Fufeng Group Limited
阜豐集團有限公司

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

2019
Interim Report

CONTENTS

CORPORATE INFORMATION

Executive Directors

Mr. Li Xuechun
Mr. Zhao Qiang
Mr. Li Deheng
Mr. Yu Yao Ming (appointed on 20 March 2019)
Mr. Li Guangyu
Mr. Pan Yuehong (resigned on 20 March 2019)

Independent Non-Executive Directors

Mr. Lau Chung Wai
(appointed on 12 June 2019)
Ms. Zheng Yu
Mr. Xu Zheng Hong
Mr. Xiao Jian Lin (resigned on 12 June 2019)

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Investor Relations Consultant

Vision Asia Consulting Group Ltd

Independent Auditor

PricewaterhouseCoopers

Branch Share Registrar

Tricor Investor Services Limited

Stock Code

546

Website

www.fufeng-group.com

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Overview

The Group continued to be confronted with challenges in the first half of 2019, including but not limited to a domestic macroeconomic slowdown, the Sino-US trade tensions and the outbreak of swine flu. Despite these challenges, our MSG business recorded a significant improvement in its overall performance, following years of efforts in industry consolidation, as compared with the same period of 2018. The increase in profit of our MSG business contributed to the increase in the Group's profit for the six months ended 30 June 2019.

Our operating performance significantly improved in the first half of 2019 compared with the corresponding period in 2018, mainly attributed to: 1) the significant increase in the MSG price and the clear improvement in revenue and profitability of the Amino acid segment, which as the key segment, accounted for a fairly large contribution of revenue and had a positive impact on our overall performance; 2) despite the costs of major raw materials including corn kernels and coal in the first half of 2019 increased, profit margin of MSG still increased due to the significant increase in the MSG price; and 3) production efficiency has been further improved as a result of enhancement of production technologies.

Against the backdrop of a sluggish domestic economy, the Group's MSG business was still able to achieve better results in terms of industry development and market competition. This is mainly due to the entry of the MSG industry into a new landscape, including 1) a new phase of centralisation of production capacity has emerged after years of industry consolidation; 2) reduced level of irrational competition in terms of pricing and production volume by our competitors; and 3) leading enterprises have taken the initiative to limit excess production capacity to control excessive supply in the market. In such case, selling prices of products are safeguarded, while the market operation proceeds amid rational competition.

The main business of the Company, i.e. the MSG business, reported a significant growth in revenue in the first half of 2019 as compared with the same period of last year. Sustaining the strong momentum of the fourth quarter of last year, the price of MSG remained robust and at a higher level for the first half of this year. The average price of MSG was approximately RMB7,161 per tonne (for the first half of 2018: RMB5,838 per tonne), and the sales volume of MSG for the six months ended 30 June 2019 was maintained at approximately 521,529 tonnes, boosting the profitability of the MSG business.

MANAGEMENT DISCUSSION AND ANALYSIS

As the leader in the industry, the Group managed to achieve 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. We continued to actively strengthen our competitiveness by constantly improving the production technology to achieve better cost effectiveness and strategically utilise the production facility and capacity of each plant in order to meet market demand.

The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. We 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.

The demand for our high-end amino acid products and xanthan gum products remained relatively stable, while animal amino acid feed products (including threonine and lysine) continued the lackluster conditions from the second half of last year, which was mainly attributable to the following: 1) the demand for animal feed products decreased due to weak demand from the domestic breeding and animal feed industries caused by the African swine fever; and 2) a market oversupply of animal feed product.

As for animal feed products, we expect the current weak conditions will continue for a period of time during the second half of 2019. In response to this, we have taken some corresponding countermeasures, allowing us to meet the demands of our customers, as well as reducing negative impacts on our profitability. These countermeasures include: 1) accepting orders that meet a set price, so as to focus on those customers that have high demand or high-end products; and 2) Readjusting product mix to meet different market demands by modifying some of our production processes.

During the first half of 2019, we were not materially impacted by the Sino-US trade tensions, which can be attributed to the following factors: 1) the percentage of the export sales of US to the Group sales was relatively low; and 2) not all of our products were on the list of tariffs.

We continue to strategically optimize our production bases. The Phase II of the Longjiang Plant Project successfully commenced operation in January 2019, representing a milestone for the Group in extending its industrial chain, exploring its development potential and improving its market competitiveness. Upon completion, the Group became the leading enterprise with full corn processing capabilities in the global market.

MANAGEMENT DISCUSSION AND ANALYSIS

Our product development is mainly divided into four categories: 1. Food additives (key products include MSG, compound seasoning, starch sweeteners, corn oil etc.), 2. Animal nutrition (key products include threonine, lysine, 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.).

Our Amino acid segment is primarily made up of three main category products including Food additives, Animal nutrition and High-end amino acid.

In terms of Food additives business, the ASP of MSG significantly increased in the first half of 2019. 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. We recorded a significant increase in gross profit and gross profit margin of the MSG business, which positively affected the profit contribution from the MSG business during the period.

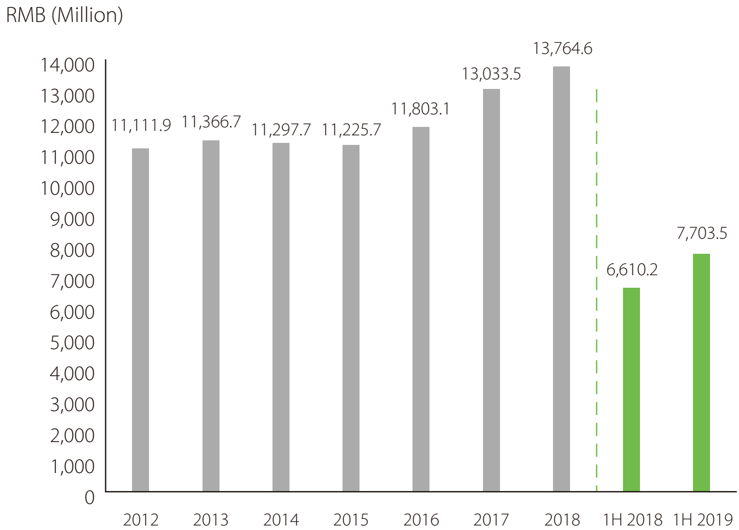
Additionally, the new Longjiang Plant Phase II commenced operation at the beginning of 2019 and the annual production capacity of starch sweeteners has increased to 720,000 tonnes. The sales revenue from starch sweeteners increased to approximately RMB807.5 million, representing an increase of 86.2%, as compared to the corresponding period of 2018.

In terms of Animal nutrition business, the Group recorded a decreased contribution from the sales of threonine products due to the continuous impact of outbreak of swine flu in the second half of 2018.

Similarly, the sales amount of high-end amino acid products decreased during the six months ended 30 June 2019, mainly due to sluggish economic growth and stiff market competition.

As another key business segment of the Group, our Xanthan gum business has stabilized since the second half of 2018 as market conditions in the oil industry recovered but remained at a low level. The ASP of xanthan gum decreased to about RMB14,898 per tonne during the period, representing a decrease of 0.7%, as compared to the corresponding period of 2018. The Xanthan gum business demonstrated a stable trend in the first half of 2019. During the period, we kept the annual production capacity of xanthan gum at a reasonable level of 65,000 tonnes. The Group, as the largest xanthan gum manufacturer in the world, continued to dominate the global market share during the six months ended 30 June 2019.

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



For the six months ended 30 June 2019, the Group's revenue increased to approximately RMB7,703.5 million as compared to approximately RMB6,610.2 million for the six months ended 30 June 2018. The increase in revenue was primarily due to the increase in the ASP of MSG and increased revenue contribution from starch sweeteners.

The Group's overall gross profit increased from approximately RMB1,121.5 million in the first half of 2018 to approximately RMB1,673.4 million in the first half of 2019. This represents an increase of 49.2%, primarily due to the increase in the ASP and gross profit margin of MSG.

Food additive business

In the first half of 2019, the ASP of the MSG substantially increased by 22.7% compared to the corresponding period of 2018, which clearly represented the change of MSG industry market environment. Peer competitors reduced level of irrational competition in terms of pricing and production volume. In addition, the major raw material costs increased during the period, but the Group intensified the research and development, reducing unit consumption and enhancing production efficiency. Therefore, gross profit margin significantly increased as compared the corresponding period of 2018.

The production volume of MSG increased by approximately 12.5% and sales volume decreased by 8.3% in the first half of 2019 as compared to corresponding period of 2018, respectively. The increase in production volume of MSG was mainly due to the seasonal adjustment to the production capacity of MSG according to market demand. This strategy not only fully utilized the cost advantages of the Group but also leveraged on the Group's market position to maximize its profitability.

The production and sales volume of starch sweeteners significantly increased by approximately 112.0% and 108.2% in the first half of 2019 as compared to the corresponding period of 2018, respectively. The production volume increased as a result of the new production capacity of starch sweeteners (300,000 tonnes) commencing operation in our new Longjiang Plant Phase II to meet strong market demand.

On the other hand, the ASP of xanthan gum decreased by 0.7% as compared to the corresponding period of 2018, as market conditions demonstrated a stable condition tracking to the global oil industry.

Animal nutrition and High-end amino acid business

We continued to witness the sustained development of our threonine product in the first half of 2019. Threonine is a type of amino acid which is used as an animal feed additive. During the period, the total sales amount of threonine was approximately RMB656.0 million, representing a decrease of 1.9% as compared to the corresponding period of 2018. The Group sold about 94,016 tonnes of threonine during the period as compared to about 79,407 tonnes in the first half of 2018. However, due to the outbreak of African swine flu in China since the second half of 2018, the ASP of threonine substantially decreased, resulting in significant decreases in gross profit contribution and gross profit margin in the first half of 2019.

In January 2018, the Group and Evonik entered into a cooperation agreement for the production of ThreAMINO® (L-Threonine). The Group manufactures 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.

In addition, the new production capacity of lysine (200,000 tonnes) commenced operation in our new Longjiang Plant Phase II at the beginning of 2019. Sales of lysine, a new product, amounted to approximately RMB149.0 million in first half of 2019 and it is classified as part of revenue in our animal nutrition business.

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 2019, the sales of high-end amino acid products reached approximately RMB390.7 million, representing a decrease of 6.9% as compared to the first half of 2018. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. The goal of the Group is to become the clear market leader 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.

Xanthan gum business

The production and sales volume of xanthan gum increased by 13.9% and 12.5%, respectively, in the first half of 2019 as compared to the first half of 2018. The increase in production and sales volume of xanthan gum was due to the successful adjustment of production and marketing strategies.

Overall, the diversity of the Group's product portfolio allowed the Group to maintain its overall revenue growth momentum in the first half of 2019.

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
	2019	2018	**%**
Turnover (RMB'000)	**7,703,517**	6,610,222	16.5
Gross profit (RMB'000)	**1,673,394**	1,121,477	49.2
Gross profit margin (%)	**21.7**	17.0	4.7 ppts.

Although weakness in China's economy continued and major raw material costs demonstrated an upward trend in the first half of 2019, the performance of the Group in terms of gross profit and gross profit margin was significantly improved, particularly reflected in the MSG business. The ASP of MSG increased during the period and the effects from an increase in raw material costs, particularly the corn kernels and coal costs, were relatively small. In addition, increased revenue contribution from starch sweeteners was mainly due to new production capacity of starch sweeteners in Longjiang Plant Phase II commencing operation at the beginning of 2019. On the other hand, the ASP of other main products such as threonine, high-end amino acid, starch sweeteners and xanthan gum recorded decreases compared to the corresponding period of 2018 as the Chinese economy remained weak. The overall gross profit of the Group increased by 49.2% in the first half of 2019.

Profit attributable to the Shareholders

	Six months ended 30 June		
	2019 RMB'000	2018 RMB'000	**Change %**
As reported	**612,704**	314,998	94.5

Profit attributable to the Shareholders increased by 94.5% for the six months ended 30 June 2019 as compared to the corresponding period in 2018. The improvement of market conditions of the MSG business was mainly due to the entry of the MSG industry into a new landscape, including 1) a new phase of centralisation of production capacity has emerged after years of industry consolidation; 2) reduced level of irrational competition in terms of pricing and production volume by our competitors; and 3) leading enterprises have taken the initiative to limit excess production capacity to control excessive supply in the market. In such case, selling prices of products are safeguarded, while the market operation proceeds amid rational competition.

Segment highlights

The Group's products are organised into two business segments, namely Amino acid segment and Xanthan gum segment. Amino acid segment includes the sales of three main products categories including: 1. Food additives (key products include MSG, and starch sweeteners), 2. Animal nutrition (key products include threonine, lysine and corn refined products), and 3. High-end amino acid (key products include valine, leucine, isoleucine, glutamine and hyaluronic acid.), 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 2019			Six months ended 30 June 2018			Increase/(Decrease)		
	Amino acid RMB'000	**Xanthan gum RMB'000**	**Group RMB'000**	Amino acid RMB'000	Xanthan gum RMB'000	Group RMB'000	Amino acid %	Xanthan gum %	Group %
Revenue	**7,267,168**	**436,349**	**7,703,517**	6,222,207	388,015	6,610,222	16.8	12.5	16.5
Gross profit	**1,553,778**	**119,616**	**1,673,394**	997,028	124,449	1,121,477	55.8	(3.9)	49.2
Gross profit ratio	**21.4%**	**27.4%**	**21.7%**	16.0%	32.1%	17.0%	5.4 ppts.	(4.7) ppts.	4.7 ppts.
Segment results	**736,182**	**58,402**		347,337	101,856		112.0	(42.7)	

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, lysine and corn refined products) and High-end amino acid (key products include valine, leucine, isoleucine, glutamine, and hyaluronic acid) and other related products.

Revenue and ASP

Revenue generated from the sales of the Amino acid segment products increased to approximately RMB7,267.2 million in the first half of 2019, representing an increase of approximately RMB1,045.0 million, or 16.8%, as compared to the corresponding period of 2018, 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 a significant increase in the ASP of MSG during the period. The ASP of MSG was approximately RMB7,161 per tonne in the first half of 2019, representing an increase of 22.7% as compared with the corresponding period of 2018, which was mainly due to the new MSG industry market conditions, in which peer competitors reduced the level of irrational competition in terms of pricing and production volume. The sales volume of MSG was approximately 521,529 tonnes in the first half of 2019, representing a decrease of 8.3% as compared with the corresponding period of 2018, mainly due to the market strategy adjustment of our MSG business. 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 332,049 tonnes in the first half of 2019, representing an increase of 108.2% as compared with the corresponding period of 2018, largely resulting from the added production capacity of starch sweeteners in the new Longjiang Plant Phase II, which commenced operation at the beginning of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets out the revenue of the products in this segment for the six months ended 30 June 2019 and 2018:

Product	Six months ended 30 June		
	2019 RMB'000	2018 RMB'000	**Change %**
MSG	**3,734,595**	3,322,145	12.4
Corn refined products	**963,739**	844,380	14.1
Starch sweeteners	**807,488**	433,612	86.2
Threonine	**656,015**	668,880	(1.9)
High-end amino acid products	**390,699**	419,846	(6.9)
Glutamic acid	**178,104**	171,128	4.1
Lysine	**149,010**	–	n.a.
Fertilisers	**132,063**	143,574	(8.0)
Synthetic ammonia	**131,838**	94,208	39.9
Compound seasoning	**20,716**	10,882	90.4
Corn oil	**2,565**	4,401	(41.7)
Others	**100,336**	109,151	(8.1)
	7,267,168	6,222,207	16.8

MANAGEMENT DISCUSSION AND ANALYSIS

Detailed sales and gross profit analysis by three major categories in Amino acid segment for the six months ended 30 June 2019 and 2018.

For the six months ended 30 June 2019

	Food additives RMB'000	**Animal nutrition RMB'000**	**High-end amino acid RMB'000**	**Others RMB'000**	**Total RMB'000**
Revenue	**4,743,468**	**1,768,764**	**461,807**	**293,129**	**7,267,168**
Gross profit	**1,120,837**	**174,540**	**200,061**	**58,340**	**1,553,778**
Gross profit margin	**23.6%**	**9.9%**	**43.3%**	**19.9%**	**21.4%**

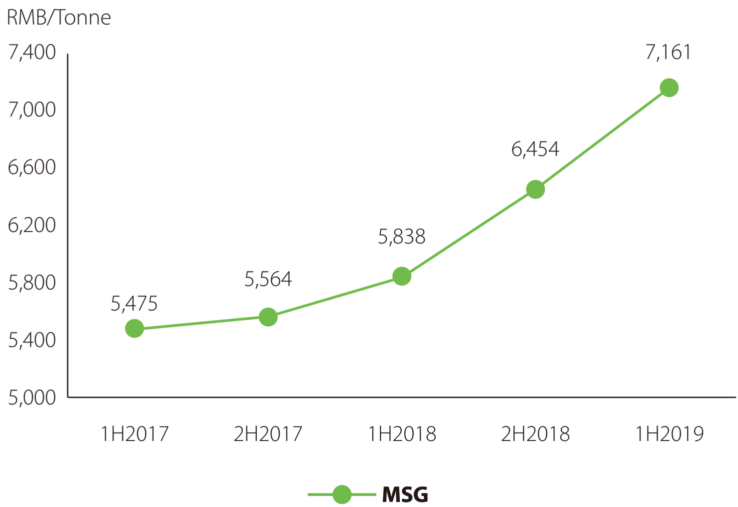
For the six months ended 30 June 2018

	Food additives RMB'000	Animal nutrition RMB'000	High-end amino acid RMB'000	Others RMB'000	Total RMB'000
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 MSG for each half from the first half of 2017 to the first half of 2019:



Against the backdrop of a sluggish domestic economy, the Group's MSG business was still able to achieve better results thanks to industry development and a new phase of market competition. This was mainly due to the MSG industry was in a new landscape and selling prices of products were safeguarded, while the market operation proceeded amid rational competition.

The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. The ASP of MSG increased by 22.7%, from approximately RMB5,838 per tonne in the first half of 2018 to approximately RMB7,161 per tonne in the first half of 2019, while sales volume decreased by 8.3%, from approximately 568,439 tonnes in the first half of 2018 to approximately 521,529 tonnes in the first half of 2019. As a result, turnover of MSG increased by 12.4% in the first half of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, the Group continuously strengthened exports of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The Group increased exports of MSG products from about RMB514.9 million in the first half of 2018 to about RMB728.2 million in the first half of 2019.

Starch sweeteners

Turnover of starch sweeteners increased by approximately 86.2% in the first half of 2019, which was primarily due to an increase in sales volume of starch sweeteners to approximately 332,049 tonnes in the first half of 2019. The annual production capacity of starch sweeteners increased to 720,000 tonnes as the new Longjiang Plant Phase II commenced operation at the beginning of 2019. The ASP of starch sweeteners decreased, from approximately RMB2,778 per tonne in the first half of 2018 to approximately RMB2,432 per tonne in the first half of 2019, whilst demand for our starch sweeteners was stable. During this period it became apparent that our new production capacity of starch sweeteners could be properly absorbed by the market 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 product of animal nutrition in the Amino acid segment. It is an essential amino acid which maintains body protein balance and promotes the growth of living things and our threonine is mainly used as an animal feed additive. The total revenue of threonine decreased by about 1.9% in the first half of 2019 as compared to the corresponding period of 2018, which was primarily due to the decreased ASP of threonine from approximately RMB8,311 per tonne in the first half of 2018 to approximately RMB6,978 per tonne in the first half of 2019. This decrease in ASP was mainly due to weakening market demand caused by the outbreak of African swine flu in China in the second half of 2018. On the other hand, the sales volume of threonine increased from approximately 79,407 tonnes in the first half of 2018 to approximately 94,016 tonnes in the first half of 2019.

Corn refined products

Bacterial protein is classified into the corn refined products category and the revenue of corn refined products increased by about 14.1% for the six months ended 30 June 2019 as compared to the same period of 2018. This was mainly caused by additional annual production capacity of starch sweeteners. Therefore, our production and sales volume of corn refined products increased during the period. In addition, the ASP of bacterial protein slightly decreased from approximately RMB2,226 per tonne in the first half of 2018 to approximately RMB2,209 per tonne in the first half of 2019, representing a decrease of 0.8%.

High-end amino acid products

The total sales amount of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, decreased to approximately RMB390.7 million in the first half of 2019 as compared to approximately RMB419.8 million in the corresponding period of 2018. 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.

Other related products

Fertilisers

The ASP of fertilisers for the six months ended 30 June 2019 was approximately RMB415 per tonne, representing an increase of RMB46, or about 12.5%, as compared to the corresponding period of 2018. The sales volume of fertilisers decreased, while the ASP of fertilisers was in line with prevailing market conditions. As a result, the revenue of fertilisers decreased from RMB143.6 million for the six months ended 30 June 2018 to RMB132.1 million for the six months ended 30 June 2019. Meanwhile, the Group continued to enhance the development of high value added fertiliser products.

Gross profit and gross profit margin

The gross profit of this segment is set out below:

	Six months ended 30 June		
	2019	2018	**Change**
Gross profit (RMB'000)	**1,553,778**	997,028	55.8%
Gross profit margin (%)	**21.4**	16.0	5.4 ppts.

Increasing gross profit contribution from the amino acid segment was mainly due to the improved MSG industry environment as well as the ASP of MSG increasing significantly and the gross profit of MSG rising during the period. However, part of the positive effect from the food additive business was offset by the negative effect of lower gross profit contribution from our animal nutrition business. Gross profit of our amino acid segment increased to approximately RMB1,553.8 million and gross profit margin increased by 5.4 percentage points to 21.4% for the six months ended 30 June 2019. The Group continued to strengthen our market share and leading position in the amino acid industry as well as the portfolio of our products, such as starch sweeteners, animal nutrition and high-end amino acid products. We also maintained our competitive pricing strategy in order to expand market share and consolidate market position.

Production costs

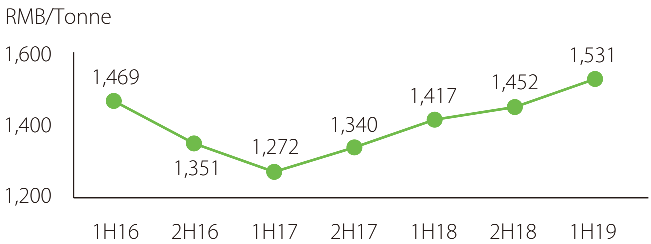
	Six months ended 30 June				
	2019		2018		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials					
• Corn kernels	**3,174,995**	**54.3**	2,191,704	43.7	44.9
• Liquid ammonia	**86,016**	**1.5**	72,068	1.4	19.4
• Sulphuric acid	**44,171**	**0.8**	48,347	1.0	(8.6)
Energy					
• Coal	**913,317**	**15.6**	734,533	14.7	24.3
Depreciation	**475,564**	**8.1**	388,444	7.8	22.4
Employee benefits	**295,827**	**5.1**	293,922	5.9	0.6
Others	**852,153**	**14.6**	1,283,148	25.5	(33.6)
Total cost of production	**5,842,043**	**100.0**	5,012,166	100.0	16.6

Corn kernels

During the first half of 2019, corn kernels accounted for approximately 54.3% (1H 2018: 43.7%) of the total production cost of this segment, representing an increase of 10.6 percentage points, mainly due to 1) change of the cost structure of our products, particularly production volume of starch sweeteners increased by 112.0% to 375,541 tonnes in 1H2019; 2) change of the price of corn kernels. The average price of corn kernels for six months ended 30 June 2019 was approximately RMB1,531 per tonne, representing an increase of 8.0% as compared to the corresponding period of 2018. The increase in average unit cost of corn kernels for the six months ended 30 June 2019 was due to the change of market conditions.

The total cost of corn kernels increased by 44.9% in the first half of 2019, which was mainly due to the increase in consumption volume as actual production volume of MSG and starch sweeteners increased during the period.

Price Trend of Corn Kernel



Liquid ammonia

Liquid ammonia accounted for approximately 1.5% (1H 2018: 1.4%) of total production cost in this segment in the first half of 2019. The average unit cost of liquid ammonia for the first half of 2019 decreased to approximately RMB2,715 per tonne, which represents a decrease of approximately RMB59 per tonne, or 2.1%, from the first half of 2018. Despite the ASP of liquid ammonia decreased, the total cost of liquid ammonia increased by 19.4% in the first half of 2019, which was mainly due to the increased consumption volume as actual production volume of MSG increased during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

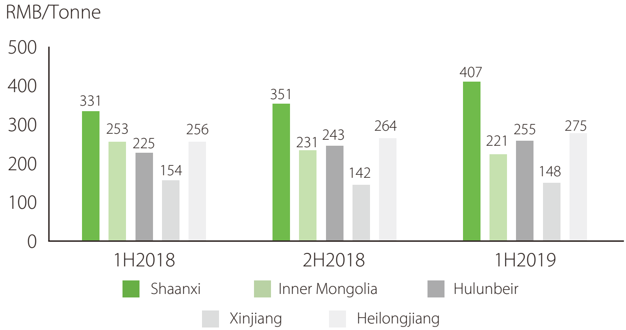
Sulphuric acid

Sulphuric acid accounted for approximately 0.8% (1H 2018: 1.0%) of total production cost in this segment in the first half of 2019. The average unit cost of sulphuric acid decreased to approximately RMB267 per tonne, which represents a fall of approximately RMB126 per tonne, or 32.1%, from the first half of 2018.

Coal

Coal accounted for 15.6% (1H 2018: 14.7%) of total production cost in this segment in the first half of 2019. The average unit cost of coal for the first half of 2019 was RMB246 per tonne, which represents an increase of RMB15 per tonne, or 6.5%, comparing to the first half of 2018. The increase in coal prices reflects a general increase in commodity prices as the relationship of market supply and demand changes.

The Group's major production plants in Shaanxi, Inner Mongolia, Hulunbeir, Xinjiang and Heilongjiang, with access to lower-cost coal in the regions, are instrumental in strengthening the Group's pricing power. The chart below shows coal costs at each of our plants in Shaanxi, Inner Mongolia, Hulunbeir, 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 2019 Tonnes	2018 Tonnes	Change %
MSG			
Annual designed production capacity (Note)	**665,000**	665,000	–
Actual production output	**549,485**	488,405	12.5
Utilisation rate	**82.6%**	73.4%	
Threonine			
Annual designed production capacity (Note)	**121,500**	107,000	13.6
Actual production output	**107,550**	92,848	15.8
Utilisation rate	**88.5%**	86.8%	
Fertilisers			
Annual designed production capacity (Note)	**540,000**	540,000	–
Actual production output	**400,555**	409,778	(2.3)
Utilisation rate	**74.2%**	75.9%	
Starch sweeteners			
Annual designed production capacity (Note)	**360,000**	175,000	105.7
Actual production output	**375,541**	177,154	112.0
Utilisation rate	**104.3%**	101.2%	

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

Utilisation rates kept stable in the first half of 2019, representing the changing business strategy of MSG, in which the Group decided production volume according to market demand in order to minimize the risk from pricing competition. The increase in annual production capacity of starch sweeteners to 720,000 tonnes was due to the additional production capacity of starch sweeteners in the new Longjiang Plant Phase II commencing operation in the first half of 2019.

Xanthan gum segment

The global market demand for xanthan gum was stable in the first half of 2019, which was mainly due to slow growth in the global economy and the stable market condition of the global oil industry. The Group continued to 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 revenue, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June		Change
	2019	2018	**%**
Revenue (RMB'000)	**436,349**	388,015	12.5
ASP (RMB/tonne)	**14,898**	15,004	(0.7)
Gross profit (RMB'000)	**119,616**	124,449	(3.9)
Gross profit margin (%)	**27.4**	32.1	(4.7) ppts.
Annual designed production capacity (tonnes) (Note)	**32,500**	31,667	2.6
Actual production output (tonnes)	**28,772**	25,252	13.9
Utilisation rate	**88.5%**	79.7%	

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

Revenue generated from xanthan gum increased by 12.5%, from approximately RMB388.0 million in the first half of 2018 to approximately RMB436.3 million in the first half of 2019. The increase in revenue was due to a rise in sales volume during the period.

The Group's exports of xanthan gum increased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed about 77.1% and 78.4% of total sales of xanthan gum in the first half of 2018 and 2019, respectively.

Sales and ASP

Global demand for xanthan gum was relatively stable during the six months ended 30 June 2019. Sales volume increased by 12.5% and sales increased by 12.5% in the first half of 2019, respectively. The ASP of xanthan gum decreased to approximately RMB14,898 per tonne, representing a slight decrease of 0.7%. The Group expects this trend 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 show a slight increase during the second half of 2019.

Gross profit and gross profit margin

Gross profit of the xanthan gum segment decreased by about 3.9%, from approximately RMB124.4 million in the first half of 2018 to approximately RMB119.6million in the first half of 2019. Gross profit margin decreased as well, by 4.7 percentage points, in the first half of 2019, reflecting the competitive pricing of xanthan gum and continued weakness in the global oil industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Production costs

	Six months ended 30 June				
	2019		2018		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials					
• Corn kernels	**82,124**	**26.5**	79,098	27.6	3.8
• Soybeans	**18,023**	**5.8**	17,404	6.1	3.6
Energy					
• Coal	**68,437**	**22.0**	64,518	22.6	6.1
Depreciation	**27,874**	**9.0**	21,349	7.5	30.6
Employee benefit	**27,459**	**8.8**	23,408	8.2	17.3
Others	**86,475**	**27.9**	80,301	28.0	7.7
Total cost of production	**310,392**	**100.0**	286,078	100.0	8.5

As the market demand for xanthan gum was stable in the first half of 2019, the annual production capacity of xanthan gum remained at 65,000 tonnes during the period. The actual production output of xanthan gum increased to approximately 28,772 tonnes in first half of 2019, representing an increase of 13.9% as compared to the corresponding period in 2018. Therefore, the total costs of production for xanthan gum increased to approximately RMB310.4 million, an increase of 8.5% as compared to the corresponding period of 2018.

Corn kernels

During the first half of 2019, corn kernels represented approximately 26.5% (1H 2018: 27.6%) of the total production cost of this segment and dropped by 1.1 percentage points. The average cost of corn kernels for the first half of 2019 was approximately RMB1,494 per tonne, which represents a decrease of approximately RMB223 per tonne, or 13.0%, from that of the corresponding period in 2018.

The cost of corn kernels increased 3.8%, from approximately RMB79.1 million in the first half of 2018 to approximately RMB82.1 million in the first half of 2019, mainly due to the increase in the price of corn kernels and production volume of xanthan gum.

Soybeans

During the first half of 2019, soybeans accounted for approximately 5.8% (1H 2018: 6.1%) of the total production cost of this segment.

Soybeans prices decreased from approximately RMB3,878 per tonne in the first half of 2018 to approximately RMB3,776 per tonne in the first half of 2019, representing a decrease of 2.6%.

Coal

During the first half of 2019, coal accounted for approximately 22.0% (1H 2018: 22.6%) 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 2019 was approximately RMB201 per tonne, representing a decrease of approximately RMB30 per tonne, or 13.0%, compared to the first half of 2018.

Other production costs

The cost of employee benefits and other production costs in the first half of 2019 increased as compared to the corresponding period of 2018, which was 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 RMB139.3 million, or 54.8%, in the first half of 2019. The increase mainly represented the costs of raw materials and consumables used for research and development amounting to RMB91.5 million, which was classified under administrative expenses. The increase was also due to the commencing of operations at the Phase II of Longjiang Plant in the first half of 2019, resulting in an increase in general operating costs.

Finance income

Finance income mainly represented the interest income from bank deposits. The interest income from bank deposits and bank balance amounted to RMB33.5 million, an increase of 1,655.8%. This was mainly due to the increase in our working capital in the first half of 2019.

Finance costs

The finance costs of the Group in the first half of 2019 included two main parts: interest expense and exchange loss on financial activities.

Interest expense increased by approximately RMB57.6 million mainly due to a new 3-year, 5.875% USD bonds issued on 28 August 2018. In the first half of 2019, the Group recorded an exchange loss on financing activities of approximately RMB3.7 million (1H2018: RMB13.5 million), mainly due to the exchange loss of USD bonds and bank borrowings denominated in USD.

Depreciation

Depreciation expense of the Group increased by approximately RMB82.6 million, or 17.6%, from RMB469.9 million in the first half of 2018 to RMB552.5 million in the first half of 2019. The increase was mainly due to the commencing of operations at the Phase II of the Longjiang Plant at the beginning of 2019.

Other income

In the first half of 2019, other income amounted to approximately RMB153.5 million, which mainly comprised the income from 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 2019, the sales volume of fertilisers to the Purchaser under the Procurement Framework Agreement was approximately 70,402 tonnes, resulting in sales revenue of RMB36.2 million.

Income tax expense

The income tax expenses for the six months ended 30 June 2019 mainly represented the PRC Enterprise Income Tax ("EIT"). Three subsidiaries of the Group, including Shandong Fufeng, Shenhua Pharmaceutical and Longjiang Fufeng 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 2018: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

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

Four subsidiaries of the Group, 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 2018: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (1H 2018: 25%).

Strategic direction

Fufeng Group has been in business for twenty years and initiated our third "10 Year Plan" this year. By conducting a group-wide strategic analysis, we will, upon completion of production bases layout in the PRC and on top of our existing leading market positions, consider to proceed with production capacity distribution in other corn producing regions across the world as the main goal of our third "10 Year Plan". This represents our proposed path to the "Production Capacity Internationalization" this year. Currently, we are in the middle of conducting certain preliminary investigation and research, identifying partnerships and exploring investment opportunities. As it becomes increasingly evident that the bio-fermentation industry will embrace customers, services and production capacity globally, we believe that our production will be extended to such overseas markets that enjoy resource advantages and proximity to customers. This is also in line with the general trajectory of industrial development and represents one of our work and strategic directions in the coming years.

Principal business outlook for second half of 2019

We anticipate that the momentum in the first half this year will continue in the second half in order that steady growth will be achieved. It is expected that the market performance of the MSG business can be maintained at the current trajectory and that the annual production and sales volume of MSG will amount to 1.0 million tonnes in 2019. In the meantime, the production and sales volume of other products will remain at current levels.

In addition, we have identified three favorable factors: 1) major raw materials including corn kernels and coal remain an upward trend but will not have abnormal fluctuations which will benefit our cost control; 2) decreased financing costs in the PRC will be conducive to reducing our financial costs; and 3) government policy of reducing value-added taxes in the PRC will be beneficial for business operations.

Amino acid segment

The Group will continuously explore the development of threonine, hyaluronic acid and other high-end amino acid products, as well as specialty gum products, in order to improve product class and 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 continue to 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 conditions of xanthan gum remained weak, the demand for xanthan gum stabilised in the first half of 2019 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 2019.

Liquidity and financial resources

As at 30 June 2019, the Group's cash and cash equivalent and restricted bank deposits were RMB2,867.5 million (31 December 2018: RMB2,690.3 million) whereas current bank borrowings were RMB1,575.0 million (31 December 2018: RMB1,523.2 million). Non-current bank borrowings and non-current other borrowings (including the balances of USD bonds) were approximately RMB338.1 million and RMB2,151.6 million (31 December 2018: RMB335.5 million and RMB2,151.8 million).

USD bonds

The Company issued USD350 million USD bonds for three years on 28 August 2018 with a fixed interest rate of 5.875% per annum. The gross proceeds of the USD bonds issue, before deduction of underwriting discounts and commissions and other estimated expenses in connection with the bond issue, amounted to approximately USD349.6 million, which the Company has mainly used to refinance existing debt and for business development purposes.

The Company completed the repurchase of USD33,865,000 in aggregate principal amount of USD bonds (the "Repurchased Bonds") which were repurchased from 6 November 2018 to 10 May 2019, representing approximately 9.7% of the aggregate principal amount of USD bonds originally issued. The Repurchased Bonds were cancelled before 30 June 2019 and the outstanding balance of USD bonds amounted to USD316,135,000 as at 30 June 2019.

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 2019.

Employees

As at 30 June 2019, the Group had approximately 13,900 employees (30 June 2018: 12,000 employees). Employees' remunerations are paid in accordance with relevant PRC policies. Appropriate salaries and bonuses are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Schemes" under the "Other Information" section below for the share options granted to certain Directors and employees of the Group before and after the IPO.

Charges on assets

As at 30 June 2019, RMB1,100.0 million of restricted bank deposits (31 December 2018: RMB869.8 million) were pledged to certain banks to secure bank borrowings of RMB1,100.0 million (31 December 2018: RMB869.8 million) of the Group.

The long term bank borrowings are secured by the pledge of the capital stock of certain subsidiaries of the Company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Gearing ratio

As at 30 June 2019, the total assets of the Group amounted to approximately RMB19,817.6 million (31 December 2018: RMB20,332.3 million) whereas the total borrowings amounted to RMB4,064.7 million (31 December 2018: RMB4,010.6 million). As at 30 June 2019, the gearing ratio was approximately 20.5% (31 December 2018: 19.7%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

During the fourth quarter of 2018, the Company entered into two USD100,000,000 foreign exchange swap agreements with Deutche Bank on 30 October 2018 and 3 November 2018, respectively. These swap agreements are mainly for hedging the exposure to foreign exchange risk of the Company's USD bonds which were issued on 28 August 2018.

Except for the above, the Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and the issuance of USD bonds. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of USD bonds by partially applying cross currency swaps to mitigate exposures arising from the fluctuations in foreign currencies of bonds.

Dividend

The Board has resolved to pay an interim dividend of HK9.3 cents per Share for the six months ended 30 June 2019, payable on or before 30 September 2019 to the Shareholders whose names appear on the register of members of the Company on 20 September 2019.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 18 September 2019 to Friday, 20 September 2019 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 17 September 2019.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2019 RMB'000	31 December 2018 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	7	**770,628**	778,558
Property, plant and equipment	7	**10,429,503**	10,309,977
Right-of-use assets	3(c)	**1,901**	–
Intangible assets	7	**35,583**	30,745
Investments accounted for using the equity method		**30,414**	36,354
Deferred income tax assets		**167,903**	184,076
		11,435,932	11,339,710
Current assets			
Inventories		**2,951,203**	3,262,093
Trade and other receivables	8	**2,493,921**	3,040,233
Financial assets at fair value through profit and loss	5	**68,994**	–
Cash and bank balances	9	**2,867,527**	2,690,284
		8,381,645	8,992,610
Total assets		**19,817,577**	20,332,320
LIABILITIES			
Non-current liabilities			
Other payables	12	**61,574**	–
Borrowings	11	**2,489,684**	2,487,389
Lease liabilities	3(c)	**958**	–
Deferred income		**786,214**	785,971
Deferred income tax liabilities		**16,650**	16,650
Derivative financial instruments	5	**8,656**	29,882
		3,363,736	3,319,892

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2019 RMB'000	31 December 2018 RMB'000
Current liabilities			
Trade, other payables and accruals	12	**3,095,225**	3,714,562
Contract liabilities		**497,650**	501,706
Current income tax liabilities		**191,772**	268,653
Borrowings	11	**1,575,000**	1,523,163
Lease liabilities	3(c)	**889**	–
		5,360,536	6,008,084
Total liabilities		**8,724,272**	9,327,976
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	10	**244,137**	244,436
Share premium	10	**905,976**	1,430,479
Other reserves		**575,140**	574,081
Retained earnings		**9,368,052**	8,755,348
Total equity		**11,093,305**	11,004,344
Total equity and liabilities		**19,817,577**	20,332,320

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Half-year	
	Note	**2019 RMB'000**	2018 RMB'000
Revenue	6	**7,703,517**	6,610,222
Cost of sales		**(6,030,123)**	(5,488,745)
Gross profit		**1,673,394**	1,121,477
Selling and marketing expenses		**(602,574)**	(534,920)
Administrative expenses		**(393,318)**	(254,052)
Net impairment losses on financial assets		**(13,564)**	(252)
Other operating expenses		**(48,896)**	(17,801)
Other income	13	**153,514**	131,177
Other gains/(losses) – net		**16,002**	(10,332)
Operating profit	14	**784,558**	435,297
Finance income		**40,546**	1,911
Finance costs		**(118,279)**	(70,524)
Finance costs – net	15	**(77,733)**	(68,613)
Share of (loss)/profit of investments accounted for using the equity method		**(1,040)**	115
Profit before income tax		**705,785**	366,799
Income tax expense	16	**(93,081)**	(51,801)
Profit for the half-year and attributable to the Shareholders		**612,704**	314,998

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Half-year 2019 RMB'000	Half-year 2018 RMB'000
Other comprehensive income for the half-year		**–**	–
Total comprehensive income for the half-year		**612,704**	314,998
Total comprehensive income attributable to the Shareholders		**612,704**	314,998
Earnings per share for profit attributable to the Shareholders during the period (expressed in RMB cents per share)			
– basic	17	**24.07**	12.37
– diluted	17	**24.06**	12.35

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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 31 December 2017	244,436	1,736,726	384,178	7,094,765	9,460,105
Change in accounting policy	–	–	–	(1,082)	(1,082)
Restated total equity at 1 January 2018	244,436	1,736,726	384,178	7,093,683	9,459,023
Total comprehensive income for the half-year	–	–	–	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	–	(226,158)	3,597	906	(221,655)
Balance at 30 June 2018	244,436	1,510,568	387,775	7,409,587	9,552,366
Balance at 1 January 2019	**244,436**	**1,430,479**	**574,081**	**8,755,348**	**11,004,344**
Total comprehensive income for the half-year	**–**	**–**	**–**	**612,704**	**612,704**
Transactions with Shareholders, recognised directly in equity					
Employees share option scheme:					
– Value of employee services	**–**	**–**	**1,059**	**–**	**1,059**
Repurchase of shares of the Company	**(299)**	**(10,918)**	**–**	**–**	**(11,217)**
Dividends	**–**	**(513,585)**	**–**	**–**	**(513,585)**
Total transactions with Shareholders	**(299)**	**(524,503)**	**1,059**	**–**	**(523,743)**
Balance at 30 June 2019	**244,137**	**905,976**	**575,140**	**9,368,052**	**11,093,305**

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Half-year 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations		**789,005**	377,300
Interest paid		**(105,858)**	(29,780)
Income taxes paid		**(149,043)**	(125,215)
Net cash inflow from operating activities		**534,104**	222,305
Cash flows from investing activities			
Purchases of property, plant and equipment		**(900,201)**	(993,957)
Payments for leasehold land		**(469)**	(108,390)
Loan to a third party	8(c)	**(400,000)**	–
Payments for financial assets at fair value through profit or loss		**(67,344)**	–
Purchases of intangible assets		**(7,383)**	(2,265)
Proceeds from disposal of investment in an associate		**4,900**	–
Payments of plant relocation expenses		**–**	(5)
Proceeds from disposal of property, plant and equipment		**2,959**	494
Proceeds from disposal of subsidiaries, net of cash disposed		**1,028,098**	–
Repayments of loan from former subsidiaries		**261,209**	–
Proceeds from disposal of leasehold land payments		**–**	11,790
Assets-related government grants received		**40,704**	24,024
Interest received		**33,549**	1,911
Placement of restricted bank deposits		**(1,100,000)**	–
Proceeds from restricted bank deposits		**869,800**	–
Proceeds from term deposits		**22,000**	22,100
Placement of term deposits		**(32,000)**	(22,000)
Net cash outflow from investing activities		**(244,178)**	(1,066,298)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Half-year 2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Loan from a third party		**60,000**	–
Proceeds from bank borrowings	11	**2,087,000**	2,050,824
Repayments of bank borrowings	11	**(2,037,699)**	(644,900)
Redemption of USD bonds		**(8,364)**	–
Principal elements of lease payments		**(477)**	–
Repurchase of shares of the Company		**(11,217)**	–
Dividends paid to the Company's shareholders	18	**(513,585)**	(226,158)
Net cash (outflow)/inflow from financing activities		**(424,342)**	1,179,766
Net (decrease)/increase in cash and cash equivalents		**(134,416)**	335,773
Cash and cash equivalents at beginning of the half-year		**1,734,943**	419,488
Transferred to disposal group classified as held for sale		**–**	(19)
Cash and cash equivalents at end of the half-year		**1,600,527**	755,242

The above interim condensed consolidated statements of cash flows should be read in conjunction with the accompanying notes.

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 20 August 2019 by the Board of Directors.

This condensed consolidated interim financial report has not been audited.

Significant events and transactions

The Group started to manufacture and sell a new product, Lysine, in the first half year of 2019, as the second phase of construction of the new plant in Qiqihar City had been completed by the end of 2018.

2. Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2019 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 2018, 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 2018 except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3(c) below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments:

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKAS 28 (Amendments)	Long-term interests in associates and joint venture	1 January 2019
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019

3. Accounting Policies *(Continued)*

(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 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

(c) Impact from changes in accounting policies

This Note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 3(c)(2) below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

3. Accounting Policies *(Continued)*

(c) Impact from changes in accounting policies *(Continued)*

(1) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.86%.

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	5,175
Discounted using the lessee's incremental borrowing rate of at the date of initial application	5,008
(Less): short-term leases recognised on a straight-line basis as expense	(2,733)
Lease liability recognised as at 1 January 2019	**2,275**
Of which are:	
Current lease liabilities	867
Non-current lease liabilities	1,408
	2,275

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

3. Accounting Policies *(Continued)*

(c) Impact from changes in accounting policies *(Continued)*

(1) Adjustments recognised on adoption of HKFRS 16 *(Continued)*

The net book value of recognised right-of-use assets relate to the following types of assets:

	30 June 2019 RMB'000	**1 January 2019** RMB'000
Properties	1,810	2,249
Equipment	91	103
Total right-of-use assets	**1,901**	**2,352**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB2,352,000
- prepayments – decrease by RMB77,000
- lease liabilities – increase by RMB2,275,000

There was no impact on retained earnings on 1 January 2019.

(i) Impact on segment disclosures

Segment profit for the six months ended 30 June 2019 decreased as a result of the change in accounting policy. The following segments were affected by the change in policy:

	Segment profit RMB'000
Amino acid	(2)
Xanthan gum	(2)
Unallocated	(34)
	(38)

3. Accounting Policies *(Continued)*

(c) Impact from changes in accounting policies *(Continued)*

(1) Adjustments recognised on adoption of HKFRS 16 *(Continued)*

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 *Determining whether an Arrangement contains a Lease*.

(2) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3. Accounting Policies *(Continued)*

(c) Impact from changes in accounting policies *(Continued)*

(2) The Group's leasing activities and how these are accounted for *(Continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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 HKFRS 16, 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 2018.

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 2018.

There have been no changes in the risk management department since 2018 year end or in any risk management policies.

5.2 Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to the customers, including outstanding receivables.

(i) Risk management

Credit risk is managed on a Group basis. Bank deposits and cash at bank are deposited in reputable financial institutions which are considered with low credit risk.

For sales of goods, customers of the Group usually pay in advance before delivery of products. Credit will only be granted to customers with long-term relationship. The Group performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on trade receivables. 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.

5. Financial Risk Management *(Continued)*

5.2 Credit risk *(Continued)*

(ii) Impairment of financial assets

The Group has trade receivables for sales of inventory that are subject to the expected credit loss model.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared 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 2019 or 31 December 2018 respectively 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. The Group has considered the business, financial or economic conditions of the customers and the performance and behaviour of customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

5. Financial Risk Management *(Continued)*

5.2 Credit risk *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Trade receivables (Continued)

On that basis, the loss allowance as at 30 June 2019 and 31 December 2018 was determined as follows for trade receivables:

30 June 2019	**Within 3 months RMB'000**	**3 to 12 months RMB'000**	**Over 12 months RMB'000**	**Total RMB'000**
Expected loss rate	**0.41%**	**3.64%**	**41.27%**	
Gross carrying amount	**560,313**	**29,077**	**5,537**	**594,927**
Loss allowance provision	**2,270**	**1,058**	**2,285**	**5,613**

31 December 2018	Within 3 months RMB'000	3 to 12 months RMB'000	Over 12 months RMB'000	Total RMB'000
Expected loss rate	0.52%	5.26%	36.12%	
Gross carrying amount	542,820	64,998	14,960	622,778
Loss allowance provision	2,806	3,418	5,404	11,628

5. Financial Risk Management *(Continued)*

5.2 Credit risk *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Trade receivables (Continued)

The loss allowances for trade receivables as at 30 June 2019 and 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000
Closing loss allowance at 31 December 2017 – calculated under HKAS 39	20,258
Amounts restated through opening retained earnings	1,082
Opening loss allowance at 1 January 2018 – calculated under HKFRS 9	21,340
Increase in loan loss allowance recognised in profit or loss during the year	7,114
Receivables written off during the year as uncollectible	(16,826)
Closing loss allowance at 31 December 2018	11,628
Increase in loan loss allowance recognised in profit or loss during the period	13,564
Receivables written off during the period as uncollectible	(19,579)
Closing loss allowance at 30 June 2019	5,613

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 360 days past due (credit terms).

Impairment losses on trade receivables are presented within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

5. Financial Risk Management *(Continued)*

5.2 Credit risk *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Net impairment losses on financial assets recognised in profit and loss

During the six months ended 30 June 2019 and 30 June 2018, the following losses were recognised in "Net impairment losses on financial assets" in the consolidated income statement in relation to impaired financial assets:

	Half-year	
	2019	2018
	RMB'000	RMB'000
Impairment losses		
– loss allowance for trade receivables	**13,564**	252

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.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000
The Group					
At 30 June 2019					
Borrowings	1,575,000	343,735	2,173,333	–	4,092,068
Interests payments on borrowings	151,691	134,353	20,639	–	306,683
Trade and other payables (excluding non-financial liabilities)	2,680,275	–	17,100	65,130	2,762,505
Lease liabilities	955	923	58	–	1,936
Total	4,407,921	479,011	2,211,130	65,130	7,163,192
Derivatives					
Gross settled (cross currency swaps)					
– (inflow)	(41,368)	(41,368)	(21,262)	–	(103,998)
– outflow	40,164	40,164	20,643	–	100,971
	(1,204)	(1,204)	(619)	–	(3,027)
Total	4,406,717	477,807	2,210,511	65,130	7,160,165

5. Financial Risk Management *(Continued)*

5.3 Liquidity risk *(Continued)*

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000
The Group				
At 31 December 2018				
Non-derivatives				
Borrowings	1,523,163	335,549	2,178,277	4,036,989
Interests payments on borrowings (i)	164,251	143,654	84,147	392,052
Trade and other payables (excluding non-financial liabilities)	3,275,538	–	–	3,275,538
Total non-derivatives	4,962,952	479,203	2,262,424	7,704,579
Derivatives				
Gross settled (cross currency swaps)				
– (inflow)	(41,368)	(41,599)	(41,830)	(124,797)
– outflow	40,097	40,321	40,545	120,963
	(1,271)	(1,278)	(1,285)	(3,834)
Total	4,961,681	477,925	2,261,139	7,700,745

(i) The interests on borrowings are calculated based on bank borrowings and USD bonds held as at 30 June 2019 and 31 December 2018 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 30 June 2019 and 31 December 2018 respectively.

5. Financial Risk Management *(Continued)*

5.4 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
At 30 June 2019				
Financial assets				
Bank financial product	**68,994**	**–**	**–**	**68,994**
Financial liabilities				
Derivative financial instruments	**–**	**8,656**	**–**	**8,656**

Recurring fair value measurements	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2018				
Financial liabilities				
Derivative financial instruments	–	29,882	–	29,882

5. Financial Risk Management *(Continued)*

5.4 Fair value estimation *(Continued)*

(a) Financial assets and liabilities *(Continued)*

(i) Fair value hierarchy (Continued)

The carrying value less impairment provision of trade and other receivables, financial assets at amortised cost, cash and cash equivalents and short-term bank deposits approximated 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.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

5. Financial Risk Management *(Continued)*

5.4 Fair value estimation *(Continued)*

(a) Financial assets and liabilities *(Continued)*

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves

- for forward currency forwards – present value of future cash flows based on forward exchange rates at the balance sheet date

- for foreign currency options – option pricing models (e.g. Black Scholes model)

Except the bank financial product of which the fair value hierarchy is Level 1, all of the other resulting fair value estimates are included in level 2.

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, lysine, corn refined products, fertilisers, starch sweeteners, threonine, corn oil, compound seasoning, high-end amino acid products, pharmaceuticals and bricks; and

– manufacturing and sales of xanthan gum.

Approximately 73% (30 June 2018: 73%) of the Group's revenue are generated from sales to the customers in the PRC.

6. Segment Information *(Continued)*

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

The revenue of the Group for the six months ended 30 June 2019 and 2018 are set out as follows:

	Half-year	
	2019	2018
	RMB'000	RMB'000
MSG	**3,734,595**	3,322,145
Corn refined products	**963,739**	844,380
Starch sweeteners	**807,488**	433,612
Threonine	**656,015**	668,880
Xanthan gum	**436,349**	388,015
High-end amino acid products	**390,699**	419,846
Glutamic acid	**178,104**	171,128
Lysine	**149,010**	–
Fertilisers	**132,063**	143,574
Corn oil	**2,565**	4,401
Others	**252,890**	214,241
	7,703,517	6,610,222

6. Segment Information *(Continued)*

The segment information for the six months ended 30 June 2019 is as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Revenue	7,267,168	436,349	–	7,703,517
Segment results	736,182	58,402	(10,026)	784,558
Finance costs – net				(77,733)
Share of loss of investments accounted for using the equity method				(1,040)
Profit before income tax				705,785
Income tax expenses				(93,081)
Profit for the period				612,704

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	523,998	27,874	596	552,468
Amortisation of leasehold land payments	7,075	1,281	43	8,399
Amortisation of intangible assets	2,545	–	–	2,545
Loss on disposal of property, plant and equipment	426	–	–	426

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 expenses				(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

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 classified as held for sale	(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 2019				
Opening net book amount at 1 January 2019	**778,558**	**10,309,977**	**30,745**	**11,119,280**
Additions	**469**	**675,379**	**7,383**	**683,231**
Disposals	**–**	**(3,385)**	**–**	**(3,385)**
Depreciation and amortisation	**(8,399)**	**(552,468)**	**(2,545)**	**(563,412)**
Closing net book amount at 30 June 2019	**770,628**	**10,429,503**	**35,583**	**11,235,714**

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 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 2019 RMB'000	31 December 2018 RMB'000
Trade receivables (a)	**594,927**	622,778
Less: provision for impairment of trade receivables	**(5,613)**	(11,628)
Trade receivables, net	**589,314**	611,150
Notes receivables (b)	**525,931**	520,241
Receivables arising from disposal of subsidiaries	**17,923**	1,013,214
Receivables from former subsidiaries	**2,357**	263,566
Deposits and others	**41,202**	92,321
Loan to a related party (Note 20(c))	**6,000**	6,000
Loan to a third party (c)	**400,000**	–
Loans to employees	**1,101**	2,172
– Loans to key management	**–**	–
– Loans to other employees	**1,101**	2,172
Value-added tax for future deduction	**414,032**	336,460
Trade and other receivables excluding prepayments	**1,997,860**	2,845,124
Prepayments for raw materials	**496,061**	195,109
	2,493,921	3,040,233

8. Trade and Other Receivables *(Continued)*

(a) At 30 June 2019 and 31 December 2018, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 3 months	**560,313**	542,820
3 – 12 months	**29,077**	64,998
Over 12 months	**5,537**	14,960
	594,927	622,778

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 2019, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB 473,635,000 (31 December 2018: RMB 465,793,000) applied for settling the amounts payable to the Group's suppliers.

(c) The loan to a third party was arranged via a financial trust company, which is due for collection within 1 year from the balance sheet date. The interest rate on the loan during the six months ended 30 June 2019 was 12.11% per annum.

9. Cash and Bank Balances

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Cash and cash equivalents		
– Cash on hand	**465**	407
– Cash in bank	**1,600,062**	1,734,536
	1,600,527	1,734,943
Term deposits over 3 months and within one year	**32,000**	22,000
Restricted bank deposits	**1,235,000**	933,341
Total cash and bank balances	**2,867,527**	2,690,284

NOTES TO THE
CONDENSED FINANCIAL STATEMENTS

10. 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 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
Opening balance at 1 January 2019	**10,000,000**	**2,546,734**	**244,436**	**1,430,479**	**1,674,915**
Dividends	**–**	**–**	**–**	**(513,585)**	**(513,585)**
Repurchase of shares of the Company (a)	**–**	**(3,400)**	**(299)**	**(10,918)**	**(11,217)**
At 30 June 2019	**10,000,000**	**2,543,334**	**244,137**	**905,976**	**1,150,113**

(a) In May 2019, the Company has acquired 3,400,000 of its own shares through purchases on The Stock Exchange of Hong Kong Limited. The total consideration of HKD13,103,000 (equivalent to RMB11,217,000) paid for repurchase of shares has been deducted from share capital and share premium.

11. Borrowings

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
Non-current		
– Bank borrowings, unsecured	**338,109**	335,549
– USD bonds	**2,151,575**	2,151,840
	2,489,684	2,487,389
Current		
– Bank borrowings, unsecured	**475,000**	653,363
– Bank borrowings, secured	**1,100,000**	869,800
	1,575,000	1,523,163
Total Borrowings	**4,064,684**	4,010,552

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

	Carrying amount As at		Fair value As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000	**30 June 2019 RMB'000**	31 December 2018 RMB'000
Bank borrowings, unsecured	**338,109**	335,549	**344,127**	338,734
USD bonds	**2,151,575**	2,151,840	**2,192,067**	2,201,104
	2,489,684	2,487,389	**2,536,194**	2,539,838

11. Borrowings *(Continued)*

Movements in borrowings were analysed as follows:

	RMB'000
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	6,412
Exchange differences	13,499
Closing amount as at 30 June 2018	3,397,039
Six months ended 30 June 2019	
Opening amount as at 1 January 2019	**4,010,552**
New borrowings	**2,087,000**
Repayments of bank borrowings	**(2,037,699)**
Redemption of USD bonds	**(8,364)**
Amortisation of transaction cost	**8,205**
Exchange differences	**4,990**
Closing amount as at 30 June 2019	**4,064,684**

Interest expenses on borrowings for the six months ended 30 June 2019 were RMB112,973,000 (30 June 2018: RMB57,025,000).

12. Trade, Other Payables and Accruals

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
Trade payables (a)	**1,221,232**	1,511,982
Payables for property, plant and equipment	**1,088,944**	1,309,099
Bank acceptance notes payable	**2,890**	64,716
Government compensation related to property, plant and equipment disposal received in advance	**62,035**	62,035
Salaries, wages and staff welfares payables	**351,524**	375,011
Interest payables	**45,379**	47,779
Government grants received in advance	**1,000**	1,571
Dividends payable	**407**	407
Other payables and accruals	**383,388**	341,962
	3,156,799	3,714,562
Less: non-current portion		
Other payables (b)	**(61,574)**	–
	3,095,225	3,714,562

12. Trade, Other Payables and Accruals *(Continued)*

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

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 3 months	**1,032,752**	1,325,253
3 to 6 months	**112,281**	80,224
6 to 12 months	**28,618**	40,429
1 to 2 years	**23,990**	40,701
Over 2 years	**23,591**	25,375
	1,221,232	1,511,982

(b) The non-current portion of other payables is a borrowing from certain third parties, which is repayable in 7 years from the balance sheet date. The interest rate on such other payables during the six months ended 30 June 2019 was 5.25% per annum.

13. Other Income

	Half-year	
	2019 **RMB'000**	2018 RMB'000
Sales of waste products	**59,850**	58,638
Amortisation of deferred income	**45,708**	36,829
Government grants relating to expenses	**12,051**	21,414
Others	**35,905**	14,296
	153,514	131,177

14. Operating Profit

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

	Half-year	
	2019 **RMB'000**	2018 RMB'000
Amortisation of leasehold land payments	**8,399**	12,401
Amortisation of intangible assets	**2,545**	1,144
Depreciation of property, plant and equipment	**552,468**	469,914
Depreciation of right-of-use assets	**451**	–
Reversal of provision for impairment charges for property, plant and equipment (Note 7(a))	**–**	(56,513)
Net impairment losses on financial assets	**13,564**	252
Value on employee services for the share option schemes	**1,059**	4,503
Provision for/(Reversal of) inventory write-down – net	**21,937**	(1,610)
Plant relocation expenses	**–**	5

15. Finance Income and Costs

	Half-year	
	2019	2018
	RMB'000	RMB'000
Finance income:		
Interest income from financial assets held for cash management purposes		
– bank deposits and bank balances	**(33,549)**	(1,911)
– financial assets at amortised cost	**(6,997)**	–
	(40,546)	(1,911)
Finance costs:		
Interest and finance charges paid/payable for lease liabilities and financial liabilities not at fair value through profit or loss		
– bank borrowings	**45,290**	57,025
– USD bonds	**67,683**	–
– leasing liabilities	**49**	–
– other payables	**1,574**	–
Foreign exchange losses on financing activities	**3,683**	13,499
	118,279	70,524
Net finance costs	**77,733**	68,613

16. Income Tax Expense

	Half-year	
	2019	2018
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	**76,667**	48,050
– Hong Kong enterprise income tax	**–**	89
– U.S. enterprise income tax	**242**	5,002
– Singapore enterprise income tax	**–**	1
Deferred income tax	**16,172**	(1,341)
	93,081	51,801

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

Hong Kong 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.

17. Earnings Per Share

	Half-year	
	2019	2018
	RMB'000	RMB'000
Earnings per share for profit attributable to the Shareholders (RMB cents per share)		
– basic	**24.07**	12.37
– diluted	**24.06**	12.35

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 2019 was RMB 24.07 cents and RMB 24.06 cents respectively (equivalent to HK27.42 cents and HK27.41 cents) (1H 2018: RMB 12.37 cents and RMB12.35 cents respectively (equivalent to HK14.73 cents and HK14.71 cents)).

18. Dividends

On 19 March 2019, the Board proposed a final dividend in respect of the year ended 31 December 2018 of HKD601,029,000 (equivalent to RMB514,276,000), representing HK23.6 cents (equivalent to RMB20.19 cents) per share. The final dividend paid in June 2019 amounted to HKD600,237,000 (equivalent to RMB513,585,000). The difference between proposed and paid final dividends was due to the decreased ordinary shares as a result of the repurchase of shares of the company.

At a meeting held on 20 August 2019, the Board proposed an interim dividend of HKD236,530,000 (equivalent to RMB212,196,000) (1H2018: HKD106,963,000 (equivalent to RMB93,379,000)), representing HK9.3 cents (equivalent to RMB8.34 cents) (1H2018: HK4.2 cents (equivalent to RMB3.67 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 2019.

19. Contingent Liabilities

As at 30 June 2019 and 31 December 2018, the Group had no material contingent liabilities.

20. 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

	Half-year	
	2019 **RMB'000**	2018 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 the controlling shareholder.

(2) Continuing connected transaction

	Half-year	
	2019 **RMB'000**	2018 RMB'000
Sales of products to a related party*	**36,231**	36,217

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

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

(b) Key management compensation

	Half-year	
	2019	2018
	RMB'000	RMB'000
Salaries and allowances	**9,117**	7,048
Pension costs-defined contribution plan	**500**	475
Share options granted	**1,823**	3,597
	11,440	11,120

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.

(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 2019	31 December 2018
	RMB'000	RMB'000
– A company controlled by a close family member of the controlling shareholder	**21,434**	1,457

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

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

(2) Other payable – loan to a related party

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
– Jilin COFCO	**6,000**	6,000

The loan to a related party is repayable within 1 year from the balance sheet date. The interest rate on the loan during the year was 4.35%.

(3) Other payables to a related party

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
– A company controlled by a close family member of the controlling shareholder	**13,378**	28,312

(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.

21. Events Occurring after the Balance Sheet Date

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

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 2019, 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. Xu Zheng Hong, independent non-executive Directors, did not attend the annual general meeting of the Company held on 15 May 2019. 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 2019.

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

The Company repurchased 3,400,000 Shares in May 2019. Those repurchased Shares were cancelled on 6 June 2019. The total consideration of the repurchased Shares amounted to HKD13,102,857. Except for the above, 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 2019.

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 to eligible employees. Details of the share options granted and outstanding for the period ended 30 June 2019, are as follows:

		Number of share options							
Director and eligible employees	Note	At 1 January 2019	Granted during the period	Exercised during the period	Forfeited during the period	At 30 June 2019	Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
Under the Post-IPO Share Option Scheme									
Eligible employees	A	3,600,000	–	–	(800,000)	2,800,000	9/4/2015	5.69	9/4/2016 – 8/4/2020
Zheng Yu *(Independent non-executive Director)*	B	300,000	–	–	–	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	12,000,000	–	–	–	12,000,000	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
		21,200,000	–	–	(800,000)	20,400,000			

A) The total fair value, which was determined by an independent qualified appraiser using Binomial 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 Binomial 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%

OTHER INFORMATION

C) The total fair value, which was determined by an independent qualified appraiser using Binomial 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%

D) The fair value, which was determined by an independent qualified appraiser using Binomial 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%

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 2019, 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)	995,217,461 Shares	39.13%
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%
Zheng Yu	The Company	Interest of spouse (Note 5)	227,000 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.

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. The interest in these Shares is held by Wei Wei, who is husband of Ms. Zheng Yu. Ms. Zheng Yu is deemed to be interested in all Shares held by Wei Wei under the SFO.

Save as disclosed above, for the six months ended 30 June 2019, 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 2019, 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	995,217,461 Shares	39.13%
Shi Guiling (Note 2)	The Company	Interests of spouse	995,217,461 Shares	39.13%
Treetop Asset Management SA	The Company	Beneficial interests	432,837,314 Shares	17.02%
Pandanus Associates Inc.	The Company	Beneficial interests	129,252,000 Shares	5.08%

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 995,217,461 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, for the six months ended 30 June 2019, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

GLOSSARY

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
COFCO	China National Cereals, Oils and Foodstuffs Corporation
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

GLOSSARY

Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
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 announcement 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
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
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

GLOSSARY

Stock Exchange	the Stock Exchange of Hong Kong Limited
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
U.S.	the United States of America
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