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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 OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS OF 2020 INTERIM RESULTS

- The Group's revenue increased to approximately RMB8,168.6 million (1H 2019: RMB7,703.5 million), which represents an increase of 6.0%. The increase in revenue was primarily due to increased revenue contribution from high-end amino acid, xanthan gum, lysine and corn refined products as compared to the corresponding period of 2019.
- Gross profit of the Group decreased from approximately RMB1,673.4 million in the first half of 2019 to approximately RMB1,469.2 million in the first half of 2020. This represents a decrease of 12.2%, primarily due to the decreases in the ASP and gross profit margin of MSG. The pressures on sales and price exerted by the flagging domestic consumption and economic downturn caused by the Coronavirus Disease 2019 ("COVID-19") pandemic. In addition, the cost pressure caused by the higher-than-expected increase in corn price.
- Profit attributable to the Shareholders decreased by 38.1% to approximately RMB379.3 million for the six months ended 30 June 2020.
- Earnings per Share – basic and diluted for the first half of 2020 were HK16.52 cents and HK16.52 cents, respectively (1H 2019: HK27.42 cents and HK27.41 cents).

- Return on equity for the first half of 2020 was 6.6%* (1H 2019: 11.0%*).
 - Interim dividend of HK5.8 cents per Share declared by the Board.
- * calculated on an annualised basis

INTERIM FINANCIAL RESULTS

The board of directors (the “Board”) of Fufeng Group Limited (the “Company”) announces the unaudited interim financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2020. The interim financial results have been reviewed by the Company’s Audit Committee.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2020	31 December 2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	7	10,081,828	10,457,268
Right-of-use assets	8	776,178	778,591
Intangible assets	7	45,761	40,663
Investments accounted for using the equity method		21,964	28,187
Financial assets at fair value through profit or loss	5	2,000	–
Derivative financial instruments	5	25,833	14,649
Deferred income tax assets		119,811	146,638
Total non-current assets		11,073,375	11,465,996
Current assets			
Inventories		3,021,751	3,627,147
Trade, other receivables and prepayments	9	2,704,368	2,484,697
Financial assets at fair value through profit or loss	5	800,000	–
Cash and bank balances	10	1,846,269	1,880,771
Total current assets		8,372,388	7,992,615
Total assets		19,445,763	19,458,611

		30 June 2020	31 December 2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Other payables	13	64,805	63,148
Deferred income		713,242	710,281
Borrowings	12	2,046,343	2,449,380
Lease liabilities	8	57	497
Deferred income tax liabilities		36,650	40,650
Derivative financial instruments	5	6,253	6,880
Total non-current liabilities		2,867,350	3,270,836
Current liabilities			
Trade, other payables and accruals	13	2,707,426	3,148,996
Contract liabilities		423,367	624,714
Current income tax liabilities		48,502	101,593
Borrowings	12	1,830,149	935,170
Lease liabilities	8	824	833
Total current liabilities		5,010,268	4,811,306
Total liabilities		7,877,618	8,082,142
EQUITY			
Capital and reserves attributable to the shareholders			
Share capital	11	243,261	243,261
Share premium	11	478,693	663,634
Other reserves		654,387	665,819
Retained earnings		10,191,804	9,803,755
Total equity		11,568,145	11,376,469
Total equity and liabilities		19,445,763	19,458,611

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Fufeng Group Limited (the “Company”) and its subsidiaries (together, the “Group”) manufacture and sell fermentation-based food additive, biochemical products and starch-based products. The Group has manufacturing plants in Shandong Province, Shaanxi Province, Jiangsu Province, Heilongjiang Province, Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region of the People’s Republic of China (the “PRC”) and sells mainly to customers located in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company has its shares listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial report is presented in RMB, unless otherwise stated, and was approved for issue on 18 August 2020 by the Board of Directors.

This condensed consolidated interim financial report has not been audited.

Significant events and transactions

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

2. BASIS OF PREPARATION

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2020 has been prepared in accordance with HKAS 34, “Interim Financial Reporting”. The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019, which have been prepared in accordance with HKFRS.

3. ACCOUNTING POLICIES

The accounting policies in this condensed financial report applied are consistent with those of the annual financial statements for the year ended 31 December 2019 except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies and make retrospective adjustments as a result of adopting these standards.

		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to HKFRS 16	Covid-19-related Rent Concessions	1 June 2020

(b) New standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

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

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

4. ESTIMATES

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

In preparing this condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

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

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.

(ii) *Impairment of financial assets*

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

While deposit with banks, including term deposits and restricted bank deposits, notes receivables and loan to a third party are also subject to the impairment requirements of HKFRS 9, identified impairment loss was immaterial.

Trade receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 30 June 2020 or 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the business, financial or economic conditions of the customers and the performance and behaviour of customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 30 June 2020 and 31 December 2019 was determined as follows for trade receivables:

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

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

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

Other financial assets at amortised cost

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

Net impairment losses on financial assets recognised in profit and loss

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

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

5.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and available credit facilities to meet obligations when they arise.

Management monitors the funding requirements of the Group and the availability of credit facilities in order to ensure the liquidity of the Group.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

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

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

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

Contractual maturities of financial liabilities	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total contractual cash flows <i>RMB'000</i>
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The Group

At 31 December 2019

Non-derivatives

Borrowings	938,810	2,232,401	242,820	–	3,414,031
Interests payments on borrowings (i)	167,346	139,883	6,810	–	314,039
Lease liabilities	975	484	31	–	1,490
Trade and other payables (excluding non-financial liabilities)	<u>2,784,162</u>	<u>–</u>	<u>17,100</u>	<u>65,130</u>	<u>2,866,392</u>
Total non-derivatives	<u><u>3,891,293</u></u>	<u><u>2,372,768</u></u>	<u><u>266,761</u></u>	<u><u>65,130</u></u>	<u><u>6,595,952</u></u>

Derivatives

Gross settled (cross currency swaps)					
– (inflow)	(89,794)	(116,214)	(243,360)	–	(449,368)
– outflow	<u>92,919</u>	<u>119,721</u>	<u>249,630</u>	<u>–</u>	<u>462,270</u>
	<u>3,125</u>	<u>3,507</u>	<u>6,270</u>	<u>–</u>	<u>12,902</u>
Total	<u><u>3,894,418</u></u>	<u><u>2,376,275</u></u>	<u><u>273,031</u></u>	<u><u>65,130</u></u>	<u><u>6,608,854</u></u>

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

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		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
	Note				
At 30 June 2020					
Financial assets					
Derivative financial instruments		-	-	25,833	25,833
Financial assets measured at FVPL					
– Equity investments*		-	-	2,000	2,000
– Structured deposit**		-	-	800,000	800,000
Notes receivable measured at FVOCI	9(c)	-	-	691,175	691,175
Total financial assets		-	-	1,519,008	1,519,008
Financial liabilities					
Derivative financial instruments		-	-	6,253	6,253
At 31 December 2019					
Financial assets					
Derivative financial instruments		-	-	14,649	14,649
Notes receivable measured at FVOCI	9(c)	-	-	972,971	972,971
Total financial assets		-	-	987,620	987,620
Financial liabilities					
Derivative financial instruments		-	-	6,880	6,880

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

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

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

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.

6. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2019			
Opening net book amount at 1 January 2019	10,309,977	30,745	10,340,722
Additions	675,379	7,383	682,762
Disposals	(3,385)	–	(3,385)
Depreciation and amortisation	(552,468)	(2,545)	(555,013)
Closing net book amount at 30 June 2019	<u>10,429,503</u>	<u>35,583</u>	<u>10,465,086</u>
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)
Closing net book amount at 30 June 2020	<u>10,081,828</u>	<u>45,761</u>	<u>10,127,589</u>

8. LEASES

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

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

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

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

(a) Leasehold land-use rights

	Leasehold land-use rights RMB'000
Six months ended 30 June 2019	
Opening net book amount at 1 January 2019	778,558
Additions	469
Depreciation and amortisation	<u>(8,399)</u>
Closing net book amount at 30 June 2019	<u>770,628</u>
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	<u>(9,044)</u>
Closing net book amount at 30 June 2020	<u>775,179</u>

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

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

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

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

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

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 1 to 3 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

9. TRADE, OTHER RECEIVABLES AND PREPAYMENTS

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

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

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

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

- (b) The loan to a third party was arranged via a financial trust company, which is due for collection within 1 year from the balance sheet date. The interest rate on the loan during the six months ended 30 June 2020 was 13.45% per annum.

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

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

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.

10. CASH AND BANK BALANCES

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

11. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised shares '000	Number of issued and fully paid shares '000	Amount		
			Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Opening balance at 1 January 2019	10,000,000	2,546,734	244,436	1,430,479	1,674,915
Dividends	–	–	–	(513,585)	(513,585)
Repurchase of shares of the Company (a)	–	(3,400)	(299)	(10,918)	(11,217)
At 30 June 2019	10,000,000	2,543,334	244,137	905,976	1,150,113
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	10,000,000	2,533,639	243,261	478,693	721,954

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

12. BORROWINGS

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

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

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

Movements in borrowings were analysed as follows:

	RMB'000
Six months ended 30 June 2019	
Opening amount as at 1 January 2019	4,010,552
New borrowings	2,087,000
Repayments of bank borrowings	(2,037,699)
Redemption of USD bonds	(8,364)
Amortisation of transaction cost	8,205
Exchange differences	4,990
Closing amount as at 30 June 2019	4,064,684
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
Closing amount as at 30 June 2020	3,876,492

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

(a) Loan covenants

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

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

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

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

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

13. TRADE, OTHER PAYABLES AND ACCRUALS

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

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

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

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

14. OTHER INCOME

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

15. OPERATING PROFIT

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

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

16. FINANCE INCOME AND COSTS

	Half-year 2020 RMB'000	2019 RMB'000
<i>Finance income:</i>		
Interest income from financial assets held for cash management purposes		
– bank deposits and bank balances	(20,268)	(33,549)
– financial assets at amortised cost	(4,399)	(6,997)
	<u>(24,667)</u>	<u>(40,546)</u>
<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	45,419	45,290
– USD bonds	65,002	67,683
– leasing liabilities	28	49
– other payables	1,657	1,574
Foreign exchange losses on financing activities	21,071	3,683
	<u>133,177</u>	<u>118,279</u>
Net finance costs	<u>108,510</u>	<u>77,733</u>

17. INCOME TAX EXPENSE

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

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

Hong Kong enterprise income tax is calculated based on the effective tax rate on assessable profit of subsidiaries established in Hong Kong in accordance with Hong Kong tax laws and regulations.

PRC enterprise income tax is calculated based on the effective tax rate on assessable profit of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

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

Singapore enterprise income tax is calculated based on the assessable profit of the subsidiary established in Singapore in accordance with Singapore tax laws and regulations.

The U.S. enterprise income tax is calculated based on the assessable profit of the subsidiary established in the U.S. in accordance with the U.S. tax laws and regulations.

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

18. EARNINGS PER SHARE

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

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming the conversion of all dilutive potential ordinary shares.

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

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

19. DIVIDENDS

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

At a meeting held on 18 August 2020, the Board proposed an interim dividend of HKD146,951,000 (equivalent to RMB132,256,000) (1H2019: HKD236,530,000 (equivalent to RMB212,196,000)), representing HK5.8 cents (equivalent to RMB5.22 cents) (1H2019: HK9.3 cents (equivalent to RMB8.34 cents)) per share. This interim dividend has not been recognized as a dividend payable in this interim financial information, but will be recognized as an appropriation of share premium for the year ending 31 December 2020.

20. CONTINGENT LIABILITIES

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

21. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Transactions with related parties

The following transactions occurred with related parties:

Continuing connected transaction

	Half-year 2020 RMB'000	2019 RMB'000
Sales of products to a related party*	<u>–</u>	<u>36,231</u>

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

(b) Key management compensation

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

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

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

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

Other payables to a related party

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

(d) Terms and conditions

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

22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

BUSINESS AND FINANCIAL REVIEW

Overview

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

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

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

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

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

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

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

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

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

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

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

As the leader in the industry, the Group managed to achieve stable development for its core business and also further consolidated its leading position in the market. In addition, the Group made considerable efforts in developing high-value fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group. We continued to actively strengthen our competitiveness by constantly improving the production technology to achieve better cost effectiveness and strategically utilising the production facility and capacity of each plant in order to meet market demand.

The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. We actively explored the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty, and food additives mainly as starch sweeteners, in order to improve product diversity and increase sales and penetration in the health and wellness, pharmaceutical and skincare related industries.

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

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

As for Animal nutrition products, the weak market conditions continued. In response to the weak market demand in the overseas markets due to the COVID-19 pandemic, we have taken some corresponding countermeasures, allowing us to meet the demand of our customers, as well as reducing the negative impact on our profitability. These countermeasures include: 1) accepting orders that meet a set price, so as to focus on those customers that have high demand for high-end products; and 2) readjusting product mix to meet different market demands by modifying some of our production processes.

Business performance analysis by major product segments

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

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

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

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

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

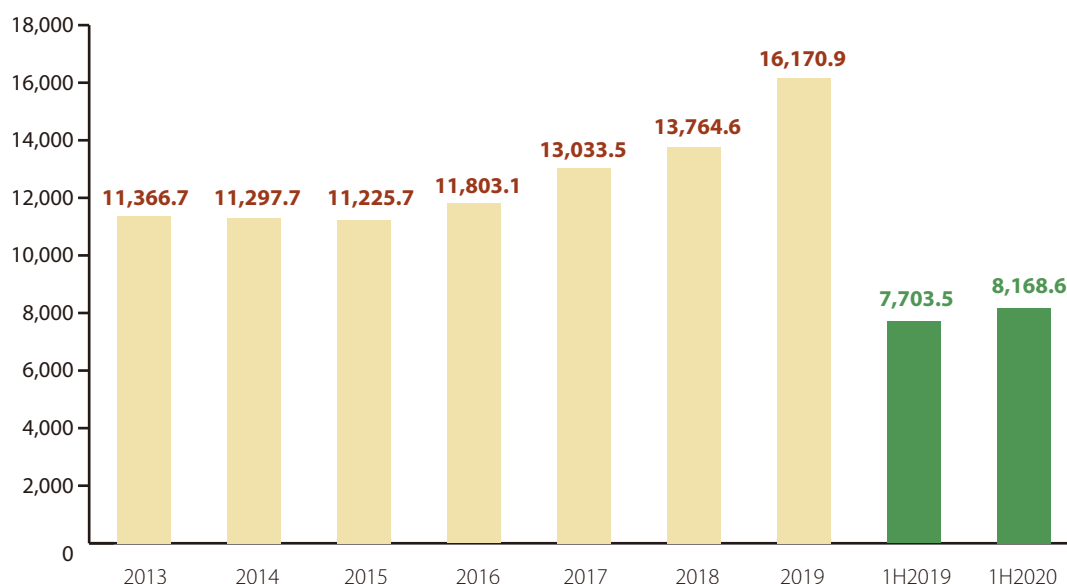
However, the performance of lysine products was not satisfactory mainly due to the fierce market competition. The ASP of lysine products in the first half of 2020 decreased as compared to the corresponding period of 2019. The significant increase in sales volume was due to the fact that we launched the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

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

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

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

RMB (Million)



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

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

Food additives segment

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

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

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

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

Animal nutrition segment

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

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

High-end amino acid segment

The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. In the first half of 2020, sales of high-end amino acid products reached approximately RMB453.2 million, representing an increase of 16.0% as compared to the corresponding period of 2019. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. The goal of the Group is to become the clear market leader by market share for several of our key amino acid products. The development and production of these products will add further diversity to the Group's product and revenue mix. The Group also plans to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end products.

Colloid segment

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

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

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

Operational Review of the Group

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

Turnover/Gross profit/Gross profit margin of the Group

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

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

Profit attributable to the Shareholders

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

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

Business highlights

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

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

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

For the six months ended 30 June 2020

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

For the six months ended 30 June 2019

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

Revenue and ASP

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

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

Food additives

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

MSG

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

Starch sweeteners

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

Animal nutrition

Threonine

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

Corn refined products

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

Lysine

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

High-end amino acid products

The total sales amount of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, increased to approximately RMB453.2 million in the first half of 2020 as compared to approximately RMB390.7 million in the first half of 2019. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end amino acid products by capitalising on our research and development capabilities and resources.

Colloids

Xanthan gum

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

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

Other related products

Fertilisers

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

Gross Profit and Gross Profit Margin

The gross profit is set out below:

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

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

Decreasing gross profit contribution was mainly due to

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

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

Production costs

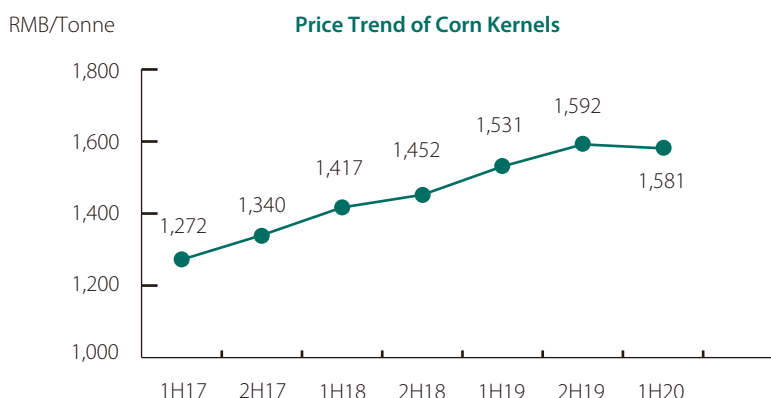
	Six months ended 30 June				Change
	2020		2019		
	RMB'000	%	RMB'000	%	%
Major raw materials					
• Corn kernels	3,829,370	55.1	3,257,119	52.9	17.6
• Liquid ammonia	157,729	2.3	86,016	1.4	83.4
• Sulphuric acid	25,048	0.4	44,171	0.7	(43.3)
• Soybeans	27,737	0.4	18,023	0.3	53.9
Energy					
• Coal	1,045,799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

Corn kernels

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

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

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



Liquid ammonia

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

Sulphuric acid

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

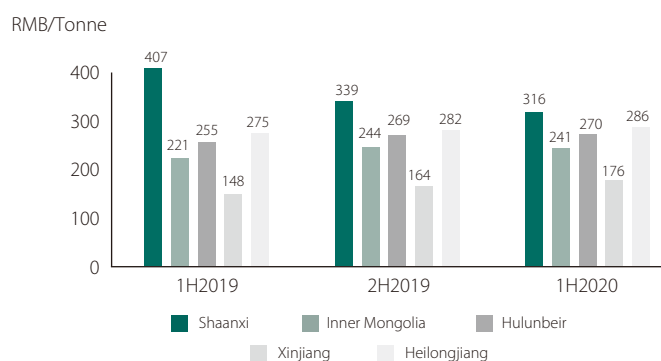
Soybeans

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

Coal

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

The Group's major production plants in Shaanxi, Inner Mongolia, Hulunbeir, Xinjiang and Heilongjiang, with access to lower-cost coal in the regions, are instrumental in strengthening the Group's pricing power. The chart below shows coal costs at each of our plants in Shaanxi, Inner Mongolia, Hulunbeir, Xinjiang and Heilongjiang:



Other production costs

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

Production

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

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

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

Analysis of Capacity Usage of Major Product Lines

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

Other Financial Information

Other income

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

Selling and marketing expenses

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

Administrative expenses

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

Finance costs

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

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

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

Depreciation

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

Income tax expense

The income tax expenses for the six months ended 30 June 2020 mainly represented the PRC Enterprise Income Tax (“EIT”). Seven subsidiaries of the Group, including Hulunbeir Fufeng, Shandong Fufeng, Shenhua Pharmaceutical, Baoji Fufeng, IM Fufeng, Xinjiang Fufeng and Longjiang Fufeng have obtained the approvals to become a new and high-technology enterprise and had been entitled to a preferential income tax rate of 15% (1H 2019: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

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

Four subsidiaries of the Group, including Baoji Fufeng, IM Fufeng, 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 2019: 15%).

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

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

Future Plan and Recent Development

Outlook and Future Plan

1. We expect that the second half of the year to remain challenging. We as the market leader will further strengthen our leading role to accelerate the industry consolidation.
2. We will rapidly launch some supporting facilities with an aim to further lower our production costs.

3. We will upgrade our information systems in order to improve operational management efficiency.
4. We will build a high performance team through staff training and talent recruitment to achieve systematic and highly efficient operating performance.
5. We will further reduce costs and enhance competitiveness of high-end amino acid products through the improvement of production technology and processes.

Liquidity and Financial Resources

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

USD Bonds

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

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

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

Material acquisition or disposal of subsidiary and associated company

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

Employees

As at 30 June 2020, the Group had approximately 13,100 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Contingent Liabilities

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

Charges on assets

As at 30 June 2020, structured deposits, recognised as financial assets measured at fair value through profit or loss amounting to RMB800.0 million (31 December 2019: Nil) were pledged to certain banks to secure bank borrowings of RMB800.0 million (31 December 2019: Nil) of the Group.

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

Gearing ratio

As at 30 June 2020, the total assets of the Group amounted to approximately RMB19,445.8 million (31 December 2019: RMB19,458.6 million) whereas the total borrowings amounted to RMB3,876.5 million (31 December 2019: RMB3,384.6 million). The gearing ratio was approximately 19.9% (31 December 2019: 17.4%), which is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

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

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

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

Dividend

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

Closure of register of members

The register of members of the Company will be closed from Wednesday, 16 September 2020 to Friday, 18 September 2020 (both dates inclusive), during which no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited at level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 15 September 2020.

OTHER INFORMATION

Corporate governance

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. For the six months ended 30 June 2020, the Company has complied with the Code Provisions of the Revised CG Code except for the following: Code provision A.6.7 of the Revised CG Code: The Independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company.

Due to other commitments, Ms. Zheng Yu and Mr. Xu Zheng Hong, independent non-executive Directors, did not attend the annual general meeting of the Company held on 28 May 2020. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2020.

Model code for securities transactions by Directors

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

Purchase, redemption or sale of securities of the Company

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

Event after the reporting period

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

By order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Hong Kong, 18 August 2020

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

GLOSSARY

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技股份有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Fufeng	內蒙古阜豐生物科技股份有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Longjiang Fufeng	齊齊哈爾龍江阜豐生物科技股份有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Longjiang Plant	the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules

MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PRC	the People's Republic of China, which for the purpose of this announcement 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.), and 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