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## CORPORATE INFORMATION

### Executive Directors

Mr. Li Xuechun  
Mr. Li Deheng  
Mr. Li Guangyu  
Mr. Zhao Qiang (resigned on 1 June 2020)  
Mr. Yu Yao Ming (resigned on 20 July 2020)

### Independent Non-Executive Directors

Mr. Lau Chung Wai  
Ms. Zheng Yu  
Mr. Xu Zheng Hong

### Principal Place of Business in the PRC

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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

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# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and Financial Review

### Overview

In the first half of 2020, China faced severe challenges brought by the COVID-19 pandemic and a complex and changing domestic and international environment. Resulting from the positive trend in the pandemic prevention and control, the resumption of economic activities in the PRC has been accelerated since then. Overall, the PRC economy in the first half of 2020 witnessed a bumpy ride with a decline trend in the first quarter and a recovery in the second quarter.

In terms of specific time frame, the COVID-19 pandemic had a greater impact on the domestic food industry and the catering industry in February and March. The situation of COVID-19 pandemic in the PRC began to improve in April. Meanwhile, the COVID-19 pandemic in overseas markets had an impact on the exports of China to developed countries, but its impact on the Group was relatively insignificant.

Despite the challenging operating environment, the Group's overall turnover increased, but profit declined, mainly due to 1) benefiting from the Group's internationalization strategy and supply strategy of flexible scheduling in domestic and overseas markets, the impact of the COVID-19 pandemic was minimised; 2) benefiting from a diversified product portfolio which hedged cycle risks, of which the production volume of some products increased boosting by the company's expansion of animal nutrition amino acid production capacity in the past two years; 3) our key product, MSG still maintained a certain level of profitability, despite the price decline.

The decrease in profit was mainly due to 1) the increase in the corn price in the PRC during April to June by a relatively large rate and for a longer time, which put upward pressure on the production cost; 2) decrease in the price of our main product MSG.



## MANAGEMENT DISCUSSION AND ANALYSIS

The operating environment faced by the Group in the first half of 2020 is summarized as follows:

1. The impact of the COVID-19 pandemic on production activities.
2. The pressures on sales and price exerted by the flagging domestic consumption and economic downturn caused by the COVID-19 pandemic.
3. The cost pressure caused by the higher-than-expected increase in corn price.

In face of the challenging operating environment, the Group strove to overcome difficulties for stabilizing sales, maximize our advantages of internationalization and diversified markets, and flexibly change the supply strategy to tide over difficult times during the period.

Despite our efforts to stabilize our sales volume, the weakening market condition and logistics cost increase contributed to the decline in profitability in the first half of 2020.

As China began to control the spreading of COVID-19 pandemic in the second quarter of 2020, our downstream companies (customers) have gradually resumed their production and operations. Despite the increase in our monthly sales volume in May and June, we were not in a position to increase selling prices, given that the macroeconomic conditions and market consumption were still weak.

During the COVID-19 pandemic, revenue of the Food additives segment only decreased slightly driven by our flexible sales strategy to meet the market demand in the MSG sector. Due to the weak market conditions, the average selling price ("ASP") of MSG could not be increased despite higher costs of major raw materials, particularly the corn kernels, and therefore had a negative impact on our overall performance. The Group continued to enhance our production technology and strengthened our cost control. The production efficiency was further improved as a result of enhancement of production technologies. Against the backdrop of a sluggish domestic economy, the Group's Food additives segment was able to maintain leading position in terms of industry development and market competition.



## MANAGEMENT DISCUSSION AND ANALYSIS

The ASP of MSG was approximately RMB6,048 per tonne (1H of 2019: RMB7,161 per tonne), and the sales volume of MSG for the six months ended 30 June 2020 increased by 4.9% to approximately 546,845 tonnes as compared to the corresponding period of 2019. The increased sales volume offset part of the negative impact caused by the ASP decline of MSG during the period.

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 efforts 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 utilising 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 Group nonetheless experienced some turbulence caused by the Sino-US trade tensions. For example, the exports of xanthan gum and high-end amino acid products to the US were affected to some extent. The sales volume of xanthan gum increased to approximately 36,255 tonnes in the first half of 2020, but recorded a decrease in ASP and thereby added pressure to the gross profit margin of our xanthan gum products in the first half of 2020. The ASP of high-end amino acid was also affected by the COVID-19 pandemic and a complex and changing international environment in the first half of 2020.

Animal nutrition products underwent a difficult time due to the sluggish feed and animal breeding industry as a result of the swine flu since 2019. The ASP of threonine was still in downturn. On the other hand, the sales volume and price of lysine failed to meet our expectation due to stiff market competition.



## MANAGEMENT DISCUSSION AND ANALYSIS

As for Animal nutrition products, the weak market conditions continued. In response to the weak market demand in the overseas markets due to the COVID-19 pandemic, we have taken some corresponding countermeasures, allowing us to meet the demand of our customers, as well as reducing the negative impact 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 for high-end products; and 2) readjusting product mix to meet different market demands by modifying some of our production processes.

### Business performance analysis by major product segments

Our business performance is analysed according to the following five product segments:

1. Food additives (main products include MSG, compound seasoning, starch sweeteners, glutamic acid and corn oil), 2. Animal nutrition (main products include threonine, lysine, and corn refined products), 3. High-end amino acid (main products include valine, leucine, isoleucine, glutamine, hyaluronic acid), 4. Colloid (main products include xanthan gum and gellan gum), and 5. Other (main products include fertilisers, synthetic ammonia, pharmaceuticals, etc.).

In terms of the Food additives segment, the ASP of MSG in the first half of 2020 was approximately RMB6,048 per tonne, representing a decrease of approximately 15.5% as compared to the corresponding period of 2019. The decline in ASP was mainly due to the pressures on sales and price exerted by the flagging domestic consumption and economic downturn caused by the COVID-19 pandemic. The sales volume was approximately 546,845 tonnes, representing an increase of approximately 4.9% as compared to the corresponding period of 2019. We maintained a certain level of profitability despite the decrease in gross profit margin of MSG due to upward cost pressure caused by the higher-than-expected increase in corn price. As the industry consolidated to include only a small number of manufacturers, we continued to witness a decrease in irrational pricing competition in the industry.

The performance of starch sweeteners was affected by intensifying market competition. The ASP of starch sweeteners in the first half of 2020 was approximately RMB2,516 per tonne, representing a slight increase of approximately 3.5% as compared to the corresponding period of 2019. The sales volume was approximately 275,317 tonnes, representing a decrease of approximately 17.1% as compared to the corresponding period of 2019.



## MANAGEMENT DISCUSSION AND ANALYSIS

In terms of the Animal nutrition segment, the market condition of threonine products was still weak. The ASP of threonine products in the first half of 2020 was approximately RMB6,704 per tonne, representing a decrease of approximately 3.9% as compared to the corresponding period of 2019. The sales volume was approximately 95,948 tonnes, representing an increase of approximately 2.1% as compared to the corresponding period of 2019.

However, the performance of lysine products was not satisfactory mainly due to the fierce market competition. The ASP of lysine products in the first half of 2020 decreased as compared to the corresponding period of 2019. The significant increase in sales volume was due to the fact that we launched the lysine product at the end of first half of 2019.

The high-end amino acid products recorded a good performance with increase in sales volume. The sales in the first half of 2020 amounted to approximately RMB453.2 million, representing an increase of approximately 16.0% as compared to the corresponding period of 2019. Our high-end amino acid products focused on the health and wellness and pharmaceutical materials industries and generally enjoyed higher profitability.

The performance of xanthan gum products in the Colloid segment was affected by the decline in oil prices, mainly due to the decline in the price of xanthan gum for the exports of industrial grade (oil mining applications). The ASP of xanthan gum products in the first half of 2020 was RMB14,283 per tonne, representing a decrease of approximately 4.1% as compared to the corresponding period of 2019. The sales volume was approximately 36,255 tonnes, representing an increase of approximately 23.8% as compared to the corresponding period of 2019.

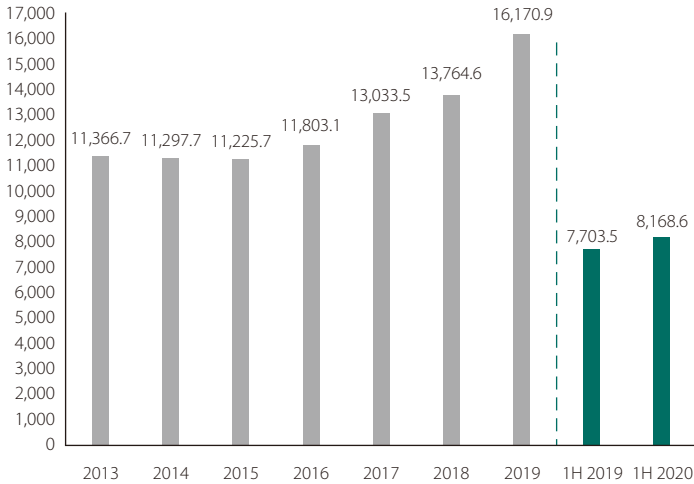




**MANAGEMENT DISCUSSION AND ANALYSIS**

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

RMB (Million)



For the six months ended 30 June 2020, the Group's revenue increased to approximately RMB8,168.6 million as compared to approximately RMB7,703.5 million for the six months ended 30 June 2019. The increase in revenue was primarily due to increased revenue contribution from high-end amino acid, xanthan gum, lysine and corn refined products as compared to the corresponding period of 2019.

The Group's overall gross profit decreased from approximately RMB1,673.4 million in the first half of 2019 to approximately RMB1,469.2 million in the first half of 2020. This represents a decrease of 12.2%, primarily due to the decreases in the ASP and gross profit margin of MSG.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Food additives segment

In the first half of 2020, the ASP of MSG substantially decreased by 15.5% as compared to the corresponding period of 2019, due to the greater impact caused by the COVID-19 pandemic on the domestic food industry and the catering industry in February and March 2020. In addition, major raw material costs increased during the period. However, the costs burden could not be passed on to customers by product pricing due to the weak market condition. Therefore, gross profit margin decreased as compared to the corresponding period of 2019.

The production volume of MSG increased by approximately 12.0% and sales volume increased by approximately 4.9% in the first half of 2020 as compared to the corresponding period of 2019, respectively. The increases in production and sales volume of MSG were mainly due to our flexible sales and marketing strategy to meet the market demand despite the impact of the COVID-19 pandemic started at the beginning of 2020.

Our strategy was not only to fully utilize the cost advantages of the Group but also leverage on the Group's market position to maximize its profitability. We managed to reduce unit consumption and enhanced production efficiency by continually investing in research and development.

The production of starch sweeteners was kept stable but the sales volume of starch sweeteners decreased by approximately 17.1% in the first half of 2020 as compared to the corresponding period of 2019. The sales volume decreased due to weak market demand.

### Animal nutrition segment

We continued to witness the sustained development of our threonine product in the first half of 2020. Threonine is a type of amino acid which is used as an animal feed additive. During the period, the total revenue of threonine was approximately RMB643.2 million, representing a slight decrease of 2.0% as compared to the corresponding period of 2019. The Group sold about 95,948 tonnes of threonine during the six months period as compared to about 94,016 tonnes in the corresponding period of 2019. The decrease in ASP was mainly due to the deteriorated market conditions caused by the COVID-19 pandemic, despite the easing situation of the swine flu in China in the first half of 2020 resulting in decrease in contribution of threonine in Animal nutrition segment in the first half of 2020.

On the other hand, due to the impact of COVID-19 pandemic, the sales revenue of lysine was lower than our expectation. As lysine was launched at the end of first half of 2019, sales of lysine amounted to approximately RMB561.2 million, which increased by 276.6% in the first half of 2020 (1H 2019: RMB149.0 million). The gross profit contribution of lysine increased in Animal nutrition segment.



## MANAGEMENT DISCUSSION AND ANALYSIS

### High-end amino acid segment

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. In the first half of 2020, sales of high-end amino acid products reached approximately RMB453.2 million, representing an increase of 16.0% as compared to the corresponding period of 2019. 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.

### Colloid segment

The production volume of xanthan gum increased by 25.2% and the sales volume of xanthan gum increased by 23.8%, respectively, in the first half of 2020 as compared to the corresponding period of 2019. The increase in production and sales volume of xanthan gum were due to the fluctuating market conditions of the global oil industry. But, the market weakened due to the global pandemic of COVID-19 since May of 2020.

On the other hand, the ASP of xanthan gum decreased by 4.1% as compared to the corresponding period of 2019, due to the lackluster conditions of the global oil industry.

Overall, the diversity of the Group's product portfolio allowed the Group to maintain its overall revenue growth momentum in the first half of 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Operational Review of the Group

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

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

	Six months ended 30 June		Change
	2020	2019	%
Turnover (RMB'000)	<b>8,168,630</b>	7,703,517	6.0
Gross profit (RMB'000)	<b>1,469,248</b>	1,673,394	(12.2)
Gross profit margin (%)	<b>18.0</b>	21.7	(3.7) ppts.

The weakness in China's economy continued and major raw material costs demonstrated an upward trend in the first half of 2020, resulting in decrease in gross profit and gross profit margin of the Group in the Food additives segment. The ASP of MSG decreased during the six months ended 30 June 2020 and the effects from an increase in raw material costs, particularly the costs of corn kernels, were relatively high. Such increase in cost cannot be passed on to customers under current weak market condition. In addition, decreased revenue from starch sweeteners was mainly due to the weak market demand by the COVID-19 pandemic. On the other hand, the ASP of other main products such as threonine and xanthan gum recorded decreases as compared to the corresponding period of 2019 due to the impact of COVID-19 pandemic. The overall gross profit of the Group decreased by 12.2% in the first half of 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Profit attributable to the Shareholders

	Six months ended 30 June		Change %
	2020 RMB'000	2019 RMB'000	
As reported	<b>379,304</b>	612,704	(38.1)

Profit attributable to the shareholders decreased by 38.1% for the six months ended 30 June 2020 as compared to the corresponding period of 2019. The weakened market conditions of the PRC and global economies were mainly due to the COVID-19 pandemic and intensified Sino-US tensions. The Group will closely monitor the market conditions and adopt nimble marketing strategies with an aim to achieve stable growth.

### Business highlights

The Group's products are organised into five product segments including: 1. Food additives (main products include MSG, compound seasoning, starch sweeteners, glutamic acid and corn oil), 2. Animal nutrition (main products include threonine, lysine and corn refined products), 3. High-end amino acid (main products include valine, leucine, isoleucine, glutamine, and hyaluronic acid), 4. Colloid (main products include xanthan gum and gellan gum), and 5. Other (main products include fertilisers, synthetic ammonia and pharmaceuticals, etc.).



## MANAGEMENT DISCUSSION AND ANALYSIS

The sections below describe the performance of the Group in more details.

Detailed sales and gross profit analysis by four major categories for the six months ended 30 June 2020 and 2019.

### For the six months ended 30 June 2020

	Food additives RMB'000	Animal nutrition RMB'000	High-end amino acid RMB'000	Colloid RMB'000	Others RMB'000	Total RMB'000
Revenue	4,256,940	2,515,977	453,159	549,586	392,968	8,168,630
Gross profit	723,287	352,410	170,528	132,788	90,235	1,469,248
Gross profit margin	17.0%	14.0%	37.6%	24.2%	23.0%	18.0%

For the six months ended 30 June 2019

	Food additives RMB'000	Animal nutrition RMB'000	High-end amino acid RMB'000	Colloid RMB'000	Others RMB'000	Total RMB'000
Revenue	4,743,468	1,768,764	390,699	458,735	341,851	7,703,517
Gross profit	1,120,837	174,540	165,286	128,222	84,509	1,673,394
Gross profit margin	23.6%	9.9%	42.3%	28.0%	24.7%	21.7%



## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenue and ASP

The table below sets out the revenue of the Group by products for the six months ended 30 June 2020 and 2019:

Product	Six months ended 30 June		Change %
	2020 RMB'000	2019 RMB'000	
<b>Food additives</b>			
MSG	<b>3,307,330</b>	3,734,595	(11.4)
Starch sweeteners	<b>692,740</b>	807,488	(14.2)
Glutamic acid	<b>238,871</b>	178,104	34.1
Compound seasoning	<b>14,688</b>	20,716	(29.1)
Corn oil	<b>3,311</b>	2,565	29.1
<b>Animal nutrition</b>			
Corn refined products	<b>1,311,605</b>	963,739	36.1
Threonine	<b>643,221</b>	656,015	(2.0)
Lysine	<b>561,151</b>	149,010	276.6
<b>High-end amino acid</b>			
High-end amino acid products	<b>453,159</b>	390,699	16.0
<b>Colloid</b>			
Xanthan gum	<b>517,832</b>	436,349	18.7
Gellan gum	<b>31,754</b>	22,386	41.8
<b>Others</b>			
Fertilisers	<b>209,932</b>	132,063	59.0
Synthetic ammonia	<b>91,346</b>	131,838	(30.7)
Pharmaceuticals	<b>80,166</b>	69,299	15.7
Others	<b>11,524</b>	8,651	33.2
	<b>8,168,630</b>	7,703,517	6.0



## MANAGEMENT DISCUSSION AND ANALYSIS

### Food additives

Revenue generated from the sales of food additives products decreased to approximately RMB4,256.9 million in the first half of 2020, representing a decrease of approximately RMB486.5 million, or 10.3%, as compared to the corresponding period of 2019, mainly due to the decrease in the revenue of MSG and starch sweeteners. The decreased revenue of MSG was primarily due to the effect of a decrease in the ASP of MSG during the period.

#### *MSG*

The MSG market environment deteriorated due to the COVID-19 pandemic. In addition, major raw material costs, particularly corn kernels, increased during the period. However, the costs burden could not be passed on to customers by product pricing due to the weak market conditions. The ASP of MSG decreased by 15.5%, from approximately RMB7,161 per tonne in the first half of 2019 to approximately RMB6,048 per tonne in the first half of 2020. The sales volume slightly increased by 4.9%, from approximately 521,529 tonnes in the first half of 2019 to approximately 546,845 tonnes in the first half of 2020. As a result, turnover of MSG decreased by 11.4% in the first half of 2020. In the first half of 2020, the Group continuously strengthened marketing efforts to promote U Fresh Series products to retail customers. Exports of MSG products increased from about RMB728.2 million in the first half of 2019 to about RMB734.3 million in the first half of 2020.

#### *Starch sweeteners*

Turnover of starch sweeteners decreased by approximately 14.2% in the first half of 2020, which was primarily due to the weak market demand caused by the COVID-19 pandemic. Sales volume of starch sweeteners decreased by 17.1% to approximately 275,317 tonnes in the first half of 2020 as compare to the corresponding period of 2019, mainly due to the COVID-19 pandemic which had a greater impact on the domestic food industry and the catering industry in February and March 2020. The ASP of starch sweeteners slightly increased, from approximately RMB2,432 per tonne in the first half of 2019 to approximately RMB2,516 per tonne in the first half of 2020.





## MANAGEMENT DISCUSSION AND ANALYSIS

### Animal nutrition

#### *Threonine*

Threonine is a growth product of the Group. Threonine is classified as a major type of animal nutrition product, an essential amino acid which maintains body protein balance and promotes the growth of living things. Our threonine is mainly used as an animal feed additive. The total revenue of threonine kept stable. Threonine slightly decreased by about 2.0% in the first half of 2020 as compared to the corresponding period of 2019, primarily due to the decreased ASP of threonine from approximately RMB6,978 per tonne in the first half of 2019 to approximately RMB6,704 per tonne in the first half of 2020. The decrease in ASP was mainly due to the deteriorated market conditions caused by the COVID-19 pandemic, despite the easing situation of the swine flu in China in the first half of 2020. Likewise, sales volume of threonine only slightly increased from approximately 94,016 tonnes in the first half of 2019 to approximately 95,948 tonnes in the first half of 2020.

#### *Corn refined products*

Bacterial protein is classified into the corn refined products category and the revenue of corn refined products increased by about 36.1% for the six months ended 30 June 2020 as compared to the corresponding period of 2019. This was mainly caused by additional annual production capacity of lysine since the second half of 2019. Therefore, our production and sales volume of corn refined products increased during the period as compared to the corresponding period of 2019. In addition, the ASP of bacterial protein increased from approximately RMB2,209 per tonne in the first half of 2019 to approximately RMB2,717 per tonne in the first half of 2020, representing an increase of 23.0%.

#### *Lysine*

The new annual production capacity of lysine (200,000 tonnes) commenced operation in our new Longjiang Plant Phase II in the second quarter of 2019. Sales of lysine increased from approximately RMB149.0 million in the first half of 2019 to approximately RMB561.2 million in the first half of 2020. It is classified as part of revenue in our Animal nutrition segment.



## MANAGEMENT DISCUSSION AND ANALYSIS

### High-end amino acid products

The total sales amount of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, increased to approximately RMB453.2 million in the first half of 2020 as compared to approximately RMB390.7 million in the first half of 2019. 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.

### Colloids

#### *Xanthan gum*

The global market demand for xanthan gum was affected by the fluctuating market conditions of the global oil industry and the global pandemic of COVID-19 since May of 2020. The performance of xanthan gum in the Colloid segment was affected by the decline in oil prices, mainly due to the decline in the price of xanthan gum for the exports of industrial grade (oil mining applications). The Group continued to increase its market share and as one of the top three xanthan gum manufacturers, continued to dominate the global market.

Revenue generated from xanthan gum increased by 18.7%, from approximately RMB436.3 million in the first half of 2019 to approximately RMB517.8 million in the first half of 2020. The increase in revenue was due to a rise in sales volume during the period. Sales volume increased by 23.8% in the first half of 2020. The ASP of xanthan gum decreased to approximately RMB14,283 per tonne, representing a decrease of 4.1%, mainly due to the decline in the price of industrial grade xanthan gum (oil mining applications), which was affected by declined oil prices.

### Other related products

#### *Fertilisers*

The ASP of fertilisers for the six months ended 30 June 2020 was approximately RMB488 per tonne, representing an increase of RMB73, or about 17.6%, as compared to the corresponding period of 2019. The sales volume of fertilisers increased, while the ASP of fertilisers was in line with prevailing market conditions. As a result, the revenue of fertilisers increased from RMB132.1 million for the six months ended 30 June 2019 to RMB209.9 million for the six months ended 30 June 2020. Meanwhile, the Group continued to enhance the development of high value added fertiliser products.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross Profit and Gross Profit Margin

The gross profit is set out below:

	Six months ended 30 June		Change
	2020	2019	
Gross profit (RMB'000)	<b>1,469,248</b>	1,673,394	(12.2)%
Gross profit margin (%)	<b>18.0</b>	21.7	(3.7)ppts.

Gross profit decreased to approximately RMB1,469.2 million and gross profit margin decreased by 3.7 percentage points to 18.0% for the six months ended 30 June 2020.

Decreasing gross profit contribution was mainly due to

1. The pressures on sales and price exerted by the flagging domestic consumption and economic downturn caused by the COVID-19 pandemic.
2. The upward cost pressure caused by the higher-than-expected increase in corn price.

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 flexible marketing and pricing strategy in order to expand market share and consolidate market position.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Production costs

	Six months ended 30 June				Change
	2020		2019		
	RMB'000	%	RMB'000	%	%
Major raw materials					
• Corn kernels	<b>3,829,370</b>	<b>55.1</b>	3,257,119	52.9	17.6
• Liquid ammonia	<b>157,729</b>	<b>2.3</b>	86,016	1.4	83.4
• Sulphuric acid	<b>25,048</b>	<b>0.4</b>	44,171	0.7	(43.3)
• Soybeans	<b>27,737</b>	<b>0.4</b>	18,023	0.3	53.9
Energy					
• Coal	<b>1,045,799</b>	<b>15.1</b>	981,754	16.0	6.5
Depreciation	<b>531,065</b>	<b>7.6</b>	503,438	8.2	5.5
Employee benefits	<b>359,215</b>	<b>5.2</b>	323,286	5.3	11.1
Others	<b>969,406</b>	<b>13.9</b>	938,628	15.2	3.3
Total cost of production	<b>6,945,369</b>	<b>100.0</b>	6,152,435	100.0	12.9

#### *Corn kernels*

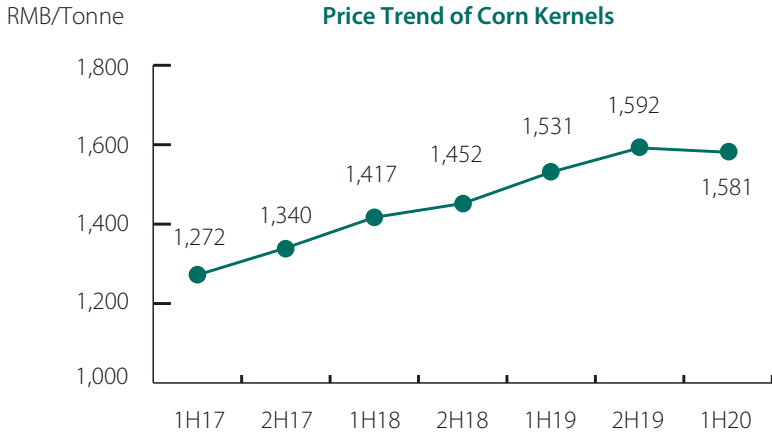
In the first half of 2020, corn kernels accounted for approximately 55.1% (1 H 2019: 52.9%) of the total production cost, representing an increase of 2.2 percentage points, mainly due to change in the price of corn kernels. The average price of corn kernels for the six months ended 30 June 2020 was approximately RMB1,581 per tonne, representing an increase of 3.3% as compared to the corresponding period of 2019.

The total cost of corn kernels increased by 17.6% in the first half of 2020, which was mainly due to the increase in consumption volume as actual production volume of MSG and lysine increased during the period as compared to the corresponding period of 2019.



**MANAGEMENT DISCUSSION AND ANALYSIS**

The following chart shows the price trend of corn kernels from the first half of 2017 to the first half of 2020:



*Liquid ammonia*

Liquid ammonia accounted for approximately 2.3% (1H 2019: 1.4%) of total production cost in the first half of 2020. The average unit cost of liquid ammonia in the first half of 2020 decreased to approximately RMB2,464 per tonne, which represents a decrease of approximately RMB251 per tonne, or 9.2%, as compared to the corresponding period of 2019. Despite that the average unit cost of liquid ammonia decreased, the total cost of liquid ammonia increased by 83.4% in the first half of 2020, which was mainly due to the increased consumption volume as actual production volume of MSG and lysine increased during the period.

*Sulphuric acid*

Sulphuric acid accounted for approximately 0.4% (1H 2019: 0.7%) of total production cost in the first half of 2020. The average unit cost of sulphuric acid decreased to approximately RMB95 per tonne, which represents a fall of approximately RMB172 per tonne, or 64.4%, as compared to the corresponding period of 2019.

*Soybeans*

In the first half of 2020, soybeans accounted for approximately 0.4% (1H 2019: 0.3%) of the total production cost. The average unit cost of soybeans was approximately RMB4,130 per tonne, which represents an increase of approximately RMB354 per tonne, or 9.4%, as compared to the corresponding period of 2019.

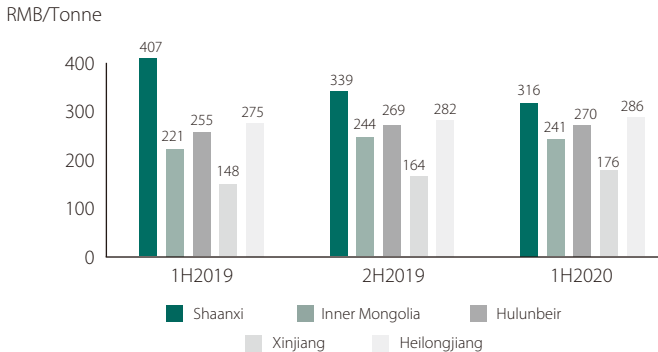


## MANAGEMENT DISCUSSION AND ANALYSIS

### Coal

Coal accounted for 15.1% (1H 2019: 16.0%) of total production cost in the first half of 2020. The total cost of coal increased by 6.5% in the first half of 2020, which was mainly due to the increase in the price of coal during the period. The average unit cost of coal in the first half of 2020 was RMB258 per tonne, which represents an increase of RMB12 per tonne, or 4.9%, as compared to the corresponding period of 2019. The increase in the coal price was in line with the general increase in commodity prices.

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:



### Other production costs

The increase in cost of depreciation and employee benefits was mainly due to the increased annual production capacity of lysine in our Longjiang Plant since the first half of 2019.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Production

The annual designed production capacity of each of the major products by product categories were as follows:

Product	Six months ended 30 June		Change %
	2020 Tonnes	2019 Tonnes	
Food additives			
MSG (Note)	<b>665,000</b>	665,000	–
Starch sweeteners (Note)	<b>360,000</b>	360,000	–
Animal nutrition			
Threonine (Note)	<b>121,500</b>	121,500	–
Lysine (Note)	<b>100,000</b>	75,000	33.3
Colloid			
Xanthan gum (Note)	<b>32,500</b>	32,500	–
Other			
Fertilisers (Note)	<b>540,000</b>	540,000	–

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

### Analysis of Capacity Usage of Major Product Lines

The utilization rates of MSG and starch sweeteners, the two main products in Food additives segment in the first half of 2020, remained stable. MSG's business strategy has changed, and the Group set production volume according to market demand in order to minimize the risk from pricing competition. During the period, the utilization rate of MSG exceeded 90%. The annual production capacity of starch sweeteners kept as 720,000 tonnes. Starch sweeteners was in full production in the first half of 2020. Threonine, as classified in the Animal nutrition segment, was affected by the outbreak of swine flu and weak market sentiment. The Group determined its output based on market demand with capacity utilization rate of threonine around 70% during the six months period. Xanthan gum product, as classified in the Colloid segment, had stable market demand. In the first half of 2020, the capacity utilization rate of xanthan gum was also in full.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Other Financial Information

#### Other income

In the first half of 2020, other income amounted to approximately RMB144.3 million, which was mainly comprised of income from sales of waste products, amortisation of deferred income and government grants.

#### Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB81.4 million, or 13.5%, in the first half of 2020. The increase in selling and marketing expenses was mainly due to an increase in transportation costs during sales process as we adjusted the supply strategy in domestic and overseas markets.

#### Administrative expenses

Administrative expenses decreased by approximately RMB21.1 million, or 5.4%, in the first half of 2020, mainly due to the decreases in staff costs and research and development expenses.

#### Finance costs

The finance costs of the Group in the first half of 2020 included two main parts: interest expense and exchange loss on financial activities.

Interest expense decreased by approximately RMB2.5 million, mainly due to a decrease in interest expenses as we repurchased part of the 3-year 5.875% USD bonds issued on 28 August 2018 amounting to USD62.8 million during the period.

On the other hand, the Group recorded an exchange loss on financing activities of approximately RMB21.1 million (1H 2019: RMB3.7 million), mainly due to the exchange loss of USD bonds and bank borrowings denominated in USD in the first half of 2020.

#### Depreciation

Depreciation expenses of the Group increased by approximately RMB59.0 million, or 10.5%, from RMB561.3 million in the first half of 2019 to RMB620.3 million in the first half of 2020. The increase was mainly due to the commencing of operations at the Phase II of the Longjiang Plant at the beginning of 2019.





## MANAGEMENT DISCUSSION AND ANALYSIS

### Income tax expense

The income tax expenses for the six months ended 30 June 2020 mainly represented the PRC Enterprise Income Tax (“EIT”). Seven subsidiaries of the Group, including Hulunbeier Fufeng, Shandong Fufeng, Shenhua Pharmaceutical, Baoji Fufeng, IM Fufeng, Xinjiang Fufeng 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 2019: 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, Hulunbeier 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 2019: 15%).

The Group’s subsidiaries in the PRC are subject to PRC EIT which is calculated based on the applicable tax rate of 25% (1H 2019: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations except for those as discussed above. The Group’s subsidiaries in Hong Kong are subject to income tax at a rate of 8.25% (1H 2019: 8.25%) on the estimated assessable profit for the six months ended 30 June 2020.

The Group’s subsidiary in the United States is subject to state income tax at a rate of approximately 8.84% (1H 2019: 8.84%) and a federal income tax at a rate of approximately 21% (1H 2019: 21%) on the estimated assessable profit for the six months ended 30 June 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Future Plan and Recent Development

#### Outlook and Future Plan

1. We expect that the second half of the year to remain challenging. We as the market leader will further strengthen our leading role to accelerate the industry consolidation.
2. We will rapidly launch some supporting facilities with an aim to further lower our production costs.
3. We will upgrade our information systems in order to improve operational management efficiency.
4. We will build a high-performance team through staff training and talent recruitment to achieve systematic and highly efficient operating performance.
5. We will further reduce costs and enhance competitiveness of high-end amino acid products through the improvement of production technology and processes.

#### Liquidity and Financial Resources

As at 30 June 2020, the Group's cash and cash equivalent and restricted bank deposits were RMB1,846.3 million (31 December 2019: RMB1,880.8 million) whereas current bank borrowings were approximately RMB1,830.1 million (31 December 2019: RMB935.2 million). Non-current bank borrowings and non-current other borrowings (including the balances of USD bonds) were approximately RMB262.8 million and RMB1,783.5 million (31 December 2019: RMB261.2 million and RMB2,188.2 million), respectively.

#### USD Bonds

The Company issued USD350 million three-year USD bonds 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 mainly used to refinance existing debt and for business development purposes.

The Company completed the repurchase of USD96,664,000 in aggregate principal amount of USD bonds (the "Repurchased Bonds") which were repurchased during 6 November 2018 to 13 May 2020, representing approximately 27.62% of the aggregate principal amount of USD bonds originally issued. The Repurchased Bonds were cancelled before 30 June 2020 and the outstanding balance of USD bonds amounted to USD253,336,000 as at 30 June 2020.

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



## MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group had no other material acquisition or disposal of subsidiaries or associated companies for the six months ended 30 June 2020.

### Employees

As at 30 June 2020, the Group had approximately 13,100 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Scheme" under the "Other information" section below for the share options granted to certain Directors and employees of the Group pursuant to the Post-IPO and New share option schemes.

### Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

### Charges on assets

As at 30 June 2020, structured deposits, recognised as financial assets measured at fair value through profit or loss amounting to RMB800.0 million (31 December 2019: Nil) were pledged to certain banks to secure bank borrowings of RMB800.0 million (31 December 2019: Nil) 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 2020, the total assets of the Group amounted to approximately RMB19,445.8 million (31 December 2019: RMB19,458.6 million) whereas the total borrowings amounted to RMB3,876.5 million (31 December 2019: RMB3,384.6 million). The gearing ratio was approximately 19.9% (31 December 2019: 17.4%), which is calculated based on the Group's total interest-bearing borrowings over total assets.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Foreign exchange exposure

The Company entered into two USD100,000,000 foreign exchange swap agreement with Deutsche Bank on 30 October 2018 and 3 November 2018, respectively. The above two agreements are early terminated on 22 April 2020. Simultaneously, the Company entered into one USD150,000,000 foreign exchange swap agreement with Deutsche Bank on 22 April 2020. They were mainly for hedging the exposure to foreign exchange risk of the remain outstanding balance of Company's USD Bonds which were issued on 28 August 2018.

In 2019, the Company entered into one USD38,000,000 foreign exchange swap agreement with the Bank of China (Hong Kong) Limited on 3 November 2019. It was fully for hedging the exposure to foreign exchange risk of the Company's a USD bank loan with the Bank of China (Hong Kong) Limited amount to USD38,000,000.

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 are denominated in RMB. Foreign currencies were, however, received for the export sales of products, the issuance of USD bonds and draw-down of bank borrowings. 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 and bank borrowings by partially applying cross currency swaps to mitigate exposures arising from the fluctuations in foreign currencies of bonds and borrowings.

### Dividend

The Board has resolved to pay an interim dividend of HK5.8 cents per share for the six months ended 30 June 2020, payable on or before 30 September 2020 to the shareholders whose names appear on the register of members of the Company on 18 September 2020.

### Closure of register of members

The register of members of the Company will be closed from Wednesday, 16 September 2020 to Friday, 18 September 2020 (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, 15 September 2020.



## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2020 RMB'000	31 December 2019 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	10,081,828	10,457,268
Right-of-use assets	8	776,178	778,591
Intangible assets	7	45,761	40,663
Investments accounted for using the equity method		21,964	28,187
Financial assets at fair value through profit or loss	5	2,000	–
Derivative financial instruments	5	25,833	14,649
Deferred income tax assets		119,811	146,638
Total non-current assets		11,073,375	11,465,996
<b>Current assets</b>			
Inventories		3,021,751	3,627,147
Trade, other receivables and prepayments	9	2,704,368	2,484,697
Financial assets at fair value through profit or loss	5	800,000	–
Cash and bank balances	10	1,846,269	1,880,771
Total current assets		8,372,388	7,992,615
<b>Total assets</b>		<b>19,445,763</b>	<b>19,458,611</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	13	64,805	63,148
Deferred income		713,242	710,281
Borrowings	12	2,046,343	2,449,380
Lease liabilities	8	57	497
Deferred income tax liabilities		36,650	40,650
Derivative financial instruments	5	6,253	6,880
Total non-current liabilities		2,867,350	3,270,836

**INTERIM CONDENSED  
CONSOLIDATED BALANCE SHEET**

	Note	30 June 2020 RMB'000	31 December 2019 RMB'000
<b>Current liabilities</b>			
Trade, other payables and accruals	13	<b>2,707,426</b>	3,148,996
Contract liabilities		<b>423,367</b>	624,714
Current income tax liabilities		<b>48,502</b>	101,593
Borrowings	12	<b>1,830,149</b>	935,170
Lease liabilities	8	<b>824</b>	833
Total current liabilities		<b>5,010,268</b>	4,811,306
<b>Total liabilities</b>		<b>7,877,618</b>	8,082,142
<b>EQUITY</b>			
<b>Capital and reserves attributable to the shareholders</b>			
Share capital	11	<b>243,261</b>	243,261
Share premium	11	<b>478,693</b>	663,634
Other reserves		<b>654,387</b>	665,819
Retained earnings		<b>10,191,804</b>	9,803,755
<b>Total equity</b>		<b>11,568,145</b>	11,376,469
<b>Total equity and liabilities</b>		<b>19,445,763</b>	19,458,611

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

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Half-year	
		2020 RMB'000	2019 RMB'000
Revenue	6	<b>8,168,630</b>	7,703,517
Cost of sales		<b>(6,699,382)</b>	(6,030,123)
<b>Gross profit</b>		<b>1,469,248</b>	1,673,394
Selling and marketing expenses		<b>(683,936)</b>	(602,574)
Administrative expenses		<b>(372,179)</b>	(393,318)
Net impairment losses on financial assets	5.2	<b>(5,485)</b>	(13,564)
Other operating expenses		<b>(31,501)</b>	(48,896)
Other income	14	<b>144,274</b>	153,514
Other gains – net		<b>42,465</b>	16,002
<b>Operating profit</b>	15	<b>562,886</b>	784,558
Finance income		<b>24,667</b>	40,546
Finance costs		<b>(133,177)</b>	(118,279)
Finance costs – net	16	<b>(108,510)</b>	(77,733)
Share of net loss of investments accounted for using the equity method		<b>(6,223)</b>	(1,040)
<b>Profit before income tax</b>		<b>448,153</b>	705,785
Income tax expense	17	<b>(68,849)</b>	(93,081)
<b>Profit for the half-year and attributable to the shareholders</b>		<b>379,304</b>	612,704
<b>Earnings per share for profit attributable to the shareholders during the period</b> (expressed in RMB cents per share)			
– basic	18	<b>14.97</b>	24.07
– diluted	18	<b>14.97</b>	24.06

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year	
	2020 RMB'000	2019 RMB'000
Profit for the half-year	379,304	612,704
Other comprehensive income for the half-year	—	—
<b>Total comprehensive income for the half-year attributable to the shareholders</b>	<b>379,304</b>	<b>612,704</b>

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				Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	
<b>Balance at 1 January 2019</b>	244,436	1,430,479	574,081	8,755,348	11,004,344
<b>Total comprehensive income for the half-year</b>	-	-	-	612,704	612,704
<b>Transactions with shareholders, recognised directly in equity</b>					
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)
<b>Total transactions with shareholders</b>	(299)	(524,503)	1,059	-	(523,743)
<b>Balance at 30 June 2019</b>	244,137	905,976	575,140	9,368,052	11,093,305
<b>Balance at 1 January 2020</b>	243,261	663,634	665,819	9,803,755	11,376,469
<b>Total comprehensive income for the half-year</b>	-	-	-	379,304	379,304
<b>Transactions with shareholders, recognised directly in equity</b>					
Employees share option scheme:					
– Value of employee services	-	-	(3,525)	-	(3,525)
– Forfeit of share option issued	-	-	(4,034)	4,034	-
– Expiry of share option issued	-	-	(4,711)	4,711	-
Provision for safety production fee	-	-	1,440	-	1,440
Utilisation of safety production fee	-	-	(602)	-	(602)
Dividends	-	(184,941)	-	-	(184,941)
<b>Total transactions with shareholders</b>	-	(184,941)	(11,432)	8,745	(187,628)
<b>Balance at 30 June 2020</b>	243,261	478,693	654,387	10,191,804	11,568,145

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	
	2020 RMB'000	2019 RMB'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	<b>1,148,081</b>	789,005
Interest paid	<b>(107,899)</b>	(105,858)
Income taxes paid	<b>(101,246)</b>	(149,043)
<b>Net cash inflow from operating activities</b>	<b>938,936</b>	534,104
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	<b>(552,199)</b>	(900,201)
Payments for leasehold land	–	(469)
Loan to a third party	–	(400,000)
Payments for financial assets at fair value through profit or loss	<b>(2,402,000)</b>	(67,344)
Purchases of intangible assets	<b>(7,876)</b>	(7,383)
Proceeds from disposal of investment in an associate	–	4,900
Proceeds from disposal of property, plant and equipment	<b>288</b>	2,959
Proceeds from disposal of subsidiaries, net of cash disposed	<b>17,923</b>	1,028,098
Proceeds from financial assets at fair value through profit or loss	<b>1,600,000</b>	–
Repayments of loan from former subsidiaries	<b>2,357</b>	261,209
Assets-related government grants received	<b>45,300</b>	40,704
Interest received	<b>40,014</b>	33,549
Placement of restricted bank deposits	–	(1,100,000)
Proceeds from restricted bank deposits	–	869,800
Proceeds from term deposits	<b>10,000</b>	22,000
Placement of term deposits	<b>(31,000)</b>	(32,000)
<b>Net cash outflow from investing activities</b>	<b>(1,277,193)</b>	(244,178)

**INTERIM CONDENSED  
CONSOLIDATED STATEMENT OF CASH FLOWS**

		Half-year	
Note		2020 RMB'000	2019 RMB'000
<b>Cash flows from financing activities</b>			
		–	60,000
		<b>2,942,614</b>	2,087,000
	12	<b>(2,055,000)</b>	(2,037,699)
		<b>(424,216)</b>	(8,364)
	12	<b>(477)</b>	(477)
		–	(11,217)
	19	<b>(185,606)</b>	(513,585)
		<u>277,315</u>	<u>(424,342)</u>
<b>Net cash inflow/(outflow) from financing activities</b>			
		<b>(60,942)</b>	(134,416)
<b>Net decrease in cash and cash equivalents</b>			
		<b>1,831,169</b>	1,734,943
		<u>1,770,227</u>	<u>1,600,527</u>
<b>Cash and cash equivalents at end of the half-year</b>			

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, 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 18 August 2020 by the Board of Directors.

This condensed consolidated interim financial report has not been audited.

### Significant events and transactions

In the first half year of 2020, the Coronavirus Disease 2019 (“COVID-19”) had certain impact on the Group’s business and economics activities in the local and oversea markets. The sale price of monosodium glutamate (“MSG”) declined due to the decreasing demand of catering industry, which lead to the Group’s gross profit margin decreased.

## 2. Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2020 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 2019, which have been prepared in accordance with HKFRS.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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 2019 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. The Group did not have to change its accounting policies and make retrospective adjustments as a result of adopting these standards.

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3 Revised Conceptual Framework	Definition of a Business Revised Conceptual Framework for Financial Reporting	1 January 2020 1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to HKFRS16	Covid-19-related Rent Concessions	1 June 2020

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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 2020 and have not been early adopted by the Group:

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

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

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

### **4. Estimates**

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

In preparing this condensed consolidated interim financial 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 2019.

### **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 2019.

There have been no changes in the risk management department since 2019 year end or in any risk management policies.

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS****5. Financial Risk Management** *(Continued)***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.

The Group's investment in debt instruments are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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 deposit with banks, including term deposits and restricted bank deposits, notes receivables and loan to a third party are also subject to the impairment requirements of HKFRS 9, 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 2020 or 31 December 2019 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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 2020 and 31 December 2019 was determined as follows for trade receivables:

30 June 2020	Within 3 months RMB'000	3 to 12 months RMB'000	Over 12 months RMB'000	Total RMB'000
Expected loss rate	1.78%	20.13%	96.12%	
Gross carrying amount	616,421	34,721	6,778	657,920
Loss allowance provision	10,972	6,989	6,515	24,476
31 December 2019	Within 3 months RMB'000	3 to 12 months RMB'000	Over 12 months RMB'000	Total RMB'000
Expected loss rate	0.97%	12.53%	95.94%	
Gross carrying amount	599,413	57,761	6,183	663,357
Loss allowance provision	5,821	7,238	5,932	18,991

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

#### 5.2 Credit risk *(Continued)*

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

###### *Trade receivables (Continued)*

The closing loss allowances for trade receivables as at 30 June 2020 and 31 December 2019 reconcile to the opening loss allowances as follows:

	<b>Trade receivables</b>
	RMB'000
<b>Opening loss allowance at 1 January 2019</b>	11,628
Provision for impairment loss allowances	37,869
Receivables written off during the year as uncollectible	<u>(30,506)</u>
<b>Closing loss allowance at 31 December 2019</b>	18,991
Provision for impairment loss allowances	<u>5,485</u>
<b>Closing loss allowance at 30 June 2020</b>	<u>24,476</u>

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.

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

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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 losses, 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 2020 and 30 June 2019, the following losses were recognised in “Net impairment losses on financial assets” in the interim condensed consolidated income statement in relation to impaired financial assets:

	Half-year	
	2020 RMB'000	2019 RMB'000
Impairment losses		
– loss allowance for trade receivables	<u>5,485</u>	<u>13,564</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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 financial liabilities into relevant maturity groupings based on their contractual maturities for:

- (a) non-derivative financial liabilities, and
- (b) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flow.

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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

#### 5.3 Liquidity risk *(Continued)*

Contractual maturities of financial liabilities	Less than	Between	Between	Over	Total
	1 year	1 and	2 and	5 years	contractual
	RMB'000	2 years	5 years	RMB'000	cash flows
		RMB'000	RMB'000		RMB'000
<b>The Group</b>					
<b>At 30 June 2020</b>					
<b>Non-derivatives</b>					
Borrowings	1,845,294	1,833,962	215,840	-	3,895,096
Interests payments on borrowings (i)	132,043	62,320	2,195	-	196,558
Lease liabilities	961	44	17	-	1,022
Trade and other payables (excluding non-financial liabilities)	2,363,826	-	47,100	35,130	2,446,056
Total non-derivatives	4,342,124	1,896,326	265,152	35,130	6,538,732
<b>Derivatives</b>					
Gross settled (cross currency swaps)					
- (inflow)	(79,112)	(75,441)	(215,943)	-	(370,496)
- outflow	85,347	81,527	218,035	-	384,909
	6,235	6,086	2,092	-	14,413
Total	4,348,359	1,902,412	267,244	35,130	6,553,145

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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	Over 5 years RMB'000	Total contractual cash flows RMB'000
<b>The Group</b>					
<b>At 31 December 2019</b>					
<b>Non-derivatives</b>					
Borrowings	938,810	2,232,401	242,820	–	3,414,031
Interests payments on borrowings (i)	167,346	139,883	6,810	–	314,039
Lease liabilities	975	484	31	–	1,490
Trade and other payables (excluding non-financial liabilities)	2,784,162	–	17,100	65,130	2,866,392
Total non-derivatives	3,891,293	2,372,768	266,761	65,130	6,595,952
<b>Derivatives</b>					
Gross settled (cross currency swaps)					
– (inflow)	(89,794)	(116,214)	(243,360)	–	(449,368)
– outflow	92,919	119,721	249,630	–	462,270
	3,125	3,507	6,270	–	12,902
Total	3,894,418	2,376,275	273,031	65,130	6,608,854

- (i) The interests on borrowings are calculated based on bank borrowings and USD bonds held as at 30 June 2020 and 31 December 2019 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 30 June 2020 and 31 December 2019 respectively.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 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 condensed 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	Note	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000
<b>At 30 June 2020</b>					
<b>Financial assets</b>					
Derivative financial instruments		-	-	25,833	25,833
Financial assets measured at FVPL					
– Equity investments*		-	-	2,000	2,000
– Structured deposit**		-	-	800,000	800,000
Notes receivable measured at FVOCI	9(c)	-	-	691,175	691,175
<b>Total financial assets</b>		<b>-</b>	<b>-</b>	<b>1,519,008</b>	<b>1,519,008</b>
<b>Financial liabilities</b>					
Derivative financial instruments		-	-	6,253	6,253



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

#### 5.4 Fair value estimation *(Continued)*

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

###### (i) Fair value hierarchy *(Continued)*

Recurring fair value measurements	Note	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2019</b>					
<b>Financial assets</b>					
Derivative financial instruments		-	-	14,649	14,649
Notes receivable measured at FVOCI	9(c)	-	-	972,971	972,971
<b>Total financial assets</b>		-	-	987,620	987,620
<b>Financial liabilities</b>					
Derivative financial instruments		-	-	6,880	6,880

\* During the six months ended 30 June 2020, the Group has subscribed capital contribution of RMB2,000,000 to a third party. The third party has registered capital of RMB100,000,000, of which 10% are held by the Group. This third party is private company and there is no quoted market price available for its shares.

\*\* As at 30 June 2020, RMB800,000,000 of the structured deposit were used for securing the bank borrowings. The structured deposit with floating interest income was classified as the financial asset measured at FVPL.

The carrying value less impairment provision of trade and other receivables, cash and cash equivalents and short-term bank deposits approximated their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

#### 5.4 Fair value estimation *(Continued)*

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

###### (i) Fair value hierarchy *(Continued)*

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.

###### (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)

All of the resulting fair value estimates are included in level 3.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 6. Segment Information

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources.

In view of more diversified portfolio of products due to the continuous development of the Group's businesses over the years, the executive directors consider it more informative and reflective of underlying business realities to examine the business performance of the Group according to the following product segments:

- Food additives segment: manufacturing and sales of food additives products, including monosodium glutamate ("MSG"), starch sweeteners, glutamic acid, compound seasoning and corn oil;
- Animal nutrition segment: manufacturing and sales of animal nutrition products, including corn refined products, threonine and lysine;
- Colloid segment: manufacturing and sales of colloid products, including xanthan gum and gellan gum;
- High-end amino acid segment: manufacturing and sales of high-end amino acid products; and
- Other segment: manufacturing and sales of other products, including fertilisers, synthetic ammonia, pharmaceuticals and others.

The executive directors assess the performance of the business segment based on gross profit of the above five product segments.

Approximately 68% (30 June 2019: 73%) of the Group's revenue are generated from sales to the customers in the PRC.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

The revenue of the Group for the six months ended 30 June 2020 and 2019 are set out as follows:

Products by segments	Half-year	
	2020 RMB'000	2019 RMB'000
<b><i>Food additives</i></b>		
MSG	<b>3,307,330</b>	3,734,595
Starch sweeteners	<b>692,740</b>	807,488
Glutamic acid	<b>238,871</b>	178,104
Compound seasoning	<b>14,688</b>	20,716
Corn oil	<b>3,311</b>	2,565
	<b>4,256,940</b>	4,743,468
<b><i>Animal nutrition</i></b>		
Corn refined products	<b>1,311,605</b>	963,739
Threonine	<b>643,221</b>	656,015
Lysine	<b>561,151</b>	149,010
	<b>2,515,977</b>	1,768,764
<b><i>Colloid</i></b>		
Xanthan gum	<b>517,832</b>	436,349
Gellan gum	<b>31,754</b>	22,386
	<b>549,586</b>	458,735
<b><i>High-end amino acid</i></b>		
High-end amino acid products	<b>453,159</b>	390,699
<b><i>Others</i></b>		
Fertilisers	<b>209,932</b>	132,063
Synthetic ammonia	<b>91,346</b>	131,838
Pharmaceuticals	<b>80,166</b>	69,299
Others	<b>11,524</b>	8,651
	<b>392,968</b>	341,851
	<b>8,168,630</b>	7,703,517

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

The segment information for the six months ended 30 June 2020 is as follows:

	Food additives RMB'000	Animal nutrition RMB'000	High-end amino acid RMB'000	Colloid RMB'000	Others RMB'000	Group RMB'000
Revenue	4,256,940	2,515,977	453,159	549,586	392,968	8,168,630
Cost of sales	(3,533,653)	(2,163,567)	(282,631)	(416,798)	(302,733)	(6,699,382)
Gross profit	<u>723,287</u>	<u>352,410</u>	<u>170,528</u>	<u>132,788</u>	<u>90,235</u>	<u>1,469,248</u>

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

	Food additives RMB'000	Animal nutrition RMB'000	High-end amino acid RMB'000	Colloid RMB'000	Others RMB'000	Group RMB'000
Revenue	4,743,468	1,768,764	390,699	458,735	341,851	7,703,517
Cost of sales	(3,622,631)	(1,594,224)	(225,413)	(330,513)	(257,342)	(6,030,123)
Gross profit	<u>1,120,837</u>	<u>174,540</u>	<u>165,286</u>	<u>128,222</u>	<u>84,509</u>	<u>1,673,394</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 7. Property, Plant and Equipment and Intangible Assets

	Property, plant and equipment RMB'000	Intangible assets RMB'000	Total RMB'000
<b>Six months ended 30 June 2019</b>			
<b>Opening net book amount at 1 January 2019</b>	10,309,977	30,745	10,340,722
Additions	675,379	7,383	682,762
Disposals	(3,385)	–	(3,385)
Depreciation and amortisation	(552,468)	(2,545)	(555,013)
<b>Closing net book amount at 30 June 2019</b>	<u>10,429,503</u>	<u>35,583</u>	<u>10,465,086</u>
<b>Six months ended 30 June 2020</b>			
<b>Opening net book amount at 1 January 2020</b>	<b>10,457,268</b>	<b>40,663</b>	<b>10,497,931</b>
Additions	<b>244,187</b>	<b>7,876</b>	<b>252,063</b>
Disposals	<b>(1,736)</b>	<b>–</b>	<b>(1,736)</b>
Depreciation and amortisation	<b>(610,809)</b>	<b>(2,778)</b>	<b>(613,587)</b>
Transfer to right-of-use assets	<b>(7,082)</b>	<b>–</b>	<b>(7,082)</b>
<b>Closing net book amount at 30 June 2020</b>	<u><b>10,081,828</b></u>	<u><b>45,761</b></u>	<u><b>10,127,589</b></u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 8. Leases

This note provides information for leases where the Group is a lessee.

#### (i) Amounts recognised in the interim condensed consolidated balance sheet

The interim condensed consolidated balance sheet shows the following amounts relating to leases:

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
<b>Right-of-use assets</b>		
Leasehold land-use rights (a)	775,179	777,141
Buildings	934	1,372
Equipment	65	78
	776,178	778,591
<b>Lease liabilities</b>		
Current	824	833
Non-current	57	497
	881	1,330

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**8. Leases** *(Continued)*

**(i) Amounts recognised in the interim condensed consolidated balance sheet** *(Continued)*

**(a) Leasehold land-use rights**

	<b>Leasehold land-use rights</b>
	RMB'000
<hr/>	
<b>Six months ended 30 June 2019</b>	
<b>Opening net book amount at 1 January 2019</b>	778,558
Additions	469
Depreciation and amortisation	(8,399)
	<hr/>
<b>Closing net book amount at 30 June 2019</b>	<b>770,628</b>
<b>Six months ended 30 June 2020</b>	
<b>Opening net book amount at 1 January 2020</b>	<b>777,141</b>
Transfer from property, plant and equipment	<b>7,082</b>
Depreciation and amortisation	<b>(9,044)</b>
	<hr/>
<b>Closing net book amount at 30 June 2020</b>	<b>775,179</b>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 8. Leases (Continued)

#### (ii) Amounts recognised in the interim condensed consolidated income statement

The interim condensed consolidated income statement shows the following amounts relating to leases:

	Half-year	
	2020 RMB'000	2019 RMB'000
<b>Depreciation charge of right-of-use assets</b>		
Leasehold land-use rights	9,044	8,399
Buildings	438	438
Equipment	13	13
	<b>9,495</b>	<b>8,850</b>
Interest expense (included in finance cost)	28	49
Expense relating to short-term leases (included in administrative expenses)	7,123	9,295

The total cash outflow for leases during the six months ended 30 June 2020 was RMB7,600,000 (30 June 2019: RMB9,772,000).

#### (iii) 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 3 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. Leased assets may not be used as security for borrowing purposes.

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**9. Trade, Other Receivables and Prepayments**

	As at	
	<b>30 June 2020 RMB'000</b>	31 December 2019 RMB'000
Trade receivables (a)	<b>657,920</b>	663,357
Less: provision for impairment loss allowance	<b>(24,476)</b>	(18,991)
Trade receivables – net	<b>633,444</b>	644,366
Receivables arising from disposal of subsidiaries	–	17,818
Receivables from former subsidiaries	–	2,357
Deposits and others	<b>38,348</b>	38,710
Loan to a third party (b)	<b>70,000</b>	70,000
Loans to employees	<b>778</b>	1,432
– Loans to key management	–	–
– Loans to other employees	<b>778</b>	1,432
Value-added tax for future deduction	<b>361,761</b>	409,757
Trade and other receivables excluding notes receivable and prepayments	<b>1,104,331</b>	1,184,440
Notes receivables (c)	<b>691,175</b>	972,971
Prepayments for raw materials	<b>908,862</b>	327,286
	<b>2,704,368</b>	2,484,697

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 9. Trade, Other Receivables and Prepayments *(Continued)*

- (a) At 30 June 2020 and 31 December 2019, the ageing analysis of the trade receivables based on invoice date was as follows:

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 3 months	616,421	599,413
3 – 12 months	34,721	57,761
Over 12 months	6,778	6,183
	657,920	663,357

The Group sells its products to customers and receives settlement either in cash or in form of bank acceptance notes (Note (c)) upon delivery of goods. The bank acceptance notes are usually with maturity dates within six months. Certain major customers in PRC and overseas with good payment history are normally offered credit terms of not more than three months.

- (b) 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 2020 was 13.45% per annum.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 9. Trade, Other Receivables and Prepayments *(Continued)*

- (c) As at 30 June 2020, notes receivables were all bank acceptance notes aged less than six months, including a total amount of RMB531,114,000 (31 December 2019: RMB822,006,000) that have been endorsed to the suppliers. As the notes receivables are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, they are measured at FVOCI.

	As at	
	<b>30 June 2020 RMB'000</b>	31 December 2019 RMB'000
<b>Current assets</b>		
Notes receivable measured at FVOCI	<u><b>691,175</b></u>	<u>972,971</u>

On endorsing these notes receivables, there is no any related balance within the FVOCI reserve need to be reclassified to other gains/(losses) within profit or loss due to the fair value is equal to its face amount and no premium was recognised.

Information about the methods and assumptions used in determining fair value is provided in Note 5.4.

All of the financial assets at FVOCI are denominated in RMB.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 10. Cash and Bank Balances

	As at	
	<b>30 June 2020 RMB'000</b>	31 December 2019 RMB'000
Cash and cash equivalents		
– Cash on hand	<b>816</b>	369
– Cash in bank	<b>1,769,411</b>	1,830,800
	<b>1,770,227</b>	1,831,169
Term deposits over 3 months and within one year	<b>31,000</b>	10,000
	<b>1,801,227</b>	1,841,169
Restricted bank deposits	<b>45,042</b>	39,602
Total cash and bank balances	<b>1,846,269</b>	1,880,771

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 11. Share Capital and Share Premium

	Number of authorised shares '000	Number of issued and fully paid shares '000	Amount		
			Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
<b>Opening balance at 1 January 2019</b>	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
<b>Opening balance at 1 January 2020</b>	10,000,000	2,533,639	243,261	663,634	906,895
Dividends	-	-	-	(184,941)	(184,941)
<b>At 30 June 2020</b>	10,000,000	2,533,639	243,261	478,693	721,954

- (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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 12. Borrowings

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
<b>Non-current</b>		
– Bank borrowings, unsecured	262,815	261,202
– USD bonds	1,783,528	2,188,178
	<u>2,046,343</u>	<u>2,449,380</u>
<b>Current</b>		
– Bank borrowings, unsecured	1,030,149	935,170
– Bank borrowings, secured	800,000	–
	<u>1,830,149</u>	<u>935,170</u>
<b>Total Borrowings</b>	<u>3,876,492</u>	<u>3,384,550</u>

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

	Carrying amount As at		Fair value As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000	30 June 2020 RMB'000	31 December 2019 RMB'000
Bank borrowings, unsecured	262,815	261,202	266,805	266,101
USD bonds	1,783,528	2,188,178	1,820,247	2,256,032
	<u>2,046,343</u>	<u>2,449,380</u>	<u>2,087,052</u>	<u>2,522,133</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 12. Borrowings *(Continued)*

Movements in borrowings were analysed as follows:

	RMB'000
<b>Six months ended 30 June 2019</b>	
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
	<u>4,064,684</u>
<b>Closing amount as at 30 June 2019</b>	
<b>Six months ended 30 June 2020</b>	
Opening amount as at 1 January 2020	<b>3,384,550</b>
New borrowings	<b>2,942,614</b>
Repayments of bank borrowings	<b>(2,055,000)</b>
Redemption of USD bonds	<b>(424,216)</b>
Amortisation of transaction cost	<b>8,138</b>
Exchange differences	<b>20,406</b>
	<u><b>3,876,492</b></u>
<b>Closing amount as at 30 June 2020</b>	

Interest expenses on borrowings for the six months ended 30 June 2020 were RMB110,421,000 (30 June 2019: RMB112,973,000).



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 12. Borrowings *(Continued)*

#### (a) Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- the ratio of consolidated total borrowings to consolidated earnings before interest, taxes, depreciation and amortisation ("EBITDA") in respect of any relevant period shall not at any time exceed 3:1;
- the consolidated tangible net worth shall not be less than RMB4,500,000,000; and
- the ratio of consolidated total liabilities to consolidated tangible net worth shall not at any time exceed 2.5:1.

"Consolidated tangible net worth" was calculated by the total equity minus the intangible assets and deferred income tax assets.

"Total borrowings" was calculated by the total short-term and long-term borrowings minus the borrowings secured by structured deposit measured at FVPL.

The Group has complied with these covenants throughout the reporting period. As at 30 June 2020, the ratio of consolidated total borrowings to consolidated EBITDA was 2.61 (31 December 2019: 1.25), the consolidated tangible net worth was RMB11,402,573,000 (31 December 2019: RMB11,189,168,000) and the ratio of consolidated total liabilities to consolidated tangible net worth was 0.69 (31 December 2019: 0.72).

**NOTES TO THE  
CONDENSED FINANCIAL STATEMENTS**

**13. Trade, Other Payables and Accruals**

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade payables (a)	1,297,196	1,403,779
Payables for property, plant and equipment	700,869	1,008,881
Bank acceptance notes payable	–	110
Salaries, wages and staff welfares payables	342,151	363,385
Interest payables	39,804	45,420
Government grants received in advance	1,042	1,042
Dividends payable	407	407
Other payables and accruals	390,762	389,120
	<b>2,772,231</b>	3,212,144
<b>Less: non-current portion</b>		
Other payables (b)	<b>(64,805)</b>	(63,148)
	<b>2,707,426</b>	3,148,996

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

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

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 3 months	1,066,993	1,175,515
3 to 6 months	66,372	139,512
6 to 12 months	88,993	22,435
1 to 2 years	36,983	25,149
Over 2 years	37,855	41,168
	<b>1,297,196</b>	<b>1,403,779</b>

- (b) The non-current portion of other payables is a borrowing from certain third parties, which is repayable in 6 years from the balance sheet date. The interest rate on such other payables during the six months ended 30 June 2020 was 5.25% per annum.

### 14. Other Income

	Half-year	
	2020 RMB'000	2019 RMB'000
Sales of waste products	65,053	59,850
Amortisation of deferred income	44,728	45,708
Government grants relating to expenses	15,391	12,051
Others	19,102	35,905
	<b>144,274</b>	<b>153,514</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 15. Operating Profit

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

	Half-year	
	2020 RMB'000	2019 RMB'000
Amortisation of intangible assets (Note 7)	2,778	2,545
Depreciation of property, plant and equipment (Note 7)	610,809	552,468
Depreciation of right-of-use assets (Note 8)	9,495	8,850
Net impairment losses on financial assets (Note 5.2)	5,485	13,564
(Reversal of) value on employee services for the share option schemes	(3,525)	1,059
Provision for inventory write-down – net	16,139	21,937

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 16. Finance Income and Costs

	Half-year	
	2020 RMB'000	2019 RMB'000
<i>Finance income:</i>		
Interest income from financial assets held for cash management purposes		
– bank deposits and bank balances	<b>(20,268)</b>	(33,549)
– financial assets at amortised cost	<b>(4,399)</b>	(6,997)
	<b>(24,667)</b>	(40,546)
<i>Finance costs:</i>		
Interest and finance charges paid/payable for lease liabilities and financial liabilities not at fair value through profit or loss		
– bank borrowings	<b>45,419</b>	45,290
– USD bonds	<b>65,002</b>	67,683
– leasing liabilities	<b>28</b>	49
– other payables	<b>1,657</b>	1,574
Foreign exchange losses on financing activities	<b>21,071</b>	3,683
	<b>133,177</b>	118,279
<b>Net finance costs</b>	<b>108,510</b>	77,733

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 17. Income Tax Expense

	Half-year	
	2020 RMB'000	2019 RMB'000
Current income tax		
– PRC enterprise income tax	31,584	76,667
– Hong Kong enterprise income tax	–	–
– U.S. enterprise income tax	–	242
– Singapore enterprise income tax	–	–
Deferred income tax	37,265	16,172
	<b>68,849</b>	<b>93,081</b>

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

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.

According to the corporate income tax law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies, including those incorporated in Hong Kong. Trans-Asia Capital Resources Ltd. ("Trans-Asia"), a subsidiary of the Company, acquired qualification for the lower tax rate of 5% for dividend received from its subsidiaries in mainland China. The Group revised its estimate of Trans-Asia for the accrual based on 5% instead of 10% while the withholding tax rate for other subsidiaries in Hongkong were based on 10%.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

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.

During the six months ended 30 June 2020, withholding tax of RMB10,000,000 has been provided as the Group expects Mainland China subsidiaries to distribute the retained earnings of RMB200,000,000 as at 30 June 2020 (31 December 2019: RMB440,000,000) in the foreseeable future.

### 18. Earnings Per Share

	Half-year	
	2020	2019
Earnings per share for profit attributable to the shareholders (RMB cents per share)		
– basic	<b>14.97</b>	24.07
– diluted	<b>14.97</b>	24.06

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.

During the six months ended 30 June 2020, the 8,600,000 outstanding share options issued in October 2016, December 2016, and August 2017 are not included in the calculation of diluted earnings per share because the average market price of ordinary shares for the six months ended 30 June 2020 did not exceed the exercise prices of each tranche of the share options, hence the share options are antidilutive for the six months ended 30 June 2020. These options could potentially dilute basic earnings per share in the future.

Earnings per share – basic and diluted for the first half of 2020 was RMB14.97 cents and RMB14.97 cents respectively (equivalent to HK16.52 cents and HK16.52 cents) (1H 2019: RMB 24.07 cents and RMB 24.06 cents respectively (equivalent to HK27.42 cents and HK27.41 cents)).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 19. Dividends

On 31 March 2020, the Board proposed a final dividend in respect of the year ended 31 December 2019 of HKD202,691,000 (equivalent to RMB184,941,000), representing HK8.0 cents (equivalent to RMB7.30 cents) per share. The final dividend paid in June 2020 amounted to HKD202,691,000 (equivalent to RMB185,606,000). The difference between proposed and paid final dividends was due to the impact of exchange rate fluctuation.

At a meeting held on 18 August 2020, the Board proposed an interim dividend of HKD146,951,000 (equivalent to RMB132,256,000) (1H2019: HKD236,530,000 (equivalent to RMB212,196,000)), representing HK5.8 cents (equivalent to RMB5.22 cents) (1H2019: HK9.3 cents (equivalent to RMB8.34 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 2020.

### 20. Contingent Liabilities

As at 30 June 2020 and 31 December 2019, the Group had no material contingent liabilities.

### 21. Related Party Transactions and Balances

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

#### (a) Transactions with related parties

The following transactions occurred with related parties:

##### Continuing connected transaction

	Half-year	
	2020 RMB'000	2019 RMB'000
Sales of products to a related party*	—	36,231

\* The Group sold products to an entity that is controlled by a close family member of the controlling shareholder. The entity was acquired by the Group in October 2019.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

#### (b) Key management compensation

	Half-year	
	2020 RMB'000	2019 RMB'000
Salaries and allowances	9,192	9,117
Pension costs-defined contribution plan	211	500
Share options granted	710	1,823
	<u>10,113</u>	<u>11,440</u>

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:

##### Other payables to a related party

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
– A company controlled by a close family member of the controlling shareholder	<u>2,770</u>	<u>3,758</u>

#### (d) Terms and conditions

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

### 22. Events Occurring after the Balance Sheet Date

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

## 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 2020, 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 CG Code: The Independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company.

Due to other commitments, Ms. Zheng Yu and Mr. Xu Zheng Hong, independent non-executive Directors, did not attend the annual general meeting of the Company held on 28 May 2020. 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 2020.

### Model code for securities transactions by Directors

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

### Purchase, redemption or sale of securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020.

### Event after the reporting period

There were no significant events after the six months ended 30 June 2020.



## OTHER INFORMATION

## Share option scheme

Under the Post-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 16,600,000 Shares, 14,700,000 Shares and 300,000 Shares on 9 April 2015, 9 November 2016 and 30 December 2016 respectively to Directors and eligible employees. Moreover, under the New Share Option Scheme, the Company granted options to subscribe for an aggregate of 5,000,000 Shares, 1,600,000 Shares and 2,000,000 Shares on 25 August 2017, 29 December 2017 and 28 June 2018 to eligible employees. Details of the share options granted and outstanding for the period ended 30 June 2020, are as follows:

Director and eligible employees	Note	Number of share options					At 30 June 2020	Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
		At 1 January 2020	Granted during the period	Exercised during the period	Forfeited during the period	Lapsed during the period				
<b>Under the Post-IPO Share Option Scheme</b>										
Eligible employees	A	2,800,000	-	-	-	(2,800,000)	-	9/4/2015	5.69	9/4/2016 – 8/4/2020
Zheng Yu ( <i>Independent non-executive Director</i> )	B	300,000	-	-	-	-	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	12,000,000	-	-	(9,000,000)	-	3,000,000	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
<b>Under the New Share Option Scheme</b>										
Eligible employees	D	5,000,000	-	-	-	-	5,000,000	25/8/2017	4.96	25/8/2019 – 24/8/2023
		<u>20,400,000</u>	<u>-</u>	<u>-</u>	<u>(9,000,000)</u>	<u>(2,800,000)</u>	<u>8,600,000</u>			



**OTHER INFORMATION**

- 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**

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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%

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- 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**

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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%

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**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**

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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%

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- 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**

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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%

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## OTHER INFORMATION

### Directors' interests in shares

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 30 June 2020, 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	39.28%
Li Deheng	The Company	Interests of controlled corporation (Note 2)	33,320,160 Shares	1.32%
Zheng Yu	The Company	Beneficial interest (Note 3)	300,000 Shares	0.01%
Zheng Yu	The Company	Interest of spouse (Note 4)	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.



## OTHER INFORMATION

- 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.
- 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 2020, 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 2020, 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	39.28%
Shi Guiling (Note 2)	The Company	Interests of spouse	995,217,461 Shares	39.28%
Treetop Asset Management SA	The Company	Beneficial interests	404,739,314 Shares	15.97%



## 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 2020, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.





## GLOSSARY

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技股份有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Fufeng	內蒙古阜豐生物科技股份有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company



## 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股份有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Longjiang Plant	the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PRC	the People's Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
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 subsidiary of the Company
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	新疆阜豐生物科技股份有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
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

