



Fufeng Group Limited 阜豐集團有限公司

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



2021 INTERIM
REPORT



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CORPORATE INFORMATION

Executive Directors

Mr. Li Xuechun
Mr. Li Deheng
Mr. Su Chen Hung
(appointed on 15 June 2021)
Mr. Li Guangyu

Independent Non-Executive Directors

Mr. Lau Chung Wai
Mr. Xu Zheng Hong
Mr. Zhang You Ming
(appointed on 1 April 2021)
Ms. Zheng Yu (resigned on 1 April 2021)

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Investor Relations Consultant

Vision Asia Consulting Group Ltd

Independent Auditor

PricewaterhouseCoopers

Branch Share Registrar

Tricor Investor Services Limited

Stock Code

546

Website

www.fufeng-group.com



MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Overview

According to the data published by the National Bureau of Statistics, China's economy has continued to recover steadily in the first half of 2021 with the increases in production and market demand. The major macro indicators remained within a reasonable range, and the economic development was getting stronger and improving while maintaining stability. China's gross domestic product (GDP) grew by 12.7% year-on-year in the first half of the year, with year-on-year increases of 18.3% in the first quarter and 7.9% in the second quarter respectively.

With higher rates of vaccination, the basic pattern of gradual recovery in major economies has been established as many major economies around the world have gradually relaxed their prevention and control measures against pandemic and implemented aggressive monetary and fiscal stimulus policies. China has an outstanding advantage in terms of the effectiveness of pandemic prevention and control. However, there is a discrepancy in the pace of economic recovery in some economies as they are still affected by the COVID-19 pandemic. The resurgence of COVID-19 pandemic and the outbreak of new strains of viruses are major risks for certain economies, particularly those experiencing shortages of vaccines and related medical supplies. These developments instilled uncertainties in the global economic recovery.

In the first half of 2021 ("the Period"), the global economy suffered from the soaring prices in the bulk commodities, with some commodity prices even reaching record highs. The surge in prices of upstream raw materials posed a huge challenge to business operations.

During the period, the Group achieved satisfactory operating results with the great efforts to overcome various challenges. Turnover and net profit increased by 16.6% and 55.8% year-on-year to RMB9,520.6 million and RMB591.0 million respectively, mainly due to the rising prices of major products. Despite a significant uptick in prices of major raw materials during the period, particularly the corn price, the Group was able to pass on part of cost pressure to its downstream customers by adding a markup, thus maintaining its profitability.

From the perspective of product, our key products, including MSG and xanthan gum products, of which we are the largest manufacturer in the global market, have generated stable cash flow for the Group. Our animal nutrition and high-end amino acid products, have provided strong momentum for our growth.



MANAGEMENT DISCUSSION AND ANALYSIS

We faced with the following major challenges during the Period:

1. Significant increase in prices of raw materials: the corn price initially rose at the beginning of the year, subsequent to which prices of other commodities followed the trend, with prices of coal and chemical raw materials rising significantly.
2. Significant fluctuation in product prices: despite significant increase in the prices of MSG, threonine and lysine in the first quarter, the prices of these products stopped rising at the end of the first quarter, and began to decline rapidly in the second quarter, before increasing again since June. As a result, such significant fluctuation in product prices has cast uncertainties.

Operating highlights during the Period:

1. Diversified product portfolio: with a good diversified product development plan and further expansion of product pipeline, the business structure of multiple core products has been established, enhancing the core competitiveness of the Group.
2. Multiple profit growth drivers: mainly attributable to 1) greater profit contribution from animal nutrition products; 2) high-end amino acid products being one of the main sources of profitability during the period.
3. Increased ability to pass on rising raw material costs: raw material costs rose significantly during the period, and we passed on part of cost pressure to our downstream customers through strategic pricing adjustment, thereby maintaining our profitability.
4. Continuous improvement in production technology: our production technology for animal nutrition and high-end amino acid products continues to improve with increasingly enhanced operating efficiency. In particular, we have developed more new high-end amino acid products leveraging on the advancement of the maturity of our production technology.
5. Ongoing talent upgrade: the animal nutrition business has attracted international management talents to join us, bringing in new concepts that enable us to improve the operating performance of the animal nutrition business segment.



MANAGEMENT DISCUSSION AND ANALYSIS

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, starch sweeteners, glutamic acid, compound seasoning and corn oil), 2. Animal nutrition (main products include corn refined products, threonine and lysine), 3. High-end amino acid (main products include valine, leucine, isoleucine, glutamine, hyaluronic acid, etc.), 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:

MSG: during the period, MSG prices showed a noticeable upward trend despite significant fluctuation, with an average selling price ("ASP") of approximately RMB7,176 per tonne, representing an increase of approximately 18.7% as compared to the first half of 2020. The increase in ASP was mainly because prices of major raw materials increased during the period and part of the cost pressure was successfully passed on to our downstream customers by way of price adjustment. The sales volume was approximately 498,351 tonnes, representing a year-on-year decrease of approximately 8.9%.

Starch sweeteners: as a corn primary processing product, the price of starch sweeteners fluctuated significantly in line with the corn price. During the period, the ASP of starch sweeteners was approximately RMB3,500 per tonne, representing an increase of approximately 39.1% as compared to the first half of 2020. The sales volume was approximately 186,679 tonnes, representing a year-on-year decrease of approximately 32.2%.

In terms of the Animal nutrition segment:

During the period, the animal nutrition business was strengthened with international management talents, bringing in new concepts that enable us to improve the operating performance of the animal nutrition business segment. During the period, the ASP of threonine was approximately RMB9,395 per tonne, representing an increase of approximately 40.1% as compared to the first half of 2020. The sales volume was approximately 117,402 tonnes, representing a year-on-year increase of approximately 22.4%. The sales of lysine amounted to approximately RMB642.3 million, increased by 14.5% as compared to the first half of 2020, which was mainly due to the increase of ASP of Lysine. But, the sales volume of lysine was approximately 103,494 tonnes, representing a year-on-year decrease of approximately 15.3%. We exported approximately 80% of our animal nutrition products to the international markets. During the period, animal nutrition products generated greater profit contribution to the Group as compared to the first half of 2020.



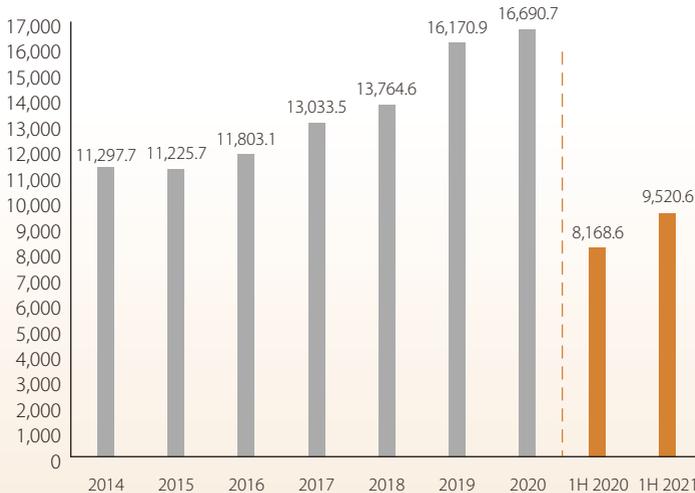
MANAGEMENT DISCUSSION AND ANALYSIS

In terms of the High-end amino acid segment: during the period, our high-end amino acid products recorded a good performance with sales of approximately RMB688.9 million, representing an increase of approximately 52.0% over the first half of 2020. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. Our production technology for high-end amino acid products continues to improve with increasingly enhanced operating efficiency, which facilitates the development and launch of new products. During the period, our new products included L-Theanine and Histidine. Our high-end amino acid segment was one of the major profit contributors to the Group during the period.

In terms of the Colloid segment: our xanthan gum products are mainly industrial grade (oil mining applications) and food grade. During the first half of 2021, the sales of xanthan gum decreased by RMB157.2 million, representing a decrease of 30.4% over the first half of 2020, the ASP of xanthan gum products was approximately RMB17,551 per tonne, representing an increase of approximately 22.9% as compared to the first half of 2020. The sales volume was approximately 20,548 tonnes, representing a year-on-year decrease of approximately 43.3%.

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

RMB (Million)



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2021, the Group's revenue increased to approximately RMB9,520.6 million as compared to approximately RMB8,168.6 million for the six months ended 30 June 2020. The increase in revenue was primarily due to increased revenue contribution from threonine, corn refined products and high-end amino acid products as compared to the corresponding period of 2020.

The Group's overall gross profit increased from approximately RMB1,469.2 million in the first half of 2020 to approximately RMB1,766.0 million in the first half of 2021. This represents an increase of 20.2%, primarily due to the increases in the ASP and gross profit margin of High-end amino acid products and threonine which are classified in the High-end amino acid segment and animal nutrition segment respectively.

Food additives segment

In the first half of 2021, the ASP of MSG substantially increased by 18.7% as compared to the corresponding period of 2020, even as we also witnessed major increase in raw material costs during the period. However, the effect of increasing costs could not be fully shifted to customers by product pricing due to the competitive and weak market condition. Therefore, gross profit amount and gross profit margin decreased as compared to the corresponding period of 2020.

The production volume of MSG decreased by approximately 5.2% and sales volume decreased by approximately 8.9% in the first half of 2021 as compared to the corresponding period of 2020, respectively. The decreases in production and sales volume of MSG were mainly due to our flexible sales and marketing strategy to cope with the market demand, fluctuation in prices and market condition.

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

The production and sales volume of starch sweeteners decreased by approximately 56.0% and 32.2% in the first half of 2021 as compared to the corresponding period of 2020, respectively. The production volume decreased due to weak market demand. On the other hand, the price of starch sweeteners fluctuated significantly in line with the corn price. During the period, the ASP of starch sweeteners was approximately RMB3,500 per tonne, representing an increase of approximately 39.1% as compared to the first half of 2020.



MANAGEMENT DISCUSSION AND ANALYSIS

Animal nutrition segment

We continued to witness the sustained development of our animal nutrition products in the first half of 2021. The foreign market demand increased mainly due to the limited production in foreign countries affected by the COVID-19 pandemic, and some regions, such as Europe and the US, purchased a large amount of animal nutrition additives from China in the first half of 2021.

Threonine is a type of amino acid which is used as an animal feed additive. Revenue of threonine reached approximately RMB1,103.0 million in the first half of 2021, representing an increase of 71.5% as compared to the corresponding period of 2020. The Group sold about 117,402 tonnes of threonine in the first half of 2021 as compared to about 95,948 tonnes in the corresponding period of 2020. The increase in revenue was mainly due to the easing situation of the swine flu in China and the recovering market demand in the PRC and oversea markets in the first half of 2021. The gross profit contribution of threonine significantly increased in the Animal nutrition segment.

On the other hand, due to the recovery of the animal breeding sector in the PRC, sales of lysine amounted to approximately RMB642.3 million, increased by 14.5% in the first half of 2021 (1H 2020: RMB561.2 million). The gross profit contribution of lysine increased in the Animal nutrition segment.

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 谷氨酰胺 and hyaluronic acid 透明質酸, etc. In the first half of 2021, sales of high-end amino acid products reached approximately RMB688.9 million, representing an increase of 52.0% as compared to the first half of 2020. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. During the period, we launched two new products including L-Theanine and Histidine. 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 will continue to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end products.



MANAGEMENT DISCUSSION AND ANALYSIS

Colloid segment

The production volume of xanthan gum decreased by 58.1% and the sales volume of xanthan gum decreased by 43.3% in the first half of 2021 as compared to the corresponding period of 2020, respectively. The decreases in production and sales volume of xanthan gum were due to the weak market conditions of the global oil industry due to the global pandemic of COVID-19 continued in 2021.

The ASP of xanthan gum increased by 22.9% as compared to the first half of 2020, mainly due to limited supply.

Overall, the diversity of the Group's product portfolio benefited the Group to maintain its overall revenue growth momentum during the period.

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
	2021	2020	%
Turnover (RMB'000)	9,520,562	8,168,630	16.6
Gross profit (RMB'000)	1,765,957	1,469,248	20.2
Gross profit margin (%)	18.5	18.0	0.5 pts.

The economy in China continuously recovered with significant uptick in prices of major raw materials during the first half of 2021, especially the cost of corn kernels. The performance of the Group in terms of gross profit increased, but gross profit margin of some food additives products decreased. The ASP of MSG increased during the six months ended 30 June 2021 and the effect from an increase in raw material costs, particularly the cost of corn kernels was relatively high. The increasing cost effect cannot be fully shifted to customers under the weak market condition. In addition, decreased revenue from starch sweeteners and xanthan gum were 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 high-end amino acid recorded increases as compared to the corresponding period of 2020 due to the improvement of market condition and marketing strategy. The overall gross profit of the Group increased by 20.2% in the first half of 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to the Shareholders

	Six months ended 30 June		Change %
	2021 RMB'000	2020 RMB'000	
As reported	591,049	379,304	55.8

Profit attributable to the Shareholders increased by 55.8% for the six months ended 30 June 2021 as compared to the corresponding period of 2020.

China has an outstanding advantage in terms of the effectiveness of pandemic prevention and control. The recovering market conditions of the PRC is relatively stable. However, there is discrepancy in the pace of economic recovery in some economies as they are still affected by the COVID-19 pandemic. 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, starch sweeteners, glutamic acid, compound seasoning 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 five major segments for the six months ended 30 June 2021 and 2020.

For the six months ended 30 June 2021

	Food additives RMB'000	Animal nutrition RMB'000	High-end amino acid RMB'000	Colloid RMB'000	Others RMB'000	Total RMB'000
Revenue	4,494,970	3,462,376	688,912	395,507	478,797	9,520,562
Gross profit	602,502	611,812	308,740	150,771	92,132	1,765,957
Gross profit margin	13.4%	17.7%	44.8%	38.1%	19.2%	18.5%

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%



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 2021 and 2020:

Product	Six months ended 30 June		Change %
	2021 RMB'000	2020 RMB'000	
Food additives			
MSG	3,576,369	3,307,330	8.1
Starch sweeteners	653,320	692,740	(5.7)
Glutamic acid	227,431	238,871	(4.8)
Compound seasoning	36,817	14,688	150.7
Corn oil	1,033	3,311	(68.8)
Animal nutrition			
Corn refined products	1,717,139	1,311,605	30.9
Threonine	1,102,957	643,221	71.5
Lysine	642,280	561,151	14.5
High-end amino acid			
High-end amino acid products	688,912	453,159	52.0
Colloid			
Xanthan gum	360,643	517,832	(30.4)
Gellan gum	34,864	31,754	9.8
Others			
Fertilisers	266,444	209,932	26.9
Synthetic ammonia	132,940	91,346	45.5
Pharmaceuticals	73,741	80,166	(8.0)
Others	5,672	11,524	(50.8)
	9,520,562	8,168,630	16.6



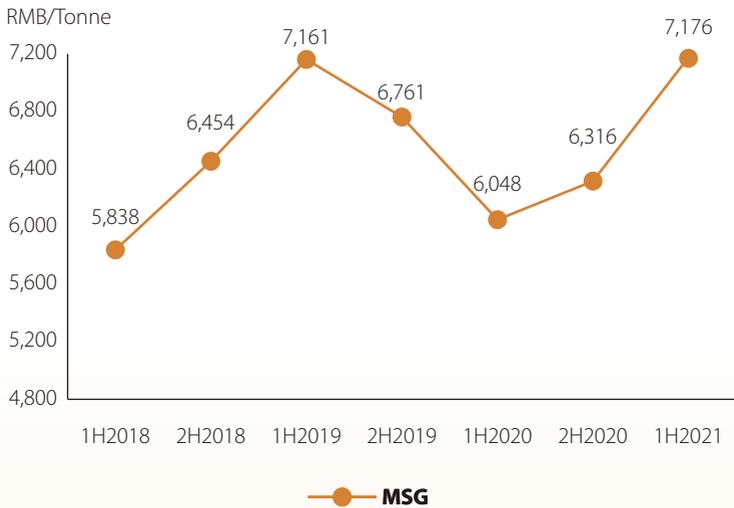
MANAGEMENT DISCUSSION AND ANALYSIS

Food additives

Revenue generated from the sales of food additive products increased to approximately RMB4,495.0 million in the first half of 2021, representing an increase of approximately RMB238.0 million, or 5.6%, as compared to the corresponding period of 2020, mainly due to increased revenue of MSG. The increased revenue of MSG was primarily due to the effect of an increase in the ASP of MSG during the period.

MSG

Set out below is a chart showing the average selling price of the Group's MSG products from the first half of 2018 to the first half of 2021:



MANAGEMENT DISCUSSION AND ANALYSIS

During the period, China had an outstanding advantage in terms of the effectiveness of pandemic prevention and control. The economic recovery in the PRC was relatively stable. In addition, major raw material costs, particularly corn kernels, increased during the period. However, the effect of increasing cost could not be fully reallocated to customers by product pricing due to the competitive market conditions. The ASP of MSG increased by 18.7%, from approximately RMB6,048 per tonne in the first half of 2020 to approximately RMB7,176 per tonne in the first half of 2021. The sales volume decreased by 8.9%, from approximately 546,845 tonnes in the first half of 2020 to approximately 498,351 tonnes in the first half of 2021. As a result, turnover of MSG increased by 8.1% in the first half of 2021. Due to the increased ASP of MSG, exports of MSG products increased from about RMB734.3 million in the first half of 2020 to about RMB812.7 million in the first half of 2021.

Starch sweeteners

Turnover of starch sweeteners decreased by approximately 5.7% in the first half of 2021, which was primarily due to the weak market demand. The price of starch sweeteners fluctuated significantly in line with the increasing corn price. During the period, the ASP of starch sweeteners was approximately RMB3,500 per tonne, representing an increase of approximately 39.1% as compared to the first half of 2020. Sales volume of starch sweeteners decreased by 32.2% to approximately 186,679 tonnes in the first half of 2021 as compared to the corresponding period of 2020, mainly due to the fact that COVID-19 pandemic still had a greater impact on the domestic food industry and the catering industry in the first half of 2021.

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. Revenue of threonine significantly increased by about 71.5% in the first half of 2021 as compared to the corresponding period of 2020, primarily due to the increased ASP of threonine from approximately RMB6,704 per tonne in the first half of 2020 to approximately RMB9,395 per tonne in the first half of 2021. The increase in ASP was mainly due to the easing situation of the swine flu and the recovery of the animal breeding sector in China. China has an outstanding advantage in terms of the effectiveness of pandemic prevention and control. As a result, the recovering market demand of the PRC and oversea markets was taken place in the first half of 2021. Sales volume of threonine increased from approximately 95,948 tonnes in the first half of 2020 to approximately 117,402 tonnes in the first half of 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

Corn refined products

Revenue of corn refined products increased by about 30.9% for the six months ended 30 June 2021 as compared to the corresponding period of 2020, mainly due to the increasing price of corn kernels. The ASP of bacterial protein increased from approximately RMB2,717 per tonne in the first half of 2020 to approximately RMB2,867 per tonne in the first half of 2021, representing an increase of 5.5%.

Lysine

Sales of lysine increased from approximately RMB561.2 million in the first half of 2020 to approximately RMB642.3 million in the first half of 2021. It is classified as part of revenue in our Animal nutrition segment.

High-end amino acid products

Sales of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, increased to approximately RMB688.9 million in the first half of 2021 as compared to approximately RMB453.2 million in the first half of 2020. 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. The performance of xanthan gum in the Colloid segment was affected by the weak market demand of the global oil industry mainly due to the decline in the sales volume of xanthan gum for the exports of industrial grade (oil mining applications).

Revenue generated from xanthan gum decreased by 30.4%, from approximately RMB517.8 million in the first half of 2020 to approximately RMB360.6 million in the first half of 2021. The decrease in revenue was due to a decrease in sales volume during the period. Sales volume decreased by 43.3% in the first half of 2021. The ASP of xanthan gum increased to approximately RMB17,551 per tonne, representing an increase of 22.9%, mainly due to limited supply.



MANAGEMENT DISCUSSION AND ANALYSIS

Other related products

Fertilisers

The ASP of fertilisers for the six months ended 30 June 2021 was approximately RMB485 per tonne, representing a slight decrease of RMB3, or about 0.6%, as compared to the corresponding period of 2020. The sales volume of fertilisers increased, and as a result, the revenue of fertilisers increased from RMB209.9 million for the six months ended 30 June 2020 to RMB266.4 million for the six months ended 30 June 2021. Meanwhile, the Group continued to develop the high value added fertiliser products.

Gross Profit and Gross Profit Margin

The gross profit is set out below:

	Six months ended 30 June		Change
	2021	2020	
Gross profit (RMB'000)	1,765,957	1,469,248	20.2%
Gross profit margin (%)	18.5	18.0	0.5ppts.

Gross profit increased to approximately RMB1,766.0 million and gross profit margin increased by 0.5 percentage points to 18.5% for the six months ended 30 June 2021.

Increasing gross profit contribution was mainly due to

1. Diversified product portfolio: with a good diversified product development layout plan and further expansion of product pipeline, the business structure of multiple core products has been established, enhancing the core competitiveness of the Group.
2. Multiple profit growth drivers: mainly attributable to 1) greater profit contribution from animal nutrition products; 2) high-end amino acid products being one of the main sources of profitability during the period.

We continued to strengthen our market share and leading position in the amino acid industry as well as the portfolio of our products, such as animal nutrition and high-end amino acid products. We also maintained our flexible marketing and pricing strategy in order to expand market share and strengthen market position.



MANAGEMENT DISCUSSION AND ANALYSIS

Production costs

	Six months ended 30 June				Change %
	2021 RMB'000	%	2020 RMB'000	%	
Major raw materials					
• Corn kernels	5,328,868	62.4	3,829,370	55.1	39.2
• Liquid ammonia	240,310	2.8	157,729	2.3	52.4
• Sulphuric acid	55,438	0.6	25,048	0.4	121.3
• Soybeans	14,605	0.2	27,737	0.4	(47.3)
Energy					
• Coal	1,174,687	13.8	1,045,799	15.1	12.3
Depreciation	520,511	6.1	531,065	7.6	(2.0)
Employee benefits	328,183	3.8	359,215	5.2	(8.6)
Others	880,401	10.3	969,406	13.9	(9.2)
Total cost of production	8,543,003	100.0	6,945,369	100.0	23.0

Corn kernels

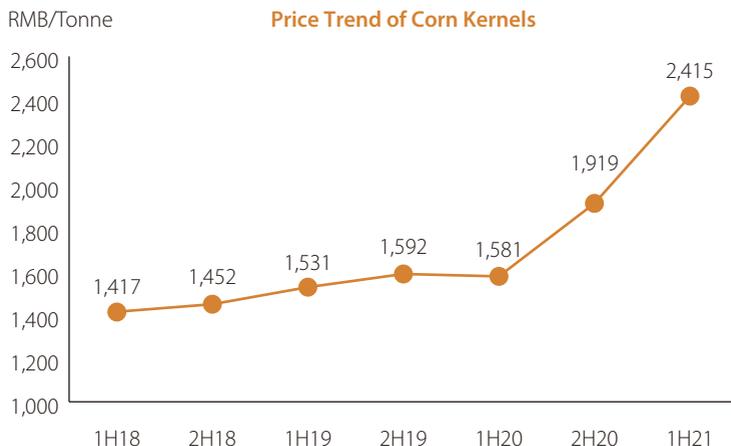
In the first half of 2021, corn kernels accounted for approximately 62.4% (1H 2020: 55.1%) of the total production cost, representing an increase of 7.3 percentage points, mainly due to change in the price of corn kernels. The average price of corn kernels for the six months ended 30 June 2021 was approximately RMB2,415 per tonne, representing a significant increase of 52.8% as compared to the corresponding period of 2020.

The total cost of corn kernels increased by 39.2% in the first half of 2021, which was mainly due to the increase in the average unit cost of corn kernels as compared to the corresponding period of 2020.



MANAGEMENT DISCUSSION AND ANALYSIS

The following chart shows the price trend of corn kernels from the first half of 2018 to the first half of 2021:



Liquid ammonia

Liquid ammonia accounted for approximately 2.8% (1H 2020: 2.3%) of total production cost in the first half of 2021. The average unit cost of liquid ammonia in the first half of 2021 increased to approximately RMB3,117 per tonne, which represents an increase of approximately RMB653 per tonne, or 26.5%, from the first half of 2020. Due to the higher average unit cost of liquid ammonia and the increased consumption volume as actual production volume of threonine increased during the period, the total cost of liquid ammonia increased by 52.4% in the first half of 2021 as compared to the corresponding period of 2020.

Sulphuric acid

Sulphuric acid accounted for approximately 0.6% (1H 2020: 0.4%) of total production cost in the first half of 2021. The average unit cost of sulphuric acid increased to approximately RMB217 per tonne, representing a rise of approximately RMB122 per tonne, or 128.4%, as compared to the corresponding period of 2020.



MANAGEMENT DISCUSSION AND ANALYSIS

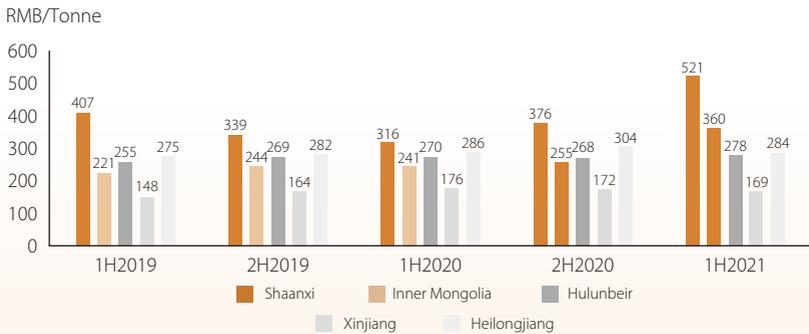
Soybeans

In the first half of 2021, soybeans accounted for approximately 0.2% (1H 2020: 0.4%) of the total production cost. The average unit cost of soybeans was approximately RMB5,333 per tonne, representing an increase of approximately RMB1,203 per tonne, or 29.1%, as compared to the corresponding period of 2020. The total cost of soybeans decreased by 47.3% in the first half of 2021 mainly due to consumption volume as actual production volume of xanthan gum decreased during the period as compare to the corresponding period of 2020.

Coal

Coal accounted for 13.8% (1H 2020: 15.1%) of total production cost in the first half of 2021. The average unit cost of coal in the first half of 2021 was RMB303 per tonne, representing an increase of RMB45 per tonne, or 17.4%, as compared to the corresponding period of 2020. 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 cost of depreciation and employee benefits was stable mainly due to the fact that the annual production capacities were unchanged during the period.



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 %
	2021 Tonnes	2020 Tonnes	
Food additives			
MSG (Note)	665,000	665,000	–
Starch sweeteners (Note)	360,000	360,000	–
Animal nutrition			
Threonine (Note)	121,500	121,500	–
Lysine (Note)	100,000	100,000	–
Colloid			
Xanthan gum (Note)	32,500	32,500	–
Other			
Fertilisers (Note)	540,000	540,000	–

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

Analysis of Capacity Usage of Major Product Lines

Business strategy of production was changed and the Group set production volume according to market demand in order to minimize the risk from pricing competition. During the period, the capacity utilization rate of MSG remained stable, still exceeded 85%. As the weak market condition of starch sweeteners, the utilization rate of production capacity of starch sweeteners was only around 50% in the first half of 2021. Threonine, as classified in the Animal nutrition segment, was affected by the recovering market conditions in the PRC and the increasing market demand of oversea markets. The Group determined its output based on market demand with capacity utilization rate of threonine reached full capacity during the six months period. Xanthan gum product, as classified in the Colloid segment, had weak market demand. In the first half of 2021, the capacity utilization rate of xanthan gum was only around 50%.



MANAGEMENT DISCUSSION AND ANALYSIS

Other Financial Information

Other income

In the first half of 2021, other income amounted to RMB116.5 million, which was mainly comprised of the amortisation of deferred income and government grants and from the sales of waste products.

Selling and marketing expenses

Selling and marketing expenses decreased by approximately RMB50.6 million, or 7.4%, in the first half of 2021. The decrease in selling and marketing expenses was mainly due to decrease in transportation costs, which returned to a stable level during the sales process as the COVID-19 pandemic started to ease up in the domestic and oversea markets.

Administrative expenses

Administrative expenses increased by approximately RMB38.5 million, or 10.3%, in the first half of 2021, mainly due to the increase in research and development expenses.

Net impairment losses on financial assets

The increased net impairment losses on financial assets mainly represented the Group recorded a full provision of RMB50.0 million that was the loan to a third party. As at 30 June 2021, the loan receivable was past due for collection as the third party was in financial difficulties. As there has been a significant increase in credit risk, the Group measure the impairment as lifetime expected credit losses.

Finance income

Finance income mainly represented interest income from bank deposits and foreign exchange gain from our USD bonds. The interest income from bank deposits and bank balance amounted to RMB10.9 million, a decrease of 46.1%. This was mainly due to the decrease in our working capital during the period. On the other hand, the Group recorded an exchange gain on financing activities of approximately RMB42.4 million (1H 2020: an exchange loss of RMB21.1 million), mainly due to the exchange difference of USD bonds and bank borrowings denominated in USD in the first half of 2021.

Finance costs

The finance costs of the Group in the first half of 2021 decreased, mainly as interest expense decreased by approximately RMB14.0 million, as the Group repurchased part of the 3-year 5.875% USD bonds issued on 28 August 2018 amount to USD62.8 million in the first half of 2020.



MANAGEMENT DISCUSSION AND ANALYSIS

Depreciation

Depreciation expense of the Group decreased by approximately RMB5.0 million, or 0.8%, from RMB620.3 million in the first half of 2020 to RMB615.3 million in the first half of 2021.

Income tax expense

The income tax expenses for the six months ended 30 June 2021 mainly represented the PRC Enterprise Income Tax (“EIT”). Seven subsidiaries of the Group, including Hulunbeir Fufeng, Shandong Fufeng, Shenhua Pharmaceutical, Baoji Fufeng, IM Fufeng, Xinjiang Fufeng and Longjiang Fufeng obtained the approvals to become a new and high-technology enterprise and were entitled to a preferential income tax rate of 15% (1H 2020: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

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

Four subsidiaries of the Group, including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (1H 2020: 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 2020: 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 2020: 8.25%) on the estimated assessable profit for the six months ended 30 June 2020.

The Group’s subsidiary in United States is subject to state income tax at a rate of approximately 8.84% (1H 2020: 8.84%) and a federal income tax at a rate of approximately 21% (1H 2020: 21%) on the estimated assessable profit for the six months ended 30 June 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

Future Plan and Recent Development

1. Develop modern logistics system: we will construct and optimise our existing logistics system by capitalizing on our information technology system, to create an efficient and first-class logistics system, and further improve efficiency and reduce logistics costs.
2. Attract talents: we will improve our research and development, production, sales and marketing, management and other comprehensive capabilities through the introduction of top talents.
3. Build chemical facilities: we will further follow up on the construction of inhouse chemical facilities to reduce our chemical costs.
4. Implement internationalization plan: we will continue our internationalization commitment and accelerate the implementation of a more sophisticated international production and sales network.
5. Enhance R&D: we will continue to enhance the research and development of high-end amino acid products and launch more popular products.

The Group expect to fund the future cash flow needs through internally generated cash flows from operation and external borrowings.

Liquidity and Financial Resources

As at 30 June 2021, the Group's cash and cash equivalent and restricted bank deposits were RMB1,623.1 million (31 December 2020: RMB1,231.2 million) whereas current bank borrowings and current other borrowings (including the balances of USD Bonds) were approximately RMB1,287.6 million and 1,635.2 million (31 December 2020: RMB1,361.1 million and 1,647.7 million) respectively and non-current bank borrowings were approximately RMB532.4 million (31 December 2020: RMB464.4 million, which will be repaid within two years). The Group's cash and cash equivalents and borrowings are primarily denominated in RMB and USD.

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 was mainly used to refinance then existing debt and for business development purposes.



MANAGEMENT DISCUSSION AND ANALYSIS

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 2021. The outstanding balance of USD bonds was fully repaid on 30 August 2021.

Syndication bank facilities

On 9 March 2021, the Company (as borrower) and certain of its subsidiaries (as guarantors) entered into a facilities agreement ("Agreement") with certain major banks in the Asia Pacific region (as lenders) pursuant to which a USD term and revolving loan facilities up to USD400 million with a term of 36 months from initial funding has been granted to the Company at the rate of interest equivalent to the aggregate of a margin rate of 1.80% per annum plus the London interbank offered rate administered by ICE Benchmark Administration Limited on the relevant date in respect of the USD loan. The purpose of the loan is mainly to refinance the existing USD bonds and part of offshore bank loan of the Company and remaining for the Group's general corporate purposes. The utilization drawdown of the syndication bank facilities, amounted to USD400 million, was made on 24 August 2021. Furthermore as disclosed in the announcement made by the Company on 4 June 2021, as per the Agreement, it would constitute a change of control event if Mr. Li Xuechun, being the controlling shareholder of the Group, ceases to beneficially own at least 35% of the issued share capital of the Company or ceases to be the single largest shareholder. On and at any time after the occurrence of a change of control event, (i) the Lender shall not be obliged to fund the utilization of the term loan facility, and (ii) if the lenders so required, the lenders shall, by not less than five days notice to the Company, require all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents in connection with the loan facilities immediately due and payable.

Except for the above, the Group had no other committed banking facilities as at 30 June 2021. The Directors believe that the Group's liquidity position is relatively stable and that the Group has sufficient banking facilities to repay or renew existing short term bank loans and other borrowings.

Material acquisition or disposal of subsidiary and associated company

The Group had no material acquisition or disposal of subsidiaries or associated companies for the six months ended 30 June 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

Employees

As at 30 June 2021, the Group had approximately 13,500 employees. Employees' remuneration was 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 2021, the Group had no material contingent liabilities.

Charges on assets

As at 30 June 2021, no assets (31 December 2020: Nil) were pledged to certain banks for any bank borrowings (31 December 2020: Nil) of the Group.

The long term bank borrowings were 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 2021, the total assets of the Group amounted to approximately RMB20,188.1 million (31 December 2020: RMB19,355.7 million) whereas the total borrowings amounted to RMB3,455.1 million (31 December 2020: RMB3,473.2 million). The gearing ratio was approximately 17.1% (31 December 2020: 17.9%), which is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

On 22 April 2020, the Company entered into a USD150,000,000 foreign exchange swap agreement with Deutsche Bank. 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. Subsequently, the abovementioned USD150,000,000 foreign exchange swap agreement was expired and settled on 30 August 2021. The Company has entered into a new USD200,000,000 foreign exchange swap agreement with Deutsche Bank on 24 August 2021. Such foreign exchange swap agreement is mainly for hedging part of the exposure to foreign exchange risk of the USD400 million syndicated loan facility agreement entered into by the Company on 9 March 2021, and of which the utilization of the full USD400 million was made on 24 August 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

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 USD bank loan with the Bank of China (Hong Kong) Limited amounted 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 HK9.8 cents per Share for the six months ended 30 June 2021, payable on or before 30 September 2021 to the Shareholders whose names appear on the register of members of the Company on 17 September 2021.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 15 September 2021 to Friday, 17 September 2021 (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, 14 September 2021.



INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	9,395,459	9,748,815
Right-of-use assets	8	802,821	766,778
Intangible assets	7	49,670	50,751
Investments accounted for using the equity method	9	13,838	18,818
Financial assets at fair value through profit or loss	5.4	5,000	2,000
Derivative financial instruments	5.4	3,885	–
Prepayment	10	51,189	51,189
Deferred income tax assets		109,076	123,353
Total non-current assets		10,430,938	10,761,704
Current assets			
Inventories		5,330,930	3,781,228
Trade, other receivables and prepayments	10	2,803,149	3,581,559
Cash and bank balances	11	1,623,107	1,231,202
Total current assets		9,757,186	8,593,989
Total assets		20,188,124	19,355,693
LIABILITIES			
Non-current liabilities			
Other payables	14	68,205	66,461
Deferred income		799,273	818,450
Borrowings	13	532,448	464,427
Lease liabilities	8	16	29
Deferred income tax liabilities		34,350	26,650
Derivative financial instruments	5.4	23,837	25,031
Total non-current liabilities		1,458,129	1,401,048

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
Current liabilities			
Trade, other payables and accruals	14	2,788,457	2,609,315
Contract liabilities		649,828	505,105
Current income tax liabilities		104,495	84,510
Borrowings	13	2,922,868	3,008,801
Lease liabilities	8	41	390
Derivative financial instruments	5.4	71,802	57,118
Total current liabilities		6,537,491	6,265,239
Total liabilities		7,995,620	7,666,287
EQUITY			
Capital and reserves attributable to the shareholders			
Share capital	12	243,261	243,261
Share premium	12	259,434	346,437
Other reserves		710,712	715,879
Retained earnings		10,979,097	10,383,829
Total equity		12,192,504	11,689,406
Total equity and liabilities		20,188,124	19,355,693

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Half-year	
		2021 RMB'000	2020 RMB'000
Revenue	6	9,520,562	8,168,630
Cost of sales		(7,754,605)	(6,699,382)
Gross profit		1,765,957	1,469,248
Selling and marketing expenses		(633,315)	(683,936)
Administrative expenses		(410,715)	(372,179)
Net impairment losses on financial assets	5.2	(42,123)	(5,485)
Other operating expenses		(7,855)	(31,501)
Other income	15	116,530	144,274
Other (losses)/gains – net		(50,903)	42,465
Operating profit	16	737,576	562,886
Finance income		56,741	24,667
Finance costs		(98,147)	(133,177)
Finance costs – net	17	(41,406)	(108,510)
Share of net loss of investments accounted for using the equity method		(5,470)	(6,223)
Profit before income tax		690,700	448,153
Income tax expense	18	(99,651)	(68,849)
Profit for the half-year and attributable to the shareholders		591,049	379,304
Earnings per share for profit attributable to the shareholders during the period (expressed in RMB cents per share)			
– basic	19	23.33	14.97
– diluted	19	23.33	14.97

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	
	2021 RMB'000	2020 RMB'000
Profit for the half-year	591,049	379,304
Other comprehensive income for the half-year	—	—
Total comprehensive income for the half-year attributable to the shareholders	591,049	379,304

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	
Balance at 1 January 2020	243,261	663,634	665,819	9,803,755	11,376,469
Total comprehensive income for the half-year	-	-	-	379,304	379,304
Transactions with shareholders, recognised directly in equity					
Employees share option scheme:					
– Value of employee services	-	-	(3,525)	-	(3,525)
– Expiry of share option issued	-	-	(8,745)	8,745	-
Provision for safety production fee	-	-	1,440	-	1,440
Utilisation of safety production fee	-	-	(602)	-	(602)
Dividends	-	(184,941)	-	-	(184,941)
Total transactions with shareholders	-	(184,941)	(11,432)	8,745	(187,628)
Balance at 30 June 2020	243,261	478,693	654,387	10,191,804	11,568,145
Balance at 1 January 2021	243,261	346,437	715,879	10,383,829	11,689,406
Total comprehensive income for the half-year	-	-	-	591,049	591,049
Transactions with shareholders, recognised directly in equity					
Employees share option scheme:					
– Value of employee services	-	-	(1,718)	-	(1,718)
– Expiry of share option issued	-	-	(4,219)	4,219	-
Provision for safety production fee	-	-	1,800	-	1,800
Utilisation of safety production fee	-	-	(1,030)	-	(1,030)
Dividends	-	(87,003)	-	-	(87,003)
Total transactions with shareholders	-	(87,003)	(5,167)	4,219	(87,951)
Balance at 30 June 2021	243,261	259,434	710,712	10,979,097	12,192,504

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	
		2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations		962,808	1,148,081
Interest paid		(94,280)	(107,899)
Income taxes paid		(57,903)	(101,246)
Net cash inflow from operating activities		810,625	938,936
Cash flows from investing activities			
Purchases of property, plant and equipment		(371,851)	(552,199)
Payment for investment in an associate	9	(490)	–
Loan to a related party	22	(9,510)	–
Payments for financial assets at fair value through profit or loss		(3,000)	(2,402,000)
Purchases of intangible assets		(2,686)	(7,876)
Proceeds from disposal of property, plant and equipment		219	288
Proceeds from disposal of subsidiaries, net of cash disposed		–	17,923
Proceeds from sale of financial assets at fair value through profit or loss		–	1,600,000
Proceeds from disposal of derivative financial instruments		6,077	–
Repayments of loan from former subsidiaries		–	2,357
Repayment of loan by related parties	22	1,926	–
Assets-related government grants received		30,060	45,300
Interest received		14,220	40,014
Proceeds from term deposits		400,000	10,000
Placement of term deposits		(1,000)	(31,000)
Net cash inflow/(outflow) from investing activities		63,965	(1,277,193)

**INTERIM CONDENSED
CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	Half-year	
		2021 RMB'000	2020 RMB'000
Cash flows from financing activities			
Proceeds from bank borrowings	13	1,622,717	2,942,614
Repayments of bank borrowings	13	(1,606,098)	(2,055,000)
Redemption of USD bonds	13	–	(424,216)
Principal elements of lease payments		(45,837)	(477)
Dividends paid to the Company's shareholders	20	(86,036)	(185,606)
Net cash (outflow)/inflow from financing activities		(115,254)	277,315
Net increase/(decrease) in cash and cash equivalents		759,336	(60,942)
Cash and cash equivalents at beginning of the half-year		831,202	1,831,169
Cash and cash equivalents at end of the half-year		1,590,538	1,770,227

The above interim condensed consolidated statement 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 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 30 August 2021 by the Board of Directors.

This condensed consolidated interim financial report has not been audited.

2. Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2021 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 2020, 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 2020 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.

	Effective for annual periods beginning on or after
Amendments to HKFRS 9, Interest Rate Benchmark HKAS 39, HKFRS 7, HKFRS 4 Reform – Phase 2 and HKFRS 16	1 January 2021

(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 2021 and have not been early adopted by the Group:

	Effective for annual periods beginning on or after	
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 HKAS 1 and HKAS 28	Presentation of financial statements, accounting policies, changes in accounting estimates and errors	1 January 2023
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 2020.

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 2020.

There have been no changes in the risk management department since 2020 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 two types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory, and
- other financial assets carried at amortised cost

While deposit with banks, including term deposits, restricted bank deposits and notes receivables 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 2021 or 31 December 2020 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 2021 and 31 December 2020 was determined as follows for trade receivables:

30 June 2021	Within 3 months RMB'000	3 to 12 months RMB'000	Over 12 months RMB'000	Total RMB'000
Expected loss rate	1.74%	15.38%	98.97%	
Gross carrying amount	685,357	25,725	4,487	715,569
Loss allowance provision	11,950	3,957	4,441	20,348
31 December 2020	Within 3 months RMB'000	3 to 12 months RMB'000	Over 12 months RMB'000	Total RMB'000
Expected loss rate	3.01%	20.57%	99.67%	
Gross carrying amount	591,253	31,326	3,985	626,564
Loss allowance provision	17,809	6,444	3,972	28,225

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 2021 and 31 December 2020 reconcile to the opening loss allowances as follows:

	Trade receivables
	RMB'000
Opening loss allowance at 1 January 2020	18,991
Provision for impairment loss allowances	11,344
Receivables written off during the year as uncollectible	<u>(2,110)</u>
Closing loss allowance at 31 December 2020	28,225
Reversal of provision for impairment loss allowances	<u>(7,877)</u>
Closing loss allowance at 30 June 2021	<u>20,348</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.

The closing loss allowances for other financial assets at amortised cost as at 30 June 2021 and 31 December 2020 reconcile to the opening loss allowances as follows:

	Other receivables RMB'000
Opening and closing loss allowance at 1 January 2020 and 31 December 2020	–
Provision for impairment loss allowances	50,000
Closing loss allowance at 30 June 2021	50,000

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

5. Financial Risk Management *(Continued)*

5.2 Credit risk *(Continued)*

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

Net impairment losses on financial assets recognised in profit and loss

During the six months ended 30 June 2021 and 30 June 2020, the following (gains)/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	
	2021 RMB'000	2020 RMB'000
Impairment losses		
– loss allowance for other receivables	50,000	–
– (Reversal of) loss allowance for trade receivables	(7,877)	5,485
	42,123	5,485

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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

5. Financial Risk Management *(Continued)*

5.3 Liquidity risk *(Continued)*

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000
The Group				
At 30 June 2021				
Non-derivatives				
Borrowings	2,959,691	499,387	-	3,459,078
Interests payments on borrowings (i)	53,150	9,266	-	62,416
Lease liabilities	40	15	-	55
Trade and other payables (excluding non-financial liabilities)	2,479,044	-	82,230	2,561,274
Total non-derivatives	<u>5,491,925</u>	<u>508,668</u>	<u>82,230</u>	<u>6,082,823</u>
Derivatives				
Gross settled				
Cross currency swaps				
- (inflow)	(69,024)	(196,844)	-	(265,868)
- outflow	81,527	218,035	-	299,562
	<u>12,503</u>	<u>21,191</u>	<u>-</u>	<u>33,694</u>
Foreign currency forwards				
- (inflow)	(457,084)	-	-	(457,084)
- outflow	452,207	-	-	452,207
	<u>(4,877)</u>	<u>-</u>	<u>-</u>	<u>(4,877)</u>
Total derivatives	<u>7,626</u>	<u>21,191</u>	<u>-</u>	<u>28,817</u>
Total	<u>5,499,551</u>	<u>529,859</u>	<u>82,230</u>	<u>6,111,640</u>

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
The Group					
At 31 December 2020					
Non-derivatives					
Borrowings	2,989,569	442,820	-	-	3,432,389
Interests payments on borrowings (i)	126,607	12,451	-	-	139,058
Lease liabilities	454	27	2	-	483
Trade and other payables (excluding non-financial liabilities)	2,248,667	-	50,520	31,710	2,330,897
Total non-derivatives	5,365,297	455,298	50,522	31,710	5,902,827
Derivatives					
Gross settled (cross currency swaps)					
- (inflow)	(85,788)	(225,258)	-	-	(311,046)
- outflow	99,112	249,630	-	-	348,742
	13,324	24,372	-	-	37,696
Total	5,378,621	479,670	50,522	31,710	5,940,523

- (i) The interests on borrowings are calculated based on bank borrowings and USD bonds held as at 30 June 2021 and 31 December 2020 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 30 June 2021 and 31 December 2020 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 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2021					
Financial assets					
Derivative financial instruments		-	-	3,885	3,885
Financial assets measured at FVPL – Equity investment*		-	-	5,000	5,000
Notes receivable measured at FVOCI	10(c)	-	-	709,765	709,765
Total financial assets		-	-	718,650	718,650
Financial liabilities					
Derivative financial instruments					
Current		-	-	71,802	71,802
Non-current		-	-	23,837	23,837
		-	-	95,639	95,639

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 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2020					
Financial assets					
Financial assets measured at FVPL – Equity investment*		-	-	2,000	2,000
Notes receivable measured at FVOCI	10(c)	-	-	723,478	723,478
Total financial assets		-	-	725,478	725,478
Financial liabilities					
Derivative financial instruments					
Current		-	-	57,118	57,118
Non-current		-	-	25,031	25,031
		-	-	82,149	82,149

* During the six months ended 30 June 2021, the Group has subscribed further capital contribution of RMB3,000,000 to a third party (31 December 2020: RMB2,000,000). This third party is a private company and there is no quoted market price available for its shares.

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.

The executive directors 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;
- High-end amino acid segment: manufacturing and sales of high-end amino acid products;
- Colloid segment: manufacturing and sales of colloid products, including xanthan gum and gellan gum; 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 66% (30 June 2020: 68%) 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 2021 and 2020 are set out as follows:

Products by segments	Half-year	
	2021 RMB'000	2020 RMB'000
<i>Food additives</i>		
MSG	3,576,369	3,307,330
Starch sweeteners	653,320	692,740
Glutamic acid	227,431	238,871
Compound seasoning	36,817	14,688
Corn oil	1,033	3,311
	4,494,970	4,256,940
<i>Animal nutrition</i>		
Corn refined products	1,717,139	1,311,605
Threonine	1,102,957	643,221
Lysine	642,280	561,151
	3,462,376	2,515,977
<i>High-end amino acid</i>		
High-end amino acid products	688,912	453,159
<i>Colloid</i>		
Xanthan gum	360,643	517,832
Gellan gum	34,864	31,754
	395,507	549,586
<i>Others</i>		
Fertilisers	266,444	209,932
Synthetic ammonia	132,940	91,346
Pharmaceuticals	73,741	80,166
Others	5,672	11,524
	478,797	392,968
	9,520,562	8,168,630

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

6. Segment Information (Continued)

The segment information for the six months ended 30 June 2021 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	4,494,970	3,462,376	688,912	395,507	478,797	9,520,562
Cost of sales	(3,892,468)	(2,850,564)	(380,172)	(244,736)	(386,665)	(7,754,605)
Gross profit	602,502	611,812	308,740	150,771	92,132	1,765,957

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	723,287	352,410	170,528	132,788	90,235	1,469,248

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
Six months ended 30 June 2020			
Opening net book amount at			
1 January 2020	10,457,268	40,663	10,497,931
Additions	244,187	7,876	252,063
Disposals	(1,736)	–	(1,736)
Depreciation and amortisation	(610,809)	(2,778)	(613,587)
Transfer to right-of-use assets	(7,082)	–	(7,082)
	10,081,828	45,761	10,127,589
Closing net book amount at			
30 June 2020	10,081,828	45,761	10,127,589
Six months ended 30 June 2021			
Opening net book amount at			
1 January 2021	9,748,815	50,751	9,799,566
Additions	254,190	2,686	256,876
Disposals	(1,682)	–	(1,682)
Depreciation and amortisation	(605,864)	(3,767)	(609,631)
	9,395,459	49,670	9,445,129
Closing net book amount at			
30 June 2021	9,395,459	49,670	9,445,129

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 2021 RMB'000	31 December 2020 RMB'000
Right-of-use assets		
Leasehold land-use rights (a)	802,724	766,230
Buildings	57	495
Equipment	40	53
	802,821	766,778
Lease liabilities		
Current	41	390
Non-current	16	29
	57	419

**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

	Leasehold land-use rights
	RMB'000
<hr/>	
Six months ended 30 June 2020	
Opening net book amount at 1 January 2020	777,141
Transfer from property, plant and equipment	7,082
Depreciation and amortisation	(9,044)
	<hr/>
Closing net book amount at 30 June 2020	775,179
Six months ended 30 June 2021	
Opening net book amount at 1 January 2021	766,230
Addition	45,475
Depreciation and amortisation	(8,981)
	<hr/>
Closing net book amount at 30 June 2021	802,724

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	
	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets		
Leasehold land-use rights	8,981	9,044
Buildings	438	438
Equipment	13	13
	9,432	9,495
Interest expense (included in finance cost)	6	28
Expense relating to short-term leases (included in administrative expenses)	7,671	7,123

The total cash outflow for leases during the six months ended 30 June 2021 was RMB8,033,000 (30 June 2020: RMB7,600,000).

(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. Interests in Associates

During the six months ended 30 June 2021, the Group subscribed 49% share capital of a company at RMB490,000. The company is engaged in agricultural techniques research and development. The Group gained significant influence over this investment and the investment was classified as an associate.

The carrying amount of equity-accounted investments has changed as follows in the six months period ended 30 June 2021:

	Six months ended 30 June 2021 RMB'000
Beginning of the period	18,818
Additions	490
Loss for the period	(5,470)
End of the period	13,838

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

10. Trade, Other Receivables and Prepayments

	As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade receivables (a)	715,569	626,564
Less: provision for impairment loss allowance	(20,348)	(28,225)
Trade receivables – net	695,221	598,339
Deposits and others	39,396	34,571
Loan to a third party (b)	50,000	50,000
Less: provision for impairment loss allowance	(50,000)	–
Loan to a third party – net	–	50,000
Loan to a related party	7,584	–
Loans to employees	566	1,184
Value-added tax for future deduction	388,527	408,156
Trade and other receivables excluding notes receivable and prepayments	1,131,294	1,092,250
Notes receivables (c)	709,765	723,478
Prepayments	1,013,279	1,817,020
	2,854,338	3,632,748
Less: non-current portion		
Prepayments for non-current assets (d)	(51,189)	(51,189)
	2,803,149	3,581,559

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

10. Trade, Other Receivables and Prepayments (Continued)

- (a) At 30 June 2021 and 31 December 2020, the ageing analysis of the trade receivables based on invoice date was as follows:

	As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Within 3 months	685,357	591,253
3–12 months	25,725	31,326
Over 12 months	4,487	3,985
	715,569	626,564

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. As at the balance sheet date, the loan has past due for collection as the third party was in financial difficulties. A fully provision of RMB50,000,000 was recorded on the balance sheet to reflect the increase in credit risk. As there has been a significant increase in credit risk, the Group measured the impairment as lifetime expected credit losses.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

10. Trade, Other Receivables and Prepayments (Continued)

- (c) As at 30 June 2021, notes receivables were all bank acceptance notes aged less than six months, including a total amount of RMB590,047,000 (31 December 2020: RMB637,886,000) 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	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Current assets		
Notes receivable measured at FVOCI	709,765	723,478

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.

- (d) During the year ended 31 December 2020, the Group won a bid for purchasing a package of the non-current assets owned by a bankrupted third party company at a consideration of RMB51,189,000. A full amount prepayment of RMB51,189,000 has been paid for the aforementioned transaction to the agent as at 31 December 2020. As at 30 June 2021, the whole transaction was still under processing.

**NOTES TO THE
CONDENSED FINANCIAL STATEMENTS**

11. Cash and Bank Balances

	As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Cash and cash equivalents		
– Cash on hand	612	424
– Cash in bank	1,589,926	830,778
Term deposits over 3 months and within one year	1,590,538 1,000	831,202 400,000
Restricted bank deposits	1,591,538 31,569	1,231,202 –
Total cash and bank balances	1,623,107	1,231,202

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

12. 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
Opening balance at 1 January 2020	10,000,000	2,533,639	243,261	663,634	906,895
Dividends	–	–	–	(184,941)	(184,941)
At 30 June 2020	<u>10,000,000</u>	<u>2,533,639</u>	<u>243,261</u>	<u>478,693</u>	<u>721,954</u>
Opening balance at 1 January 2021	10,000,000	2,533,639	243,261	346,437	589,698
Dividends	–	–	–	(87,003)	(87,003)
At 30 June 2021	<u>10,000,000</u>	<u>2,533,639</u>	<u>243,261</u>	<u>259,434</u>	<u>502,695</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

13. Borrowings

	As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current		
– Bank borrowings, unsecured	532,448	464,427
	532,448	464,427
Current		
– Bank borrowings, unsecured	1,287,620	1,361,133
– USD bonds	1,635,248	1,647,668
	2,922,868	3,008,801
Total Borrowings	3,455,316	3,473,228

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

	Carrying amount		Fair value	
	As at		As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000	31 December 2020 RMB'000
Bank borrowings, unsecured	532,448	464,427	530,151	461,933

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

13. Borrowings (Continued)

Movements in borrowings were analysed as follows:

	RMB'000
Six months ended 30 June 2020	
Opening amount as at 1 January 2020	3,384,550
New borrowings	2,942,614
Repayments of bank borrowings	(2,055,000)
Redemption of USD bonds	(424,216)
Amortisation of transaction cost	8,138
Exchange differences	20,406
	<u>3,876,492</u>
Closing amount as at 30 June 2020	
Six months ended 30 June 2021	
Opening amount as at 1 January 2021	3,473,228
New borrowings	1,622,717
Repayments of bank borrowings	(1,606,098)
Amortisation of transaction cost	6,881
Exchange differences	(41,412)
	<u>3,455,316</u>
Closing amount as at 30 June 2021	

Interest expenses on borrowings for the six months ended 30 June 2021 were RMB96,397,000 (30 June 2020: RMB110,421,000).

**NOTES TO THE
CONDENSED FINANCIAL STATEMENTS****13. 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, deferred income tax assets and derivative financial instruments.

“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 2021, the ratio of consolidated total borrowings to annualized consolidated EBITDA was 1.28 (31 December 2020: 1.70), the consolidated tangible net worth was RMB12,125,512,000 (31 December 2020: RMB11,597,451,000) and the ratio of consolidated total liabilities to consolidated tangible net worth was 0.66 (31 December 2020: 0.67).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

14. Trade, Other Payables and Accruals

	As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade payables (a)	1,539,526	1,249,039
Payables for property, plant and equipment	489,314	606,975
Salaries, wages and staff welfares payables	308,006	359,241
Interest payables	32,826	37,584
Dividends payable	407	407
Other payables and accruals	486,583	422,530
	2,856,662	2,675,776
Less: non-current portion		
Other payables (b)	(68,205)	(66,461)
	2,788,457	2,609,315

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

	As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Within 3 months	1,403,874	1,064,031
3 to 6 months	66,033	38,902
6 to 12 months	21,217	18,027
1 to 2 years	30,460	94,306
Over 2 years	17,942	33,773
	1,539,526	1,249,039

- (b) The non-current portion of other payables is a borrowing from certain third parties, which is repayable in 5 years from the balance sheet date. The interest rate on such other payables during the six months ended 30 June 2021 was 5.25% per annum.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

15. Other Income

	Half-year	
	2021 RMB'000	2020 RMB'000
Amortisation of deferred income	49,237	44,728
Government grants relating to expenses	30,482	15,391
Sales of waste products	27,301	65,053
Others	9,510	19,102
	116,530	144,274

16. Operating Profit

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

	Half-year	
	2021 RMB'000	2020 RMB'000
Amortisation of intangible assets (Note 7)	3,767	2,778
Depreciation of property, plant and equipment (Note 7)	605,864	610,809
Depreciation of right-of-use assets (Note 8)	9,432	9,495
Net impairment losses on financial assets (Note 5.2)	42,123	5,485
Reversal of value on employee services for the share option schemes	(1,718)	(3,525)
Provision for inventory write-down – net	13,873	16,139

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

17. Finance Income and Costs

	Half-year	
	2021 RMB'000	2020 RMB'000
<i>Finance income:</i>		
Interest income from financial assets held for cash management purposes		
– bank deposits and bank balances	(10,934)	(20,268)
– financial assets at amortised cost	(3,428)	(4,399)
Foreign exchange gains on financing activities	(42,379)	–
	(56,741)	(24,667)
<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	44,321	45,419
– USD bonds	52,076	65,002
– leasing liabilities	6	28
– other payables	1,744	1,657
Foreign exchange losses on financing activities	–	21,071
	98,147	133,177
Net finance costs	41,406	108,510

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

18. Income Tax Expense

	Half-year	
	2021 RMB'000	2020 RMB'000
Current income tax		
– PRC enterprise income tax	67,674	31,584
– Hong Kong enterprise income tax	10,000	–
Deferred income tax	21,977	37,265
	99,651	68,849

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.

The Group's subsidiaries in BVI are exempted from payment of the BVI 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

18. 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 2021, withholding tax of RMB10,000,000 has been paid as Mainland China subsidiaries have distributed the retained earnings of RMB200,000,000 as at 31 December 2020. Withholding tax of RMB17,700,000 has been provided as the Group expects Mainland China subsidiaries to distribute the retained earnings of RMB277,000,000 for the period ended 30 June 2021 (for the period ended 31 December 2020: RMB200,000,000) in the foreseeable future.

19. Earnings per Share

	Half-year	
	2021	2020
Earnings per share for profit attributable to the shareholders (RMB cents per share)		
– basic	23.33	14.97
– diluted	23.33	14.97

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 2021, the 10,500,000 outstanding share options issued in October 2016, December 2016, March 2021 and April 2021 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 2021 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 2021. These options could potentially dilute basic earnings per share in the future.

**NOTES TO THE
CONDENSED FINANCIAL STATEMENTS****19. Earnings per Share** *(Continued)*

Earnings per share – basic and diluted for the first half of 2021 was RMB23.33 cents and RMB23.33 cents respectively (equivalent to HK27.98 cents and HK27.98 cents) (1H 2020: RMB14.97 cents and RMB14.97 cents respectively (equivalent to HK16.52 cents and HK16.52 cents)).

20. Dividends

On 25 March 2021, the Board proposed a final dividend in respect of the year ended 31 December 2020 of HKD103,879,000 (equivalent to RMB87,003,000), representing HK4.1 cents (equivalent to RMB3.43 cents) per share. The final dividend paid in June 2021 amounted to HKD103,879,000 (equivalent to RMB86,036,000). The difference between proposed and paid final dividends was due to the impact of exchange rate fluctuation.

At a meeting held on 30 August 2021, the Board proposed an interim dividend of HKD248,297,000 (equivalent to RMB206,712,000) (1H2020: HKD146,951,000 (equivalent to RMB132,256,000)), representing HK9.8 cents (equivalent to RMB8.16 cents) (1H2020: HK5.8 cents (equivalent to RMB5.22 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 2021.

21. Contingent Liabilities

As at 30 June 2021 and 31 December 2020, the Group had no material contingent liabilities.

22. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

(a) Transactions with related parties

The following transactions occurred with related parties:

	Half-year	
	2021 RMB'000	2020 RMB'000
Loans granted to a related party	9,510	–
Repayment of loan by a related party	1,926	–
Interest accrued from a related party	142	–

(b) Key management compensation

	Half-year	
	2021 RMB'000	2020 RMB'000
Salaries and allowances	6,678	9,192
Pension costs-defined contribution plan	384	211
Share options granted	277	710
	7,339	10,113

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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

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

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

Loans due from a related party

	As at	
	30 June 2021 RMB'000	31 December 2020 RMB'000
– A company invested by the Group under equity method	7,584	–

The balance with related party was unsecured, repayable within one year and the annual interest rate is 3.85%.

23. Events Occurring after the Balance Sheet Date

Details of the interim dividend proposed are described in Note 20.

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 2021, the Company has complied with the Code Provisions of the Revised CG Code except for the following: Code provision A.6.7 of the Revised Code: The Independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company.

Due to other commitments, Mr. Xu Zheng Hong and Mr. Zhang You Ming, independent non-executive Directors, did not attend the annual general meeting of the Company held on 28 May 2021. 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 2021.

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 2021.

Event after the reporting period

There were no significant events after the six months ended 30 June 2021.



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, 28 June 2018, 31 March 2021 and 4 June 2021 to eligible employees. Details of the share options granted and outstanding for the period ended 30 June 2021, are as follows:

Director and eligible employees	Note	Number of share options					At 30 June 2021	Date of grant	Revised/ Adjusted price (HKD)	Exercise period
		At 1 January 2021	Granted during the period	Exercised during the period	Forfeited during the period	Lapsed during the period				
Under the Post-IPO Share Option Scheme										
Zheng Yu (Former independent non-executive Director)	B	300,000	-	-	-	-	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	3,000,000	-	-	-	-	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
Under the New Share Option Scheme										
Eligible employees	D	5,000,000	-	-	-	(5,000,000)	-	25/8/2017	4.96	25/8/2019 – 24/8/2023
Eligible employees	E	-	2,200,000	-	-	-	2,200,000	31/3/2021	2.95	31/3/2023 – 30/3/2027
Su Chen Hung (Executive Director)	F	-	5,000,000	-	-	-	5,000,000	4/6/2021	2.68	4/6/2023 – 3/6/2027
		<u>8,600,000</u>	<u>7,200,000</u>	<u>-</u>	<u>-</u>	<u>(5,000,000)</u>	<u>10,800,000</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**

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

- B) The total fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options granted as at the grant dates is approximately RMB17,515,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

**Granted on
9 November 2016**

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



OTHER INFORMATION

- C) The total fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options granted as at the grant dates is approximately RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

**Granted on
30 December 2016**

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

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

**Granted on
25 August 2017**

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



OTHER INFORMATION

- E) 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 RMB1,222,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

**Granted on
31 March 2021**

Average share price	HKD2.80
Exercise price	HKD2.95
Expected life of options	6.0 years
Expected volatility	44.35%
Expected dividend yield	6.93%
Risk free rate	1.22%

- F) 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 RMB2,474,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

**Granted on
4 June 2021**

Average share price	HKD2.629
Exercise price	HKD2.68
Expected life of options	6.0 years
Expected volatility	43.84%
Expected dividend yield	7.37%
Risk free rate	0.985%



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 2021, 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)	35,320,160 Shares	1.39%
Su Chen Hung	The Company	Beneficial interest (Note 3)	5,000,000 Shares	0.20%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.
2. The interest in these Shares is held by Empire Spring Investments Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Li Deheng, an executive director of the Company. Accordingly, Mr Li Deheng is deemed to be interested in all Shares held by Empire Spring Investments Limited under the SFO.
3. These shares represented the Shares which might be allotted and issued to Mr. Su Chen Hung, an executive Director who was appointed on 15 June 2021, upon the exercise in full of the option granted to him.



OTHER INFORMATION

Save as disclosed above, for the six months ended 30 June 2021, 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 2021, 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:

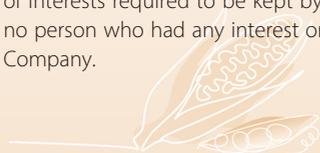
Long position

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	405,424,314 Shares	16.0%

Notes:

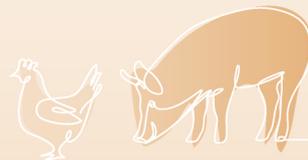
1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator 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 2021, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.



GLOSSARY

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
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有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Longjiang Fufeng	齊齊哈爾龍江阜豐生物科技有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules



GLOSSARY

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
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

