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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS OF 2020 GROUP RESULTS

- The Group continued to be confronted with challenges in 2020. The Group’s overall turnover slightly increased, but with a decline in gross profit, mainly due to the effects of the Group’s internationalisation strategy and supply strategy of flexible scheduling in domestic and overseas markets, which minimised the impact of the COVID-19 pandemic; and a diversified product portfolio hedging cyclical risks, with increased sales of animal nutrition and high-end amino acid products.
- The decrease in gross profit was mainly due to the relatively large and sustained increase in major raw material costs, particularly the cost of corn kernel, which put pressure on the production cost.
- Overall revenue increased by 3.2% to approximately RMB16,690.7 million in 2020 (2019: RMB16,170.9 million). The increase in revenue was primarily due to increased revenue contribution from animal nutrition products, including corn refined products, threonine and lysine, and from high-end amino acid products.
- The Group’s overall gross profit decreased by 13.6% to approximately RMB2,816.4 million (2019: RMB3,260.6 million), primarily due to the increase in major raw material costs, such as corn kernel.
- Profit attributable to the Shareholders amounted to approximately RMB629.9 million, which represented a decrease of 44.6% as compared to 2019.

- Earnings per share (Basic) was RMB24.86 cents (2019: RMB44.75 cents)
- Return on equity was 5.4% (2019: 10.0%).
- Final dividend of HK4.1 cents (2019: HK8.0 cents) per share has been recommended by the Board.
- The sum of paid interim dividend and proposed final dividend is HK9.9 cents per share (2019: HK17.3 cents).

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group prepared under HKFRS for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	<i>Note</i>	Years ended 31 December	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	16,690,736	16,170,850
Cost of sales		(13,874,382)	(12,910,216)
Gross profit		2,816,354	3,260,634
Selling and marketing expenses		(1,384,993)	(1,325,638)
Administrative expenses		(816,618)	(826,447)
Net impairment losses on financial assets		(11,344)	(37,869)
Other operating expenses		(21,572)	(23,993)
Other income	4	381,594	447,695
Other (losses)/gains – net	5	(166,942)	58,299
Operating profit		796,479	1,552,681
Finance income	6	189,585	103,118
Finance costs	6	(206,058)	(253,268)
Finance costs – net	6	(16,473)	(150,150)
Share of net loss of associates accounted for using the equity method		(9,369)	(3,267)
Profit before income tax		770,637	1,399,264
Income tax expense	7	(140,736)	(262,041)
Profit for the year attributable to the shareholders		629,901	1,137,223
Earnings per share for profit attributable to the shareholders during the year <i>(expressed in RMB cents per share)</i>			
– basic	8	24.86	44.75
– diluted	8	24.86	44.74

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		9,748,815	10,457,268
Right-of-use assets		766,778	778,591
Intangible assets		50,751	40,663
Investments accounted for using the equity method		18,818	28,187
Financial assets at fair value through profit and loss		2,000	–
Derivative financial instruments		–	14,649
Prepayment		51,189	–
Deferred income tax assets		123,353	146,638
Total non-current assets		10,761,704	11,465,996
Current assets			
Inventories		3,781,228	3,627,147
Trade, other receivables and prepayments	10	3,581,559	2,484,697
Cash and bank balances		1,231,202	1,880,771
Total current assets		8,593,989	7,992,615
Total assets		19,355,693	19,458,611
EQUITY			
Capital and reserves attributable to the shareholders			
Share capital		243,261	243,261
Share premium		346,437	663,634
Other reserves		715,879	665,819
Retained earnings		10,383,829	9,803,755
Total equity		11,689,406	11,376,469

		As at 31 December	
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Other payables	<i>11</i>	66,461	63,148
Deferred income	<i>13</i>	818,450	710,281
Borrowings	<i>12</i>	464,427	2,449,380
Lease liabilities		29	497
Deferred income tax liabilities		26,650	40,650
Derivative financial instruments		25,031	6,880
		<hr/>	<hr/>
Total non-current liabilities		1,401,048	3,270,836
		<hr/>	<hr/>
Current liabilities			
Trade, other payables and accruals	<i>11</i>	2,609,315	3,148,996
Contract liabilities	<i>3</i>	505,105	624,714
Current income tax liabilities		84,510	101,593
Borrowings	<i>12</i>	3,008,801	935,170
Lease liabilities		390	833
Derivative financial instruments		57,118	–
		<hr/>	<hr/>
Total current liabilities		6,265,239	4,811,306
		<hr/>	<hr/>
Total liabilities		7,666,287	8,082,142
		<hr/>	<hr/>
Total equity and liabilities		19,355,693	19,458,611
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Fufeng Group Limited and its subsidiaries.

1.1 Basis of preparation

(i) *Compliance with HKFRS and HKCO*

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except that certain financial assets and liabilities (including derivative instruments) are measured at fair value.

(iii) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- *Definition of Material – amendments to HKAS 1 and HKAS 8*
- *Definition of a Business – amendments to HKFRS 3*
- *Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7*
- *Revised Conceptual Framework for Financial Reporting*

The Group also elected to adopt the following amendments early:

- *Covid-19-Related Rent Concessions – amendments to HKFRS 16*

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

2.1 Provision for impairment of trade and other receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

2.2 Estimated impairment of property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of cash-generating unit has been determined based on the higher of value in use and fair value less costs to sell. Property, plant and equipment that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement. If there is an indication that an impairment loss may have decreased, the recoverable amount should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

2.3 Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. For deferred government grants related to the acquisition of property, plant and equipment, the periodic credits to consolidated income statement will also be increased under the above mentioned circumstances when such grants are credited to the consolidated income statement over the assets' remaining useful lives.

2.4 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each reporting date.

2.5 PRC taxes

The Group is mainly subject to different taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the tax and deferred tax provisions in the period in which such determination is made.

3. SEGMENT INFORMATION

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

The executive directors examine the business performance of the Group according to the following product segments:

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

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

The revenue of the Group for the years ended 31 December 2020 and 2019 are set out as follows:

Products by segments	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Food additives		
MSG	7,191,798	7,743,897
Starch sweeteners	1,388,796	1,627,811
Glutamic acid	416,344	399,343
Compound seasoning	55,699	41,981
Corn oil	5,937	5,800
	9,058,574	9,818,832
Animal nutrition		
Corn refined products	2,816,820	2,170,209
Threonine	1,279,870	1,196,217
Lysine	974,133	523,517
	5,070,823	3,889,943
High-end amino acid		
High-end amino acid products	943,406	808,252
Colloid		
Xanthan gum	821,294	890,898
Gellan gum	60,202	48,430
	881,496	939,328
Others		
Fertilisers	384,207	283,803
Synthetic ammonia	182,676	254,893
Pharmaceuticals	153,061	157,622
Others	16,493	18,177
	736,437	714,495
	16,690,736	16,170,850

The segment information for the year ended 31 December 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	9,058,574	5,070,823	943,406	881,496	736,437	16,690,736
Cost of sales	(7,632,150)	(4,390,690)	(596,859)	(686,642)	(568,041)	(13,874,382)
Gross profit	<u>1,426,424</u>	<u>680,133</u>	<u>346,547</u>	<u>194,854</u>	<u>168,396</u>	<u>2,816,354</u>

The segment information for the year ended 31 December 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	9,818,832	3,889,943	808,252	939,328	714,495	16,170,850
Cost of sales	(7,691,516)	(3,440,626)	(541,335)	(689,265)	(547,474)	(12,910,216)
Gross profit	<u>2,127,316</u>	<u>449,317</u>	<u>266,917</u>	<u>250,063</u>	<u>167,021</u>	<u>3,260,634</u>

The Group's revenue from its external customers in the PRC amounted to RMB11,900,485,000 (2019: RMB11,699,633,000) and the total revenue from external customers in Europe and other countries amounted to RMB4,790,251,000 (2019: RMB4,471,217,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets and derivative financial instruments amounted to RMB10,637,650,000 (2019: RMB11,302,866,000), and the total non-current assets located in Hong Kong, the United States of America and Singapore other than deferred income tax assets and derivative financial instruments amounted to RMB701,000 (2019: RMB1,843,000).

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following geographical regions:

2020	Sales of goods		
	Overseas <i>RMB'000</i>	PRC <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>4,790,251</u>	<u>11,900,485</u>	<u>16,690,736</u>
Timing of revenue recognition			
At a point in time	<u>4,790,251</u>	<u>11,900,485</u>	<u>16,690,736</u>
2019	Sales of goods		
	Overseas <i>RMB'000</i>	PRC <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>4,471,217</u>	<u>11,699,633</u>	<u>16,170,850</u>
Timing of revenue recognition			
At a point in time	<u>4,471,217</u>	<u>11,699,633</u>	<u>16,170,850</u>

Approximately 71% (2019: 72%) of the Group's revenue is generated from sales to customers in the PRC. The remaining 29% (2019: 28%) of the Group's revenue is generated from the sales to overseas countries including the Europe, the Vietnam, the Latin America, Thailand, the United States of America and Kingdom of Saudi Arabia.

Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Contract liabilities – sales of goods	505,105	624,714

(i) *Changes in contract liabilities*

The decrease in 2020 was due to the decrease in advance from customers.

In the current reporting period, all the contract liability at the beginning of the period were recognized as revenue.

4. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Amortisation of deferred income (<i>Note 13</i>)	89,267	160,184
Government grants related to expenses	81,899	112,636
Sales of waste products	164,209	127,154
Others	46,219	47,721
	381,594	447,695

Government grants relating to expenses are deferred and recognised in the profit or loss over the period necessary to match them with the expenses that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

5. OTHER (LOSSES)/GAINS – NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loss on disposal of property, plant and equipment – net	(6,220)	(2,370)
Net loss on compensation from insurance company	–	(3,121)
Net foreign exchange (losses)/gains	(77,115)	17,903
Fair value (losses)/gains on changes in fair value of derivative financial instruments	(83,607)	37,651
Gain on disposal of financial assets at fair value through profit or loss	–	1,624
Loss on prepayments	–	(8,667)
Negative goodwill gained from acquisition	–	15,369
Others	–	(90)
	<u>(166,942)</u>	<u>58,299</u>

6. FINANCE INCOME AND COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Finance income:</i>		
Interest income on bank deposits and bank balances	43,648	103,118
Net foreign exchange gains on financing activities	145,937	–
	<u>189,585</u>	<u>103,118</u>
<i>Finance costs:</i>		
Interest expense		
– Bank borrowings	(88,946)	(71,573)
– USD bonds	(117,068)	(137,640)
Interest charges paid for lease liabilities	(44)	(88)
Net foreign exchange losses on financing activities	–	(52,111)
	<u>(206,058)</u>	<u>(261,412)</u>
Amount capitalised (i)	–	8,144
Finance costs expensed	<u>(206,058)</u>	<u>(253,268)</u>
Net finance costs	<u>(16,473)</u>	<u>(150,150)</u>

(i) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, which was 5.17% for the year ended 31 December 2019.

7. TAXATION

(a) Income tax expense

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current income tax		
– PRC enterprise income tax (“EIT”)	131,289	203,672
– Hong Kong income tax	–	(4,098)
– US income tax	162	1,466
	<hr/>	<hr/>
Total current income tax	131,451	201,040
Deferred income tax	9,285	61,001
	<hr/>	<hr/>
	140,736	262,041

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

The Group’s subsidiaries in BVI are exempted from payment of the BVI income tax.

The Group’s subsidiaries in Hong Kong are subject to income tax at a rate of 8.25% (2019: 8.25%) on the estimated assessable profit for the year ended 31 December 2020.

The Group’s subsidiary in Singapore is subject to income tax at a rate of 17% (2019: 17%) for the year ended 31 December 2020.

The Group’s subsidiaries in United States is subject to state income tax at a rate of approximately 8.84% and 9.5% (2019: 8.84%) and federal income tax at a rate of approximately 21% (2019: 21%) on the estimated assessable profit for the year ended 31 December 2020.

The Group’s subsidiaries in the PRC are subject to PRC EIT which is calculated based on the applicable tax rate of 25% (2019: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations except for those as discussed below:

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 are entitled to a preferential income tax rate of 15% (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 Hulunbeir Fufeng, Baoji Fufeng, IM Fufeng and Xinjiang Fufeng, are set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the aforesaid preferential tax rate of 15% (2019: 15%).

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before income tax expense	<u>770,637</u>	<u>1,399,264</u>
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	227,104	380,375
Preferential tax of certain subsidiaries	(75,854)	(109,718)
Research and development tax credit	(33,645)	(44,175)
Unrecognised tax losses	22,335	34,861
Expenses not deductible for tax purposes	944	902
Income not subject to tax	(148)	(204)
	<u><u>140,736</u></u>	<u><u>262,041</u></u>

8. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	2020 <i>RMB cents</i>	2019 <i>RMB cents</i>
Total basic earnings per share attributable to the shareholders	<u><u>24.86</u></u>	<u><u>44.75</u></u>

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2020 <i>RMB cents</i>	2019 <i>RMB cents</i>
Total diluted earnings per share attributable to the shareholders	<u><u>24.86</u></u>	<u><u>44.74</u></u>

(c) **Reconciliations of earnings used in calculating earnings per share**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Basic earnings per share</i>		
Profit attributable to the shareholders used in calculating basic earnings per share	<u>629,901</u>	<u>1,137,223</u>
<i>Diluted earnings per share</i>		
Profit attributable to the shareholders used in calculating diluted earnings per share	<u>629,901</u>	<u>1,137,223</u>

(d) **Weighted average number of shares used as the denominator**

	2020	2019
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (<i>thousands</i>)	2,533,639	2,541,150
Adjustments for calculation of diluted earnings per share:		
– Assumed exercise of share options (<i>thousands</i>)	–	911
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (<i>thousands</i>)	<u>2,533,639</u>	<u>2,542,061</u>

(e) **Information concerning the classification of securities**

The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The 8,600,000 outstanding share options issued in November 2016, December 2016, August 2017 (2019: 8,100,000 outstanding share options issued in April 2015, 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 year ended 31 December 2020 did not exceed the exercise prices of each tranche of the share options, hence the share options are antidilutive for the year ended 31 December 2020. These options could potentially dilute basic earnings per share in the future.

9. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interim, paid	132,256	211,387
Final, proposed	87,003	184,941
	<u>219,259</u>	<u>396,328</u>

The final dividends paid in 2020 amounted to HKD202,691,000 (equivalent to RMB185,606,000) (2019: RMB513,585,000), representing HK8.0 cents (equivalent to RMB7.30 cents) (2019: RMB20.19 cents) per ordinary share of the Company. The difference between proposed and paid final dividends was due to the impact of exchange rate fluctuation.

At a meeting held on 25 March 2021, the Board proposed a final dividend of HKD103,879,000 (equivalent to RMB87,003,000) (2019: RMB184,941,000), representing HK4.10 cents (equivalent to RMB3.43 cents) (2019: RMB7.30 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2021.

10. TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables (a)	626,564	663,357
Less: provision for impairment loss allowance (b)	<u>(28,225)</u>	<u>(18,991)</u>
Trade receivables – net	598,339	644,366
Receivables arising from disposal of subsidiaries (c)	–	17,818
Receivables from former subsidiaries (d)	–	2,357
Deposits and others	34,571	38,710
Loan to a third party (e)	50,000	70,000
Loans to employees	1,184	1,432
Value-added tax for future deduction	<u>408,156</u>	<u>409,757</u>
Trade and other receivables excluding notes receivable and prepayments	1,092,250	1,184,440
Notes receivable (h)	723,478	972,971
Prepayments to suppliers	<u>1,817,020</u>	<u>327,286</u>
	3,632,748	2,484,697
Less: non-current portion		
Prepayments for non-current assets (i)	<u>(51,189)</u>	<u>–</u>
	<u>3,581,559</u>	<u>2,484,697</u>

- (a) As at 31 December 2020 and 2019, the ageing analysis of trade receivables (including amounts due from related party of trading nature) based on invoice date was as follows:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	591,253	599,413
3 ~12 months	31,326	57,761
Over 12 months	3,985	6,183
	<hr/> 626,564 <hr/>	<hr/> 663,357 <hr/>

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

- (b) Impairment and risk exposure

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

- (c) As at 31 December 2019, the balance of undiscounted receivables arising from the disposal of former subsidiaries Baoji Dingfeng Properties Co., Ltd. (“Baoji Dingfeng”) and Baoji Baofeng Properties Co., Ltd. (“Baoji Baofeng”) amounted to RMB17,923,000. The related impact of discounting amounting to RMB105,000 was considered based on the payment due dates set in the Share Transfer Agreements, resulting in a net balance of RMB17,818,000 as at 31 December 2019. The remaining receivable of RMB17,923,000 was fully collected in January 2020.
- (d) As at December 2019, Baoji Dingfeng and Baoji Baofeng had an amount of RMB2,357,000 payables to certain other subsidiary of the Group. The remaining balance of RMB2,357,000 was fully collected in January 2020.
- (e) 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. During the period ended 31 December 2020, RMB20,000,000 was collected and the remaining balance of RMB50,000,000 was renewed, which is due for collection within 1 year from the balance sheet date. The interest rate on the loan during the year ended 31 December 2020 was 13.45% per annum (2019: 13.45%).
- (f) Except for the loan to a third party as discussed above in Note(e), trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values as at the balance sheet date.

- (g) The carrying amounts of the Group's trade and other receivables excluding notes receivable and prepayments were denominated in the following currencies:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
– RMB	772,662	757,990
– USD	319,588	426,450
	1,092,250	1,184,440

The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

- (h) As at 31 December 2020, notes receivable were all bank acceptance notes aged less than six months, and included a total amount of RMB637,886,000 (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 fair value through other comprehensive income ("FVOCI").

	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Current assets		
Notes receivable measured at FVOCI	723,478	972,971

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

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

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

11. TRADE, OTHER PAYABLES AND ACCRUALS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables (a, b)	1,249,039	1,403,779
Payables for property, plant and equipment (b)	606,975	1,008,881
Bank acceptance notes payable	–	110
Salaries, wages and staff welfares payables	359,241	363,385
Interest payables	37,584	45,420
Dividends payable	407	407
Other payables and accruals	422,530	390,162
	<u>2,675,776</u>	<u>3,212,144</u>
Less: non-current portion		
Other payables (c)	(66,461)	(63,148)
	<u>2,609,315</u>	<u>3,148,996</u>

- (a) As at 31 December 2020 and 2019, the ageing analysis of trade payables based on invoice date was as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	1,064,031	1,175,515
3 to 6 months	38,902	139,512
6 to 12 months	18,027	22,435
1 to 2 years	94,306	25,149
Over 2 years	33,773	41,168
	<u>1,249,039</u>	<u>1,403,779</u>

- (b) As disclosed in Note 10(h), notes receivable amounted to RMB637,886,000 (2019: RMB822,006,000) were endorsed to the suppliers of trade payables and payables for property, plant and equipment amounting to RMB473,821,000 and RMB164,065,000, respectively (2019: RMB559,135,000 and RMB262,871,000, respectively).
- (c) 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 year ended 31 December 2020 was 5.25% per annum (2019: 5.25% per annum).
- (d) Except for the borrowing from certain third parties as discussed in Note(c), trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in RMB.

12. BORROWINGS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current		
Bank borrowings, unsecured	464,427	261,202
USD bonds (b)	–	2,188,178
	<u>464,427</u>	<u>2,449,380</u>
Current		
Bank borrowings, unsecured	1,361,133	935,170
USD bonds (b)	1,647,668	–
	<u>3,008,801</u>	<u>935,170</u>
Total borrowings	<u><u>3,473,228</u></u>	<u><u>3,384,550</u></u>

(a) Borrowings

At 31 December 2020, the Group's borrowings were repayable as follows:

	Bank borrowings		USD bonds	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year	1,361,133	935,170	1,647,668	–
Between 1 and 2 years	464,427	–	–	2,188,178
Between 2 and 5 years	–	261,202	–	–
	<u>1,825,560</u>	<u>1,196,372</u>	<u>1,647,668</u>	<u>2,188,178</u>

The weighted average effective interest rates at the balance sheet dates were as follows:

	2020	2019
Bank borrowings	<u>4.50%</u>	<u>5.17%</u>

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

	Carrying amount		Fair value	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank borrowings, unsecured	464,427	261,202	461,933	266,101
USD bonds (b)	–	2,188,178	–	2,256,032
	<u>464,427</u>	<u>2,449,380</u>	<u>461,933</u>	<u>2,522,133</u>

The fair value of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 of the fair value hierarchy.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	1,319,407	851,203
USD	2,153,821	2,533,347
	3,473,228	3,384,550

(b) Loans other than bank borrowings

USD bonds issued in August 2018

In August 2018, the Company issued USD bonds at a par value of USD350,000,000, which was denominated in USD with a fixed interest rate of 5.875% per annum. The bonds will mature at 28 August 2021. The value of the liability, net of transaction costs of USD4,733,000, was determined at issuance of the bonds. During the year ended 31 December 2020, a total of USD62,799,000 (2019: USD1,250,000) of such USD bonds were early redeemed.

As at 31 December 2020, the balance of such USD bonds was USD253,336,000 (2019: USD316,135,000), and was reclassified to current borrowings.

13. DEFERRED INCOME

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants related to income tax credit from purchasing qualified equipment (a)	18,743	30,847
Government grants related to acquisition of environmental protection and technology improvement equipment (b)	799,707	679,434
	818,450	710,281

The movements of the above government grants for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	710,281	785,971
Granted during the year	197,436	84,494
Amortised as income (<i>Note 4</i>)	(89,267)	(160,184)
At end of the year	818,450	710,281

- (a) Government grants related to income tax credit from purchasing qualified equipment represented reduction in income tax granted to Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng, Xinjiang Fufeng and Longjiang Fufeng on the purchase of certain qualified equipment. Such income tax credits are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.
- (b) Government grants related to acquisition of environmental protection and technology improvement equipment are recorded as deferred income and amortised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

14. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred was as follows:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment		
– Contracted but not yet incurred	97,239	102,821

15. 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Acquisition of a company from a related party	–	44,900
Construction services purchased from a related party	–	510
Sales of products to a related party	–	60,320
	<u> </u>	<u> </u>

The above related party transactions were conducted with entities that are controlled by close family members of the controlling shareholder.

(b) Key management compensation

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries and allowances	15,842	19,038
Pension costs – defined contribution plan	708	811
Share options granted to key management	(1,869)	2,922
	<u> </u>	<u> </u>
	14,681	22,771
	<u> </u>	<u> </u>

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

(c) 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:

(1) *Other payables to a related party*

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
– A company controlled by a close family member of the controlling shareholder	26	3,758
	<u> </u>	<u> </u>

(d) Terms and conditions

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

BUSINESS AND FINANCIAL REVIEW

Overview

The COVID-19 pandemic has brought tremendous impacts to the world since 2020, as it adversely affected the way of life and economic activities. Despite the fact that the PRC was severely hit in the first quarter of 2020, economic activities began to recover gradually in the second quarter when the pandemic was brought under control, with a decelerated economic growth. However, the international market continues to suffer from the pandemic with a sharp fall in economic activities. China was the only major economy that recorded a positive GDP growth in 2020. Despite the uncertainties currently overshadowing the pandemic control across the globe, the introduction of vaccines has brought hope for the global economic recovery.

With its sound foundation, flexible adaptability and the perseverance of all staff, the Group has managed to ride out the unprecedented adversity.

Despite the challenging operating environment, the Group's overall turnover slightly increased, but profitability declined, mainly due to 1) benefiting from the Group's internationalisation 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 hedging cyclical risks, sales of animal nutrition and high-end amino acid products increased; and 3) our key product, MSG, despite the sales decline, still maintained a certain level of profitability.

The decrease in profit was mainly due to 1) the relatively large and sustained increase in corn price in the PRC since April 2020, which put pressure on the production cost; and 2) the increase in logistics costs incurred as we adjusted the supply strategy in domestic and overseas markets.

The major challenges facing the Group in 2020 are as follows:

1. Due to the COVID-19 outbreak, economic activities in the PRC were affected for a prolonged period in 2020, resulting in a weak consumer demand, particularly in the first three quarters.
2. Following the second quarter of 2020, prices of raw materials, particularly the corn kernels, increased significantly, greatly adding the cost pressure on the Group and affecting our operating performance.

The operating highlights of the Group in 2020 are mainly as follows:

1. Withstanding the challenges arising from the interference of the COVID-19 pandemic, the Group achieved its production and sales targets for the year, with increases in turnover and sales volume of our major products.
2. As for our technical and research and development capabilities at the company level, we further enhanced our overall technical capability and product quality, particularly in respect of high-end amino acid products. The breakthroughs in our technical and research and development capabilities for high-end amino acid products are conducive to our competitiveness in the long term.
3. Industrial concentration further increased due to the accelerated industrial consolidation during the COVID-19 pandemic.
4. The Group has further developed systematic and professional approaches to implement our management philosophy, standard and processes. Our management capabilities and efficiency have been further enhanced.
5. With years of commitment to environmental protection, we achieved satisfying results in environmental protection in 2020, creating a long-term positive impact on the Group's sustainable development.

During the COVID-19 pandemic, revenue of the Food additives segment only decreased slightly driven by our flexible sales strategy to meet market demand in the MSG sector. Due to the weak market conditions, the average selling price ("ASP") of MSG could not be increased despite the increasing costs of major raw materials, particularly the corn kernels, and therefore had a negative impact on our overall performance. The Group continued the enhancement of 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 still able to achieve stable results in terms of industry development and market competition.

The ASP of MSG was approximately RMB6,190 per tonne (2019: RMB6,941 per tonne), and the sales volume of MSG for the year ended 31 December 2020 increased to approximately 1,161,883 tonnes as compared to 1,115,608 tonnes in 2019. The increased sales volume offsetted part of the negative impact caused by the drop on the ASP of MSG in 2020.

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 utilise 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 and the impact of the oil industry slowdown. 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 decreased to approximately 56,646 tonnes in 2020, with decreased ASP and thereby added pressure to the gross profit margin of our xanthan gum products in 2020. The ASP of high-end amino acid was also affected due to the COVID-19 pandemic and a complex and changing international environment in 2020.

Animal nutrition products underwent a difficult time due to the sluggish feed industry and animal breeding industry as a result of the swine flu in 2019. The industry started to recover since the swine flu cases had significantly decreased during 2020. The sales volume and price of threonine were stable. However, the sales volume and price of lysine failed to meet our expectation due to stiff market competition.

As for Animal nutrition products, the market conditions demonstrated a positive trend to improve as compared to 2019. In response to the recovering market demand in the overseas markets and the COVID-19 pandemic, we took 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 2020 was approximately RMB6,190 per tonne, representing a decrease of approximately 10.8% as compared to 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 in the first three quarters of 2020. However, due to the significant increase in major raw material costs since the second half of 2020, the ASP of MSG has started upward trend from the 4th quarter of 2020. The sales volume was approximately 1,161,883 tonnes in 2020, representing an increase of approximately 4.1% as compared to 2019. We maintained a certain level of profitability despite the decrease in gross profit margin of MSG due to the 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 sales volume was approximately 536,763 tonnes, representing a decrease of approximately 17.4% as compared to 2019, mainly due to the impact of the COVID-19 pandemic and poor demand from downstream industries. And the price of corn kernel rose sharply, which caused the unit price of starch sweeteners to rise year-on-year. But, due to the weak market demand, unit selling price increase could not offset the effect from the increase of unit cost of major raw material. The ASP of starch sweeteners in 2020 was approximately RMB2,587 per tonne, representing a slight increase of approximately 3.3% as compared to 2019.

In terms of the Animal nutrition segment, the revenue of corn refined products increased to RMB2,816.8 million, representing an increase of 29.8% as compared to 2019. Affected by the swine flu in 2019, the pig breeding industry suffered heavy loss. In 2020, the domestic animal breeding industry was fully recovered, and the demand for animal feed-related products rose sharply.

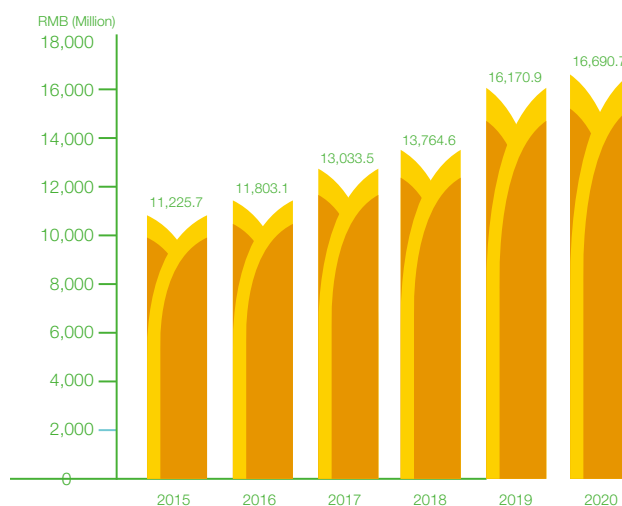
The ASP of threonine products in 2020 was approximately RMB6,903 per tonne, representing an increase of approximately 1.8% as compared to 2019. The sales volume was approximately 185,421 tonnes, representing an increase of approximately 5.1% as compared to 2019. The increase in ASP and sales volume of threonine was mainly due to the limited production in foreign countries affected by the COVID-19 pandemic, and some regions, such as Europe and the US, purchased a large amount of animal nutrition additives from China in 2020.

Due to the impact of COVID-19 pandemic, the sales of lysine was lower than our expectation. Sales volume of lysine grew due to limited production in foreign countries affected by the COVID-19 pandemic, increased market demand from foreign countries and our newly launched 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 2020 amounted to approximately RMB943.4 million, representing an increase of approximately 16.7% as compared to 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 downturn in the global oil industry, mainly due to the decline in the sales volume of xanthan gum for the exports of industrial grade (oil mining applications). The ASP of xanthan gum products in 2020 was RMB14,499 per tonne, representing a decrease of approximately 1.5% as compared to 2019. The sales volume was approximately 56,646 tonnes, representing a decrease of approximately 6.4% as compared to 2019.

The table below illustrates the trend of the Group’s revenue in the past six years:



For the year ended 31 December 2020, the Group's revenue increased by 3.2% to approximately RMB16,690.7 million as compared to approximately RMB16,170.9 million for the year ended 31 December 2019. The increase in revenue was primarily due to increased revenue contribution from animal nutrition products, including corn refined products, threonine and lysine, and from high-end amino acid products.

The Group's overall gross profit decreased by 13.6% from approximately RMB3,260.6 million in 2019 to approximately RMB2,816.4 million in 2020, primarily due to the increase in major raw material costs, such as corn kernel. As a result, gross profit margin of MSG and profit contribution from MSG and starch sweeteners, which are classified in Food additive segment, decreased.

Food additives segment

In 2020, the ASP of MSG decreased by 10.8% as compared to 2019, mainly 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 significantly during the year, particularly in the second half of 2020. However, the cost burden could not be passed on to customers by product pricing due to the weak market condition. As a result, gross profit margin decreased as compared to 2019.

The production volume of MSG increased by approximately 6.3% and sales volume increased by approximately 4.1% in 2020 as compared to 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 continuously investing in research and development.

The production volume and the sales volume of starch sweeteners decreased by approximately 22.3% and 17.4% in 2020 respectively as compared to 2019. The sales volume decreased due to the impact of the COVID-19 pandemic and weak market demand.

Animal nutrition segment

We continued to witness the sustained development of our animal nutrition products in 2020. The foreign market demand increased mainly due to the limited production in foreign countries affected by the COVID-19 pandemic, and some regions, such as Europe and the US, purchased a large amount of animal nutrition additives from China in 2020.

Threonine is a type of amino acid which is used as an animal feed additive. Total revenue of threonine reached approximately RMB1,279.9 million in 2020, representing an increase of 7.0% as compared to 2019. The Group sold about 185,421 tonnes of threonine in 2020 as compared to about 176,384 tonnes in 2019. The slight increase in ASP was mainly due to the effects of deteriorated market conditions caused by the COVID-19 pandemic and the easing situation of the swine flu in China in 2020. The gross profit contribution of threonine slightly decreased in the Animal nutrition segment.

On the other hand, due to the impact of COVID-19 pandemic, the sales 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 RMB974.1 million, increased by 86.1% in 2020 (2019: RMB523.5 million). The gross profit contribution of lysine increased in the Animal nutrition segment.

High-end amino acid segment

The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. In 2020, sales of high-end amino acid products reached approximately RMB943.4 million, representing an increase of 16.7% as compared to 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 decreased by 5.8% and the sales volume of xanthan gum decreased by 6.4% in 2020 as compared to 2019, respectively. The decreases in production and sales volume of xanthan gum were due to the fluctuating market conditions of the global oil industry. In addition, the market further weakened due to the global pandemic of COVID-19 since May of 2020.

The ASP of xanthan gum decreased by 1.5% as compared to 2019, due to the lackluster conditions of the global oil industry.

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

	Years ended 31 December		Change %
	2020	2019	
Turnover (<i>RMB'000</i>)	16,690,736	16,170,850	3.2
Gross profit (<i>RMB'000</i>)	2,816,354	3,260,634	(13.6)
Gross profit margin (%)	16.9	20.2	(3.3) ppts.

The overall weakness in the domestic economy continued and major raw material costs significantly increased in the second half of 2020, resulting in decreases in gross profit and gross profit margin of the Group's Food additives segment. The ASP of MSG decreased in 2020 and the effects from an increase in raw material costs, particularly the cost of corn kernels, were relatively high. Such increase in cost could not be passed on to customers under the weak market condition. Although the ASP of some main products, such as the animal nutrition products, increased slightly which was mainly due to the effect of offsetting part of the increasing major raw material cost, the overall gross profit of the Group decreased by 13.6% in 2020.

Profit attributable to the Shareholders

	Years ended 31 December		Change %
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	
As reported	629,901	1,137,223	(44.6)

Profit attributable to the shareholders decreased by 44.6% for the year ended 31 December 2020 as compared to 2019. The weak market conditions of the PRC and global economies were mainly due to the intensified Sino-US tensions and COVID-19 pandemic. In addition, the raw material costs, particularly the cost of corn kernels, increased significantly in the second half of 2020. The Group will closely monitor the market conditions and adopt agile 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 table below highlights the operating results:

	Years ended 31 December 2020 RMB'000	Years ended 31 December 2019 RMB'000	Increase/ (Decrease) %
Revenue	16,690,736	16,170,850	3.2
Gross profit	2,816,354	3,260,634	(13.6)
Gross profit margin	16.9%	20.2%	(3.3) ppts.
Operating results	629,901	1,137,223	(44.6)
Assets	19,355,693	19,458,611	(0.5)
Liabilities	7,666,287	8,082,142	(5.1)

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

Detailed sales and gross profit analysis by four major categories for the year ended 31 December 2020 and 2019.

For the year ended 31 December 2020

	Food additives RMB'000	Animal nutrition RMB'000	High-end amino acid RMB'000	Colloid RMB'000	Others RMB'000	Total RMB'000
Revenue	9,058,574	5,070,823	943,406	881,496	736,437	16,690,736
Gross profit	1,426,424	680,133	346,547	194,854	168,396	2,816,354
Gross profit margin	15.7%	13.4%	36.7%	22.1%	22.9%	16.9%

For the year ended 31 December 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	9,818,832	3,889,943	808,252	939,328	714,495	16,170,850
Gross profit	2,127,316	449,317	266,917	250,063	167,021	3,260,634
Gross profit margin	21.7%	11.6%	33.0%	26.6%	23.4%	20.2%

Revenue and ASP

The table below sets out the revenue of the Group by products for the years ended 31 December 2020 and 2019:

Product	Years ended 31 December		Change %
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	
Food additives			
MSG	7,191,798	7,743,897	(7.1)
Starch sweeteners	1,388,796	1,627,811	(14.7)
Glutamic acid	416,344	399,343	4.3
Compound seasoning	55,699	41,981	32.7
Corn oil	5,937	5,800	2.4
Animal nutrition			
Corn refined products	2,816,820	2,170,209	29.8
Threonine	1,279,870	1,196,217	7.0
Lysine	974,133	523,517	86.1
High-end amino acid			
High-end amino acid products	943,406	808,252	16.7
Colloid			
Xanthan gum	821,294	890,898	(7.8)
Gellan gum	60,202	48,430	24.3
Others			
Fertilisers	384,207	283,803	35.4
Synthetic ammonia	182,676	254,893	(28.3)
Pharmaceuticals	153,061	157,622	(2.9)
Others	16,493	18,177	(9.3)
	16,690,736	16,170,850	3.2

Food additives

Revenue generated from the sales of food additives products decreased to approximately RMB9,058.6 million in 2020, representing a decrease of approximately RMB760.3 million, or 7.7%, as compared to 2019, mainly due to the decrease in the revenue of MSG and starch sweeteners. The decreased revenue of MSG was primarily due to a decrease in the ASP of MSG during the year.

MSG

The MSG market environment deteriorated due to the COVID-19 pandemic. In addition, major raw material costs, particularly corn kernels, increased significantly during the year. 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 10.8%, from approximately RMB6,941 per tonne in 2019 to approximately RMB6,190 per tonne in 2020. The sales volume slightly increased by 4.1%, from approximately 1,115,608 tonnes in 2019 to approximately 1,161,883 tonnes in 2020. As a result, turnover of MSG decreased by 7.1% in 2020 as compared to 2019. In 2020, the Group continuously strengthened marketing efforts to promote U Fresh Series products to retail customers. Exports of MSG products decreased from about RMB1,494.4 million in 2019 to about RMB1,343.1 million in 2020.

Starch sweeteners

Turnover of starch sweeteners decreased by approximately 14.7% in 2020 as compared to 2019, which was primarily due to the weak market demand caused by the COVID-19 pandemic. Sales volume of starch sweeteners decreased by 17.4% to approximately 536,763 tonnes in 2020 as compare to 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 RMB2,504 per tonne in 2019 to approximately RMB2,587 per tonne in 2020. Due to the weak market demand, ASP increase could not offset the effect from the increasing major raw material costs.

Animal nutrition

Corn refined products

Bacterial protein is classified into the corn refined products category and the revenue of corn refined products increased by about 29.8% for the year ended 31 December 2020 as compared to 2019. This was mainly caused by the recovery of domestic animal breeding industry. Demand for animal feed-related products rose sharply and the ASP of bacterial protein increased. Therefore, our production and sales volume of corn refined products increased during the year as compared to 2019. In addition, the ASP of bacterial protein increased from approximately RMB2,354 per tonne in 2019 to approximately RMB2,724 per tonne in 2020, representing an increase of 15.7%.

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 product is mainly used as an animal feed additive. The total revenue of threonine kept stable. Sales of threonine increased by about 7.0% in 2020 as compared to 2019, primarily due to the increased ASP of threonine from approximately RMB6,782 per tonne in 2019 to approximately RMB6,903 per tonne in 2020. The increase in ASP was mainly due to the limited production in foreign countries affected by the COVID-19 pandemic. Sales volume of threonine slightly increased from approximately 176,384 tonnes in 2019 to approximately 185,421 tonnes in 2020.

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 RMB523.5 million in 2019 to approximately RMB974.1 million in 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 RMB943.4 million in 2020 as compared to approximately RMB808.3 million in 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. The performance of xanthan gum in the Colloid segment was affected by the decline in oil price, 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 a leading enterprise of Xanthan Gum in the world, continued to dominate the global market.

Revenue generated from xanthan gum decreased by 7.8%, from approximately RMB890.9 million in 2019 to approximately RMB821.3 million in 2020. The decrease in revenue was due to a decrease in sales volume during the year. Sales volume decreased by 6.4% in 2020. The ASP of xanthan gum slightly decreased to approximately RMB14,499 per tonne, representing a decrease of 1.5%, mainly due to the decline in the price of industrial grade xanthan gum (oil mining applications), which was affected by lower oil price.

Other related products

Fertilisers

The ASP of fertilisers for the year ended 31 December 2020 was approximately RMB468 per tonne, representing an increase of RMB58, or about 14.2%, as compared to 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 RMB283.8 million for the year ended 31 December 2019 to RMB384.2 million for the year ended 31 December 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:

	Years ended 31 December		
	2020	2019	Change
Gross profit (RMB'000)	2,816,354	3,260,634	(13.6)%
Gross profit margin (%)	16.9	20.2	(3.3)ppts.

Gross profit decreased to approximately RMB2,816.4 million and gross profit margin decreased by 3.3 percentage points to 16.9% for the year ended 31 December 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.

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

Production costs

	2020		Years ended 31 December 2019		Change %
	RMB'000	%	RMB'000	%	
Major raw materials					
• Corn kernels	8,148,988	56.4	6,796,878	51.7	19.9
• Liquid ammonia	340,939	2.4	296,212	2.3	15.1
• Sulphuric acid	65,179	0.5	89,625	0.7	(27.3)
• Soybeans	48,182	0.3	43,511	0.3	10.7
Energy					
• Coal	2,105,143	14.6	1,976,551	15.0	6.5
Depreciation	1,068,115	7.4	1,008,590	7.7	5.9
Employee benefits	684,628	4.7	689,130	5.2	(0.7)
Others	1,974,855	13.7	2,255,743	17.1	(12.5)
Total cost of production	<u>14,436,029</u>	<u>100.0</u>	<u>13,156,240</u>	<u>100.0</u>	<u>9.7</u>

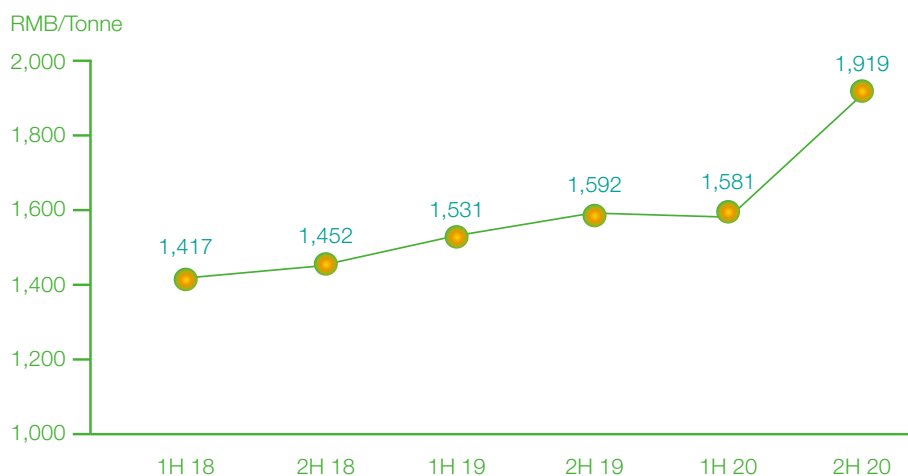
Corn kernels

In 2020, corn kernels accounted for approximately 56.4% (2019: 51.7%) of the total production cost, representing an increase of 4.7 percentage points, mainly due to the increase of the price of corn kernels. The average price of corn kernels for the year ended 31 December 2020 was approximately RMB1,745 per tonne, representing an increase of 11.7% as compared to 2019.

The total cost of corn kernels increased by 19.9% in 2020, which was mainly due to increase in average cost and the increase in consumption volume as actual production volume of MSG, threonine and lysine increased during the year.

The following chart shows the price trend of corn kernel from the first half of 2018 to the second half of 2020:

Price Trend of Corn Kernel



Liquid ammonia

Liquid ammonia accounted for approximately 2.4% (2019: 2.3%) of total production cost in 2020. The average unit cost of liquid ammonia in 2020 decreased to approximately RMB2,447 per tonne, which represents a decrease of approximately RMB292 per tonne, or 10.7%, as compared to 2019. Despite the average unit cost of liquid ammonia decreased, the total cost of liquid ammonia increased by 15.1% in 2020, which was mainly due to the increased consumption volume as actual production volume of MSG increased during the year.

Sulphuric acid

Sulphuric acid accounted for approximately 0.5% (2019: 0.7%) of total production cost in 2020. The average unit cost of sulphuric acid decreased to approximately RMB124 per tonne, which represents a fall of approximately RMB107 per tonne, or 46.3%, as compared to 2019.

Soybeans

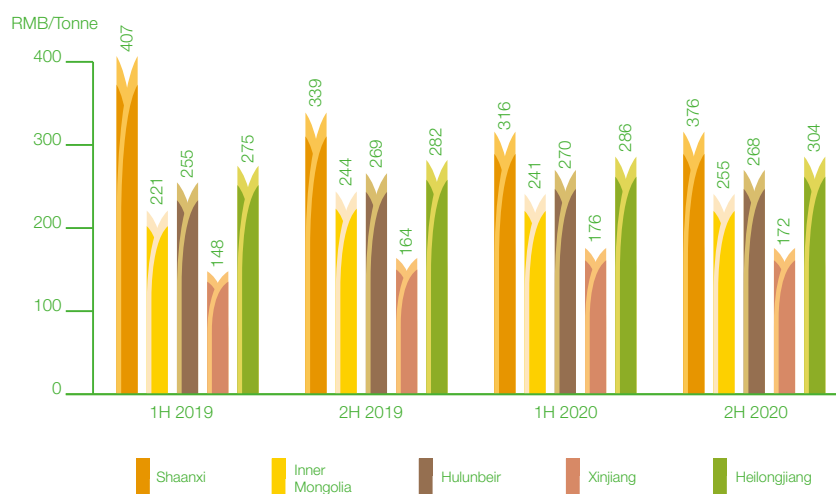
In 2020, soybeans accounted for approximately 0.3% (2019: 0.3%) of the total production cost.

Soybeans price increased from approximately RMB3,775 per tonne in 2019 to approximately RMB4,394 per tonne in 2020, representing an increase of 16.4%.

Coal

Coal accounted for 14.6% (2019: 15.0%) of total production cost in 2020. The average unit cost of coal in 2020 was RMB262 per tonne, which represents an increase of RMB10 per tonne, or 4.0%, as compared to 2019. The increase in coal prices reflects a 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 was mainly due to the increased annual production capacity of lysine in Longjiang Plant since the end of first half of 2019.

Production

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

	Years ended 31 December		Change %
	2020 Tonnes	2019 Tonnes	
Food additives			
MSG (<i>Note</i>)	1,330,000	1,330,000	–
Starch sweeteners (<i>Note</i>)	720,000	720,000	–
Animal nutrition			
Threonine (<i>Note</i>)	243,000	243,000	–
Lysine (<i>Note</i>)	200,000	175,000	14.3
Colloid			
Xanthan gum (<i>Note</i>)	65,000	65,000	–
Other			
Fertilisers (<i>Note</i>)	1,080,000	1,080,000	–

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

Analysis of Capacity Usage of Major Product Lines

The business strategy of MSG and starch sweeteners has changed, and the Group set production volume according to market demand in order to minimize the risk from pricing competition. In 2020, the utilization rate of MSG exceeded 90%. The annual production capacity of starch sweeteners kept at 720,000 tonnes. The utilization rate of starch sweeteners was around 80% in 2020. Threonine, as classified in the Animal nutrition segment, was affected by recovering market sentiment. The Group determined its output based on market demand with capacity utilization rate of threonine around 77% in 2020. Xanthan gum product, as classified in the Colloid segment, had weak market demand. In 2020, the capacity utilization rate of xanthan gum was around 91%.

OTHER FINANCIAL INFORMATION

Other income

In 2020, other income amounted to RMB381.6 million, which was mainly comprised of the income from the sales of waste products, amortisation of deferred income and government grants.

Other losses

It mainly represented net foreign exchange losses and fair value losses on change in fair value of foreign exchange swap contracts, which was for hedging the foreign exchange risk of our USD Bonds.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB59.4 million, or 4.5%, in 2020. The increase in selling and marketing expenses was mainly due to an increase in transportation costs, which was in line with the increase in sales volume of our major products.

Administrative expenses

Administrative expenses decreased by approximately RMB9.8 million, or 1.2%, in 2020. The decrease was due to the strengthened efficiency in work flow and attention on minimizing our general operating costs.

Finance income

Finance income mainly represented interest income from bank deposits and foreign exchange gain from our USD bonds. The interest income from bank deposits and bank balance amounted to RMB43.6 million, a decrease of 57.7%. This was mainly due to the decrease in our working capital in 2020. Foreign exchange gain from our USD Bonds increased due to the RMB appreciation during 2020.

Finance costs

Interest expense decreased by approximately RMB4.9 million, mainly due to decrease in average outstanding Bond amounts as we repurchased part of the 3-year 5.875% USD Bonds issued on 28 August 2018 amounting to USD62.8 million during the year.

Staff costs

Staff costs of the Group decreased by approximately RMB51.7 million, or approximately 4.6%, from approximately RMB1,116.8 million in 2019 to approximately RMB1,065.0 million in 2020. The staff costs are maintained in a stable level.

Depreciation

Depreciation expense of the Group increased by approximately RMB96.6 million, or 8.4%, from RMB1,150.2 million in 2019 to RMB1,246.8 million in 2020. The increase was mainly due to the increased production capacity of lysine in Longjiang Plant at the end of first half of 2019.

Income tax expense

The income tax expenses for the year ended 31 December 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% (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% (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% (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% (2019: 8.25%) on the estimated assessable profit for the year ended 31 December 2020.

The Group’s subsidiaries in the United States are subject to state income tax at a rate of approximately 8.84% and 9.5% (2019: 8.84%) and federal income tax at a rate of approximately 21% (2019: 21%) on the estimated assessable profit for the year ended 31 December 2020.

FUTURE PLAN AND RECENT DEVELOPMENT

Outlook and Future Plan

1. With the economic growth recovery post pandemic in the PRC, the consumer market rallied together with stronger consumer confidence. The business environment of the downstream markets for our major products has been improving significantly.
2. In line with an improving business environment in the downstream markets, the prices of our major products have increased significantly since the fourth quarter of 2020, which has offset the pressure from increased costs, and has reflected the improving economic conditions and a stronger consumer confidence.
3. We expect to continue facing enormous cost pressures in 2021, as prices of major raw materials, such as corn kernels and coal, remain at high levels and continue to rise. The increasing prices of major raw materials will bring some uncertainties to our operations this year.
4. Our inhouse chemical facilities are well positioned for construction this year. Completion of the inhouse chemical facilities will help: 1) further extend the Group's industrial chain; and 2) further reduce production costs of our major products and enhance our competitiveness.
5. In the internal and external context, we will continue to take advantage of opportunities arising from the economic growth recovery in the domestic and overseas market, and strive for better operating results. Furthermore, we will continue to evaluate our long-term business development plan with an aim to facilitate the implementation of a more established international production and sales network.

Save as disclosed in the above, the Group did not have other plans for material investments and capital assets.

Liquidity and Financial Resources

As at 31 December 2020, the Group's cash and cash equivalent and restricted bank deposits were RMB1,231.2 million (2019: RMB1,880.8 million) whereas current bank borrowings and current other borrowings (including the balances of USD bonds) were approximately RMB1,361.1 million and RMB1,647.7 million respectively (2019: RMB935.2 million and Nil). Non-current bank borrowings and non-current other borrowings (including the balances of USD bonds) were approximately RMB464.4 million and Nil (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 31 December 2020.

Syndication bank facilities

On 9 March 2021, the Company (as borrower) and certain of its subsidiaries (as guarantors) entered into a facilities agreement (“Agreement”) with certain major banks in the Asia Pacific region (as lenders) pursuant to which a USD term and revolving loan facilities up to USD400 million equivalent with a term of 36 months from initial funding has been granted to the Company at the rate of interest equivalent to the aggregate of a margin rate of 1.80% per annum plus the London interbank offered rate administered by ICE Benchmark Administration Limited on the relevant date in respect of the USD Loan. The purpose of the loan is mainly to refinance the existing USD Bonds and part of offshore bank loan of the Company and remaining for the Group’s general corporate purposes. And the utilization of such facility is available for six months after the date of the Agreement and is subject to a set of conditions precedent being met, including filing of the Agreement with National Development and Reform Commission of the People’s Republic of China (“NDRC”). The Company will make the relevant announcement (if necessary) regarding the Agreement once the relevant filing with NDRC have been completed.

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 year ended 31 December 2020.

Employees

As at 31 December 2020, the Group had approximately 13,100 employees. Employees' remuneration was paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which were commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Contingent Liabilities

As at 31 December 2020, the Group had no material contingent liabilities.

Events After the Balance Sheet Date

On 9 March 2021, the Company (as borrower) and certain of its subsidiaries (as guarantors) entered into a syndication loan facilities agreement with 18 banks pursuant to which a USD term and revolving loan facilities (the "Facilities") of up to USD400 million equivalent with a term of 36 months from initial funding has been granted to the Company at the rate of interest equivalent to the aggregate of a margin rate of 1.8% per annum plus the London interbank offered rate administered by ICE Benchmark Administration Limited on the relevant date. The purpose of the loan is mainly to refinance the USD Bonds and part of existing offshore bank borrowing of the Company and remaining for the Group's general corporate purposes.

Charges on assets

As at 31 December 2020, no assets (2019: Nil) were pledged to certain banks for any bank borrowings (2019: Nil) of the Group.

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

Gearing ratio

As at 31 December, 2020, the total assets of the Group amounted to approximately RMB19,355.7 million (2019: RMB19,458.6 million) whereas the total borrowings amounted to RMB3,473.2 million (2019: RMB3,384.6 million). The gearing ratio was approximately 17.9% (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 agreements with Deutsche Bank on 30 October 2018 and 3 November 2018, respectively. The above two agreements were 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. The agreement was mainly for hedging the exposure to foreign exchange risk of the remaining outstanding balance of Company's USD Bonds which were issued on 28 August 2018.

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 for hedging the full exposure to foreign exchange risk of the Company's USD bank loan of USD38,000,000 with the Bank of China (Hong Kong) Limited.

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 recommended the declaration of a final dividend of HK4.1 cents per share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 30 June 2021 to Shareholders whose names appear on the register of members of the Company on 11 June 2021.

Purchase, redemption or sales of listed 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 year ended 31 December 2020.

Corporate governance report

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 Listing Rules and came into full effect on 1 April 2012. During the year of 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. However, due to other commitments, the independent non-executive Directors, Ms. Zheng Yu and Mr. Xu Zheng Hong 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.

Pursuant to the Company's Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2020, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 25 May 2021 to 28 May 2021 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 28 May 2021, all transfers 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 24 May 2021.

The register of members of the Company will be closed from 9 June 2021 to 11 June 2021 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers 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 8 June 2021.

Annual general meeting

The annual general meeting is expected to be held on 28 May 2021. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

By order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Hong Kong, 25 March 2021

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, Mr. Xu Zheng Hong and Ms. Zheng Yu.

GLOSSARY

Absolute Divine	Absolute Divine Limited, an indirect wholly-owned subsidiary of the Company
Acquest Honour	Acquest Honour Holdings Limited, a wholly-owned subsidiary of the Company
ASP	average selling price(s) of the products of the Group
Baoji Baofeng	寶雞寶豐置業有限公司 (Baoji Baofeng Properties Co., Ltd.), an indirect wholly-owned subsidiary of the Company, which was disposed of on August 2018
Baoji Dingfeng	寶雞鼎豐置業有限公司 (Baoji Dingfeng Properties Co., Ltd.), an indirect wholly-owned subsidiary of the Company, which was disposed of on August 2018
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Expand Base	Expand Base Limited, an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company

IM Fufeng	內蒙古阜豐生物科技股份有限公司 (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
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
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company 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
Summit Challenge	Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company
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
%	percent