of non-current borrowings are as follows:

	Carrying amount As at 30 June 2018 RMB'000	Carrying amount As at 31 December 2017 RMB'000	Fair value As at 30 June 2018 RMB'000	Fair value As at 31 December 2017 RMB'000
Bank borrowings, unsecured	**570,517**	560,265	**574,945**	569,034

12. Borrowings *(Continued)*

Movements in borrowings were analysed as follows:

	RMB'000
Six months ended 30 June 2017	
Opening amount as at 1 January 2017	3,099,977
New borrowings	697,235
Repayments of bank borrowings	(311,035)
Conversion of convertible bonds	(931,944)
Amortisation of transaction cost:	
– Corporate bonds	2,332
Exchange differences	(17,823)
Closing amount as at 30 June 2017	2,538,742
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	**1,971,204**
New borrowings	**2,050,824**
Repayments of bank borrowings	**(644,900)**
Amortisation of transaction cost:	
– Corporate bonds	**6,412**
Exchange differences	**13,499**
Closing amount as at 30 June 2018	**3,397,039**

Interest expenses on borrowings for the six months ended 30 June 2018 were RMB57,025,000 (30 June 2017: RMB42,993,000).

13. Trade, Other Payables and Accruals

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade payables (a)	**1,219,079**	1,451,471
Advances from customers	**–**	346,937
Payables for property, plant and equipment	**1,219,052**	1,013,726
Bank acceptance notes payable	**11,320**	83,795
Government compensation related to property, plant and equipment disposal received in advance	**61,980**	62,281
Salaries, wages and staff welfares payables	**382,315**	398,098
Interest payables	**23,663**	9,227
Government grants received in advance	**2,041**	2,039
Dividends payable	**407**	407
Other payables and accruals	**342,078**	317,034
	3,261,935	3,685,015

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

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**735,124**	1,014,534
3 to 6 months	**243,281**	218,759
6 to 12 months	**161,825**	151,949
1 to 2 years	**49,358**	44,024
Over 2 years	**29,491**	22,205
	1,219,079	1,451,471

14. Other Income

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of waste products	**58,638**	48,985
Amortisation of deferred income	**36,829**	38,731
Government grants relating to expenses	**21,414**	16,879
Others	**14,296**	19,778
	131,177	124,373

15. Operating Profit

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Amortisation of leasehold land payments	**12,401**	11,906
Amortisation of intangible assets	**1,144**	786
Depreciation of property, plant and equipment	**469,914**	444,925
Reversal of provision for impairment charges for property, plant and equipment (Note 7(a))	**(56,513)**	–
Value on employee services for the share option schemes	**4,503**	6,512
Reversal of inventory write-down – net	**(1,610)**	–
Plant relocation expenses	**5**	153

16. Finance Costs – Net

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest expense	**57,025**	42,993
Foreign exchange losses on financing activities	**13,499**	–
Finance costs	**70,524**	42,993
Interest income	**(1,911)**	(4,526)
Foreign exchange gains on financing activities	**–**	(17,884)
Finance income	**(1,911)**	(22,410)
Net finance costs	**68,613**	20,583

17. Income Tax Expense

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	**48,050**	110,737
– Hong Kong enterprise income tax	**89**	1,135
– U.S. enterprise income tax	**5,002**	528
– Singapore enterprise income tax	**1**	–
Deferred income tax	**(1,341)**	15,390
	51,801	127,790

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and is exempted from payment of the Cayman Islands income tax.

17. Income Tax Expense *(Continued)*

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

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

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

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

18. Earnings Per Share

	Six months ended 30 June	
	2018	2017
Earnings per share for profit attributable to the Shareholders (RMB cents per share)		
– basic	**12.37**	27.98
– diluted	**12.35**	27.93

Basic earnings per share is calculated by dividing the profit attributable to the Shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming the conversion of all dilutive potential ordinary shares.

Earnings per share – basic and diluted for the first half of 2018 was RMB12.37 cents and RMB12.35 cents respectively (equivalent to HK14.73 cents and HK14.71 cents) (1H 2017: RMB27.98 cents and RMB27.93 cents respectively (equivalent to HK32.24 cents and HK32.18 cents)).

19. Dividends

On 27 March 2018, the Board proposed a final dividend in respect of the year ended 31 December 2017 of HKD280,141,000 (equivalent to RMB226,158,000), representing HK11.0 cents (equivalent to RMB8.88 cents) per share. The final dividend was paid in June 2018.

At a meeting held on 10 August 2018, the Board proposed an interim dividend of HKD106,963,000 (equivalent to RMB93,379,000) (1H2017: HKD224,113,000 (equivalent to RMB191,298,000)), representing HK4.2 cents (equivalent to RMB3.67 cents) (1H2017: HK8.8 cents (equivalent to RMB7.51 cents)) per share. This interim dividend has not been recognized as a dividend payable in this interim financial information, but will be recognized as an appropriation of share premium for the year ending 31 December 2018.

20. Contingent Liabilities

As at 30 June 2018 and 31 December 2017, the Group had no material contingent liabilities.

21. Related Party Transactions and Balances

Mr. Li Xuechun is the controlling shareholder of the Group. The entities controlled by close family members of the controlling shareholder are regarded as related parties.

(a) Transactions with related parties

The following transactions occurred with related parties:

(1) Non-recurring connected transaction

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Services purchased from a related party*	**40,942**	–

* The Group acquired the construction services from an entity that is controlled by a close family member of controlling shareholder.

21. Related Party Transactions and Balances *(Continued)*

(a) Transactions with related parties *(Continued)*

(2) Continuing connected transaction

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of products to a related party*	**36,217**	–

* The Group sold products to an entity that is controlled by a close family member of controlling shareholder.

(b) Key management compensation

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**7,048**	9,371
Pension costs-defined contribution plan	**475**	337
Share options granted	**3,597**	5,354
	11,120	15,062

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers.

21. Related Party Transactions and Balances *(Continued)*

(c) Period-end/year-end balances with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

(1) Trade receivables from a related party

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
– A company controlled by a close family member of the controlling shareholder	**–**	7,604

(2) Advance from a related party

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
– A company controlled by a close family member of the controlling shareholder	**1,375**	–

(3) Other payables to a related party

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
– A company controlled by a close family member of the controlling shareholder	**36,700**	27,726

21. Related Party Transactions and Balances *(Continued)*

(d) Terms and conditions

Sales and purchase transactions to related parties during the year were based on the price lists in force and terms that would be available to third parties.

22. Events Occurring After the Balance Sheet Date

Details of the asset disposal and the interim dividend proposed are described in Note 10 and Note 19 respectively.

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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. For the six months ended 30 June 2018, 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. Xiao Jian Lin and Mr. Qi Qing Zhong, an independent non-executive Director, did not attend the annual general meeting of the Company held on 21 May 2018. 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 2018.

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 2018.

OTHER INFORMATION

Share Option Scheme

Under the Post-IPO 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. Moreover, under the New Share Option Scheme, the Company granted options to subscribe for an aggregate of 5,000,000 Shares, 1,600,000 Shares and 2,000,000 Shares on 25 August 2017, 29 December 2017 and 28 June 2018 respectively to eligible employees. Details of the share options granted and outstanding for the period ended 30 June 2018, are as follows:

		Number of share options							
Director and eligible employees	Note	At 1 January 2018	Granted during the Period	Exercised during the Period	Lapsed during the Period	At 30 June 2018	Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
Under the Post-IPO Share Option Scheme									
Eligible employees	A	3,600,000	–	–	–	3,600,000	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
Under the New Share Option Scheme									
Eligible employees	D	5,000,000	–	–	–	5,000,000	25/8/2017	4.96	25/8/2019 – 24/8/2023
Eligible employees	E	1,600,000	–	–	(1,500,000)	100,000	29/12/2017	5.12	29/12/2019 – 28/12/2023
Eligible employees	F	–	2,000,000	–	–	2,000,000	28/6/2018	3.76	28/6/2020 – 27/6/2024
		24,400,000	2,000,000	–	(1,800,000)	24,600,000			

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:

	Granted on 9 April 2015
Average share price	HKD4.89
Exercise price	HKD5.69
Expected life of options	5.0 years
Expected volatility	43.11%
Expected dividend yield	2.26%
Risk free rate	0.99%

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:

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

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:

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

OTHER INFORMATION

D) The fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options as at the grant date was approximately RMB7,852,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 25 August 2017
Average share price	HKD4.95
Exercise price	HKD4.96
Expected life of options	6.0 years
Expected volatility	44.41%
Expected dividend yield	3.75%
Risk free rate	1.37%

E) The fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options as at the grant date was approximately RMB2,591,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 29 December 2017
Average share price	HKD5.10
Exercise price	HKD5.12
Expected life of options	6.0 years
Expected volatility	43.61%
Expected dividend yield	3.64%
Risk free rate	1.68%

F) The fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options as at the grant date was approximately RMB2,136,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 28 June 2018
Average share price	HKD3.45
Exercise price	HKD3.76
Expected life of options	6.0 years
Expected volatility	43.81%
Expected dividend yield	3.42%
Risk free rate	2.21%

OTHER INFORMATION

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 2018, 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%
Zheng Yu	The Company	Beneficial interest (Note 4)	300,000 Shares	0.01%
Qi Qing Zhong	The Company	Beneficial interest (Note 5)	300,000 Shares	0.01%

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.

OTHER INFORMATION

4. 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.

5. 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 2018, 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.

Interests of Person Holding 5% or More Interests

As at 30 June 2018, 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	408,929,314 Shares	16.06%

OTHER INFORMATION

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.

2. Ms. Shi Guiling is the spouse of Mr. Li Xuechun. Accordingly, she is also deemed to be interested in the 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 2018, 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.

Use of Proceeds

A top up placing under general mandate (the Placing) was completed on 4 May 2017 for the subscription of 140,000,000 ordinary Shares at a subscription price of HKD5.55 per Share. The net proceeds raised from the Subscription were approximately HKD766,500,000, out of which approximately HKD422,800,000 and HKD330,000,000 has been utilized for the construction of the new plant in Qiqihar and as general working capital for the repayment of bank borrowing and daily operation expenses respectively before the end of 2017. As at 31 December 2017, the remaining unutilised amount was HKD13,700,000, of which such amount has been used for general working capital of the Company for the daily operation expenses and bank interest during the first half of 2018.

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 at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Board	the board of Directors
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Evonik	Evonik Nutrition & Care GmbH (贏創營養與消費化學品有限責任公司), having its registered office in Germany
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
Hong Kong	the 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
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange

GLOSSARY

Longjiang Fufeng	齊齊哈爾龍江阜豐生物科技有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Longjiang Plant	the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC
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
Procurement Framework Agreement	the procurement framework agreement entered into between the Company and the Purchaser dated 5 July 2017
Proposed Spin-off	the proposed spin-off of Shenhua Health Holdings Limited by the Company to be effected by way of the Distribution
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Shenhua 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
Stock Exchange	the Stock Exchange of Hong Kong Limited

GLOSSARY

Xinjiang Fufeng	新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
HKD	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of the PRC
USD	United States dollars, the lawful currency of the United States of America
%	per cent