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Fufeng Group Limited

阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 546)

ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

On 5 July 2017 (after trading hours), the Company and the Purchaser entered into the Procurement Framework Agreement, pursuant to which the Company has agreed to supply the Purchaser, fertiliser products during the term of the Procurement Framework Agreement.

As at the date of this announcement, 68.06% equity interest of the Purchaser is held by Ms. Li Hongyu, the daughter of Mr. Li Xuechun, an executive Director and the chairman of the Board, and sister of Mr. Li Guangyu, an executive Director. Therefore the Purchaser is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Procurement Framework Agreement constitute continuing connected transactions of the Company. The Purchaser is also owned as to 2.06%, 2.06%, 0.80%, 0.69% and 10.46% respectively by the daughter of Mr. Li Deheng, an executive Director, Mr. Xu Guohua, a former executive Director who resigned in June 2017, the son of Mr. Feng Zhenquan, a former executive Director who resigned in September 2016, Mr. Pan Yuehong, an executive Director and certain other employees of the Group. The remaining 15.87% of the Purchaser's equity interest is held by senior management team of the Purchaser who are independent third parties of the Group.

Mr. Li Xuechun, Mr. Li Guangyu, Mr. Li Deheng, Mr. Xu Guohua and Mr. Pan Yuehong have abstained from voting on the relevant Board resolutions passed to approve the Procurement Framework Agreement and the transactions contemplated thereunder.

Given that the relevant applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Procurement Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

On 5 July 2017 (after trading hours), the Company and the Purchaser entered into the Procurement Framework Agreement, pursuant to which the Company has agreed to supply the Purchaser, fertiliser products during the term of the Procurement Framework Agreement.

PRINCIPAL TERMS OF THE PROCUREMENT FRAMEWORK AGREEMENT

Date

5 July 2017 (after trading hours)

Parties

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

Nature of transactions

Pursuant to the Procurement Framework Agreement, the Company has agreed to supply the Purchaser, fertiliser products.

Pricing and payment

Pursuant to the Procurement Framework Agreement, the Company shall supply fertiliser products to the Purchaser on normal commercial terms, of which the sale price shall not be lower than the price of similar products sold by the Company to independent third parties in its ordinary course of business. If an independent third party is willing to purchase fertiliser products at a higher price than the Purchaser, the Company has the right to sell to the independent third party.

The pricing of the fertiliser products shall be determined on a monthly basis based on prevailing sale price and the quantity of fertiliser products as delivered by the Company and as examined by the Purchaser. Settlement is conducted on monthly basis and the Purchaser shall make the payment within 90 days by way of bank transfer, bank acceptance bill or commercial bill.

The Company currently have a base of over 300 customers for its fertiliser business and therefore has a readily available market for it to compare its sale price of its fertiliser products and since the sale price to be charged to the Purchaser involves reference to market practice and comparison with independent third parties, the Company considers that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders.

Pursuant to the Procurement Framework Agreement, the Company and the Purchaser can enter into specific procurement agreements or consigned processing agreements, or the Purchaser can send purchase notices to the Company for specific transactions.

Term

The Procurement Framework Agreement shall take effect upon signing by the parties and shall expire on 31 December 2019.

ANNUAL CAP

The Company estimates that its sales volume of fertiliser products to the Purchaser under the Procurement Framework Agreement will be 120,000 tonnes, 250,000 tonnes and 350,000 tonnes for the year ending 31 December 2017, 2018 and 2019 respectively. The annual cap of the revenue will be RMB54 million, RMB112.5 million and RMB157.5 million for the year ending 31 December 2017, 2018 and 2019 respectively. As there have been no previous transactions between the Company and the Purchaser, such annual cap has been determined taking into account (i) the production capacity for the fertiliser products of the Company; (ii) the sales plan and estimated procurement volume of the Company's fertiliser products of the Purchaser; (iii) the historical price of the Company's fertiliser products for the years ended 31 December 2014, 2015 and 2016; (iv) the industry experience and expertise of the senior management team of the Purchaser; and (v) the financial strength of the Purchaser.

MEASURES OF INTERNAL CONTROL

To ensure the Company's conformity with the above pricing policies from time to time, the Company would adopt a series of internal control policies for its daily operation. Such internal control policies would be conducted and supervised by the finance department, the office of the Board and the audit department of the Company:

- (1) the Company has adopted and implemented a management system on connected transactions. According to the system, the finance department are responsible for the information gathering on and monitoring of connected transactions on a monthly basis, and such monthly report will be provided to the independent non-executive Directors for ongoing monitoring on the fairness of the transaction terms and the pricing terms;
- (2) the independent non-executive Directors would review the continuing connected transactions under the Procurement Framework Agreement to ensure such agreement is entered into on normal commercial terms, is fair and reasonable, and is carried out pursuant to the terms of such agreement. The auditors of the Company would also conduct an annual review on the pricing and annual caps of the continuing connected transaction under the Procurement Framework Agreement; and
- (3) the internal audit department of the Company will conduct periodical monitoring and evaluation on whether the procedures of connected transactions are conformed with the internal control requirements of the Company.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group is mainly engaged in the biological fermentation industry, and fertiliser products is one of its existing product segments. The fertiliser business segment, being a by-product of the Group's MSG business, is a relatively small part of the Group and due to lack of investment and allocation of resources, has been loss making in recent years. The Company considers that working with the Purchaser who has assembled an experienced and professional team to operate its fertiliser business and has in place an extensive sales and distribution network, would be beneficial to the future development of the fertiliser business of the Group. The Procurement Framework Agreement can (i) promote sales growth of the Group's fertiliser products; (ii) expand sales channel and market penetration of the Group's fertiliser products; and (iii) enhance the recognition and competitiveness of the Group's fertiliser products in the PRC market by leveraging on the sales network and experience of sales team of the Purchaser in fertiliser industry.

The independent non-executive Directors are of the view that the Procurement Framework Agreement was entered into in the ordinary and usual course of business of the Group, the continuing connected transactions under the Procurement Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the annual cap for the continuing connected transactions under the Procurement Framework Agreement is fair and reasonable.

Mr. Li Xuechun, Mr. Li Guangyu, Mr. Li Deheng, Mr. Xu Guohua and Mr. Pan Yuehong have abstained from voting on the relevant Board resolutions passed to approve the Procurement Framework Agreement and the transactions contemplated thereunder.

IMPLICATIONS OF THE LISTING RULES

As at the date of this announcement, 68.06% equity interest of the Purchaser is held by Ms. Li Hongyu, the daughter of Mr. Li Xuechun, an executive Director and the chairman of the Board, and sister of Mr. Li Guangyu, an executive Director. Therefore the Purchaser is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Procurement Framework Agreement constitute continuing connected transactions of the Company. The Purchaser is also owned as to 2.06%, 2.06%, 0.80%, 0.69% and 10.46% respectively by the daughter of Mr. Li Deheng, an executive Director, Mr. Xu Guohua, a former executive Director who resigned in June 2017, the son of Mr. Feng Zhenquan, a former executive Director who resigned in September 2016, Mr. Pan Yuehong, an executive Director and certain other employees of the Group. The remaining 15.87% of the Purchaser's equity interest is held by senior management team of the Purchaser who are independent third parties of the Group.

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GENERAL INFORMATION

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

The Purchaser is an agricultural products company which is mainly focused on sale and distribution of fertiliser products in the PRC. The sales network of the Purchaser covers regions including but not limited to Northeast, Northwest and North China.

DEFINITIONS

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

“Board”	the board of Directors of the Company
“Company”	Fufeng Group Limited, a company incorporated in Cayman Islands with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules
“continuing connected transactions”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, which for the purposes of this announcement only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“Procurement Framework Agreement”	the procurement framework agreement entered into between the Company and the Purchaser dated 5 July 2017
“Purchaser”	Inner Mongolia Wo Feng Agricultural Development Company Limited* (內蒙古沃豐農業發展有限公司), a company incorporated in the PRC with limited liability

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of ordinary share(s) of HK\$0.1 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	Percent

By order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Shandong, the PRC
5 July 2017

As at the date of this announcement, the executive directors of the Company are Mr. Li Xuechun, Mr. Zhao Qiang, Mr. Li Deheng, Mr. Pan Yuehong and Mr. Li Guangyu and the independent non-executive directors of the Company are Mr. Sun Yu Guo, Mr. Qi Qing Zhong and Ms. Zheng Yu.

* *For identification purposes only*