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Fufeng Group Limited
阜豐集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 546)

CONNECTED TRANSACTION
ACQUISITION OF ALL THE ISSUED SHARES OF
THE TARGET COMPANY

On 2 September 2019 (after trading hours), the Purchaser and the Vendors entered into a Share Purchase Agreement, pursuant to which the Purchaser agreed to purchase and the Vendors agreed to sell all the issued shares of the Target Company at an aggregate consideration of RMB44.9 million.

The Target Company is owned as to 86.00% and 14.00% by the Vendor Company and 18 individuals respectively. The Vendor Company is owned as to 86.57% by Ms. Li Hongyu, the daughter of Mr. Li Xuechun (an executive Director and the chairman of the Board) and sister of Mr. Li Guangyu (an executive Director). Therefore the Vendor Company is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the Acquisition constitutes a connected transaction of the Company. The Vendor Company is also owned as to 2.57%, 2.57%, 1.00%, 0.86% and 6.43% respectively by Ms. Li Weijia, the daughter of Mr. Li Deheng (an executive Director), Mr. Xu Guohua (a former executive Director who resigned in June 2017), Mr. Feng Jie, the son of Mr. Feng Zhenquan (a former executive Director who resigned in September 2016), Mr. Pan Yuehong (a former executive Director who resigned in March 2019), and certain other employees of the Group. The remaining 14.00% of the Target Company's equity interest is held by 18 individuals who are senior management team of the Target Company and are independent third parties of the Group.

Reference is also made to the announcement of the Company dated 5 July 2017 in connection with the sale of fertiliser products under the Procurement Framework Agreement entered into with the Target Company until 31 December 2019, which constituted continuing connected transactions under Chapter 14A of the Listing Rules. Upon the completion of the Acquisition, the Target Company will become an indirect wholly owned subsidiary of the Company, and will cease to be a connected person of the Company, hence the sale of fertiliser products will cease to constitute a connected transaction of the Group under the Listing Rules.

Mr. Li Xuechun, Mr. Li Guangyu and Mr. Li Deheng have abstained from voting on the relevant Board resolutions passed to approve the Share Purchase Agreement and the Acquisition. Save as disclosed above, none of the Directors has a material interest in the Acquisition.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 0.1% but all such applicable percentage ratios are less than 5%, the Acquisition is subject to the announcement requirements, but is exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE SHARE PURCHASE AGREEMENT

Date

2 September 2019 (after trading hours)

Parties

- (a) the Purchaser; and
- (b) the Vendors

Nature of the transaction

Pursuant to the Share Purchase Agreement, the Purchaser agreed to purchase and the Vendors agreed to sell all the issued shares of the Target Company subject to the terms and conditions set out in the Share Purchase Agreement.

Consideration

The aggregate consideration for the Acquisition is RMB44.9 million, which shall be payable in cash in one lump sum payment within 10 business days after completion of equity transfer procedures with the relevant government authorities in accordance with the Share Purchase Agreement.

The consideration was determined by the parties after arm's length negotiations and taking into account the appraised value of the total equity interest of the Target Group as at 31 December 2018 of approximately RMB44.9 million. The appraised value was evaluated based on the asset-based approach by an independent and duly qualified PRC valuer. In addition, the Company has also taken into consideration, among other things, the business development, historical financial performance, the quality of management team in place and future prospects of the Target Company.

Conditions precedent

The Share Purchase Agreement is conditional upon:

- (i) the Purchaser being satisfied with the results of due diligence review on the assets, liabilities, operations and affairs of the Target Company;
- (ii) all representations and warranties given by the Vendor Company and Vendors remaining true and correct in all respects; and
- (iii) the Purchaser having reasonably satisfied that there has not been any material adverse change in the assets, liabilities, operations and affairs of the Target Company since the 31 December 2018.

Completion

Within 10 business days after entering into of the Share Purchase Agreement, the Purchaser and the Vendors shall go to the local Administration of Industry and Commerce to complete the equity transfer procedures. The Purchaser and the Vendors shall be responsible for the taxes and expenses for the equity transfer respectively.

Upon completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and its results will be consolidated into the Group's consolidated financial statements.

CESSATION OF CONTINUING CONNECTED TRANSACTIONS

Reference is also made to the announcement of the Company dated 5 July 2017 in connection with the sale of fertiliser products under the Procurement Framework Agreement entered into with the Target Company until 31 December 2019, which constituted continuing connected transactions under Chapter 14A of the Listing Rules. Upon the completion of the Acquisition, the Target Company will become an indirect wholly owned subsidiary of the Company, and will cease to be a connected person of the Company, hence the sale of fertiliser products will cease to constitute a connected transaction of the Group under the Listing Rules.

INFORMATION ON THE PARTIES

The Company

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of fermentation-based food additive and biochemical products and starch-based products including but not limited to MSG, amino acid products and fertiliser products.

The Purchaser

The Purchaser is principally engaged in the manufacturing and sales of MSG, starch sweeteners and threonine, and their main by-product is fertiliser. The Purchaser is an indirect wholly-owned subsidiary of the Company.

The Vendors

The Vendors include the Vendor Company and 18 individuals, which owns the Target Group as to 86.00% and 14.00% respectively.

The Vendor Company is owned as to 86.57% by Ms. Li Hongyu, the daughter of Mr. Li Xuechun (an executive Director and the chairman of the Board) and sister of Mr. Li Guangyu (an executive Director). The Vendor Company is also owned as to 2.57%, 2.57%, 1.00%, 0.86% and 6.43% respectively by Ms. Li Weijia, the daughter of Mr. Li Deheng (an executive Director), Mr. Xu Guohua (a former executive Director who resigned in June 2017), Mr. Feng Jie, the son of Mr. Feng Zhenquan (a former executive Director who resigned in September 2016), Mr. Pan Yuehong (a former executive Director who resigned in March 2019), and certain other employees of the Group. The Vendor Company is an investment holding company.

The 18 individuals are senior management team of the Target Company who are independent third parties of the Group.

The Target Company

The Target Company is an agricultural products company which is mainly focused on sale and distribution of fertiliser products in the PRC. The sales network of the Target Company covers over 30 provinces and cities in the PRC and certain other countries and regions in the world. The Target Company has established relationship with more than 1,000 customers.

The summary of the key financial data of the Target Company for the two years ended 31 December 2018, which were prepared in accordance to generally accepted accounting principles in PRC, are as follows:

	For the year ended 31 December	
	2018	2017
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	102,229.2	24,065.0
Net Profit (before tax)	19,858.8	2,716.0
Net Profit (after tax)	14,894.1	2,037.0

The audited net assets of the Target Group as at 31 December 2018 prepared in accordance with generally accepted accounting principles in PRC, was approximately RMB46.9 million.

BACKGROUND AND REASONS FOR THE ACQUISITION

The Group is mainly engaged in the biological fermentation industry, and fertiliser products is one of its existing product segments. The fertiliser business segment, being a by-product of the Group's MSG business, is a relatively small part of the Group and due to lack of investment and allocation of resources, has been loss making in recent years. Meanwhile, the Target Company has assembled an experienced and professional team to operate its fertiliser business and has in place an extensive sales and distribution network. Since the Company started its business relationship with the Target Company pursuant to the Procurement Framework Agreement, the Company has witnessed the continued development of the fertiliser business of the Target Company under the leadership of its senior management team. The Acquisition will (i) quickly accelerate the sales growth of the Group's fertiliser products by leveraging on the existing distribution network of the Target Company; (ii) better position the Group to further expand the combined sales channel and market penetration of the Group's fertiliser products; and (iii) enhance the recognition and competitiveness of the Group's fertiliser products in the PRC market by leveraging on the contacts and experience of sales team and senior management team of the Target Company in fertiliser industry.

Taking into account the aforesaid factors and having made all reasonable and due inquiries, the Directors (including the independent non-executive Directors but excluding Mr. Li Xuechun, Mr. Li Guangyu and Mr. Li Deheng, who are interested in the Acquisition and have abstained from voting on the Board resolutions in connection with the Share Purchase Agreement) considered terms of the Share Purchase Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Target Company is owned as to 86.00% and 14.00% by the Vendor Company and 18 individuals. The Vendor Company is owned as to 86.57% by Ms. Li Hongyu, the daughter of Mr. Li Xuechun (an executive Director and the chairman of the Board) and sister of Mr. Li Guangyu (an executive Director). Therefore the Vendor Company is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the Acquisition constitutes a connected transaction of the Company. The Vendor Company is also owned as to 2.57%, 2.57%, 1.00%, 0.86% and 6.43% respectively by Ms. Li Weijia, the daughter of Mr. Li Deheng (an executive Director), Mr. Xu Guohua (a former executive Director who resigned in June 2017), Mr. Feng Jie, the son of Mr. Feng Zhenquan (a former executive Director who resigned in September 2016), Mr. Pan Yuehong (a former executive Director who resigned in March 2019), and certain other employees of the Group. The remaining 14.00% of the Target Company's equity interest is held by 18 individuals who are senior management team of the Target Company and are independent third parties of the Group.

Mr. Li Xuechun, Mr. Li Guangyu and Mr. Li Deheng have abstained from voting on the relevant Board resolutions passed to approve the Share Purchase Agreement and the Acquisition. Save as disclosed above, none of the Directors has a material interest in the Acquisition.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 0.1% but all such applicable percentage ratios are less than 5%, the Acquisition is subject to the announcement requirements, but is exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Acquisition”	the acquisition of all the issued shares of the Target Company pursuant to the Share Purchase Agreement
“Board”	the board of Directors
“Company”	Fufeng Group Limited, a company incorporated in Cayman Islands with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Procurement Framework Agreement”	the procurement framework agreement entered into between the Company and the Target Company dated 5 July 2017
“PRC”	the People’s Republic of China, which for the purposes of this announcement only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“Purchaser”	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Company Limited*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of ordinary share(s) of HK\$0.1 each in the capital of the Company
“Share Purchase Agreement”	the share purchase agreement dated 2 September 2019 entered into between the Purchaser and the Vendors in relation to the sale and purchase of all the issued shares of the Target Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	內蒙古沃豐農業發展有限公司 (Inner Mongolia Wo Feng Agricultural Development Company Limited*), a company incorporated in the PRC with limited liability
“Vendors”	the Vendor Company and 18 individuals, being the shareholders of the Target Company

“Vendor Company”

臨沂榮豐生物科技有限公司 (Lin Yi Rong Feng Biotechnologies Company Limited*), a company incorporated in the PRC with limited liability

“%”

per cent

By order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Shandong, the PRC
2 September 2019

As at the date of this announcement, the executive directors of the Company are Mr. Li Xuechun, Mr. Zhao Qiang, Mr. Li Deheng, Mr. Yu Yao Ming and Mr. Li Guangyu and the independent non-executive directors of the Company are Mr. Lau Chung Wai, Ms. Zheng Yu and Mr. Xu Zheng Hong.

* For identification purposes only