Fufeng Group Limited
阜豐集團有限公司

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

2020
ANNUAL REPORT

CONTENTS

Chairman's Statement

Dear Shareholders,

On behalf of the Group of the Board of Directors (the "Board"), I hereby present to you the results of Fufeng Group Limited for the year ended 31 December 2020.

Results for the Year and Business 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 markets continued 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.

For the financial year ended 31 December 2020, the audited turnover of the Group amounted to approximately RMB16,691 million, representing an increase of approximately 3.2% as compared to 2019. Profit attributable to shareholders amounted to approximately RMB630 million, representing a year-on-year decrease of approximately 44.6%.

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, increased significantly, greatly adding the cost pressure on the Group and greatly 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 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.

The Board recommended payment of a final dividend of HK4.1 cents per share, with the paid interim dividend and the final dividend to be paid totaling HK9.9 cents per share, representing a dividend payout ratio of approximately 35%.

Diversified Business Portfolio

Our products are mainly divided into five categories: 1. Food additives (mainly including MSG, compound seasoning, starch sweeteners, glutamic acid and corn oil); 2. Animal nutrition (mainly including threonine, lysine and corn refined products); 3. High-end amino acid (mainly including valine, leucine, isoleucine, glutamine, and hyaluronic acid); 4. Colloid (mainly including xanthan gum and gellan gum); and 5. Other (mainly including fertilisers, synthetic ammonia, pharmaceuticals, etc.).

Operational performances of our main products in 2020 are as follows:

MSG

Despite a noticeable upward trend in the pricing during the fourth quarter, the ASP of MSG throughout the year in 2020 was approximately RMB6,190 per tonne, representing a decrease of approximately 10.8% as compared to 2019. Such decrease was mainly attributable 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. 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.

Chairman's Statement

Starch Sweeteners

Due to the impact of the COVID-19 pandemic, poor demand from the downstream industries and the increasing price of corn kernels, 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. The sales volume was approximately 536,763 tonnes, representing a decrease of approximately 17.4% as compared to 2019.

Animal Nutrition

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 pandemic, and some regions such as Europe and the US, purchased a large amount of animal nutrition additives from China in 2020. The ASP product of threonine increased by approximately 1.8% to RMB6,903 per tonne in 2020 as compared to 2019. The sales volume was approximately 185,421 tonnes, representing an increase of approximately 5.1% as compared to 2019.

Due to our newly launched lysine product at the end of first half of 2019, the sales in 2020 amounted to approximately RMB974 million, representing an increase of approximately 86.1% as compared to 2019.

High-end Amino Acid

The high-end amino acid products recorded a good performance with increase in sales volume. The sales in 2020 amounted to approximately RMB943 million, representing an increase of approximately 16.7% as compared to 2019. As our overall technical capability and product quality in high-end amino acid products have been greatly improved, our competitive strength has been further enhanced.

Xanthan Gum

The performance of xanthan gum products was affected by the downturn in the global oil industry, mainly due to the decline in the price of xanthan gum for the exports of industrial grade (oil mining applications). The ASP of xanthan gum products in 2020 was approximately 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.

Outlook and Future Plan

1. With the macro-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 stronger consumer confidence.

3. We expect to continue facing enormous cost pressures in 2021, as prices of major raw materials, such as corn 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.

Appreciation

Finally, on behalf of the Board and management, I would like to express our sincere gratitude to all our shareholders, customers and partners who have long cared for and supported Fufeng. I would also like to express our sincere appreciation to all our employees for their perseverance and dedication.

Li Xuechun
Chairman

Five-Year Summary

	Year				
	2016	2017	2018	2019	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Operating results – Summary					
Turnover	11,803,131	13,033,501	13,764,645	16,170,850	**16,690,736**
Gross profit	2,406,373	2,979,471	2,574,770	3,260,634	**2,816,354**
Profit before income tax	1,301,898	1,652,781	2,210,823	1,399,264	**770,637**
Profit attributable to Shareholders	1,092,512	1,382,380	1,845,039	1,137,223	**629,901**
Balance sheets – Summary					
Non-current assets	9,516,968	10,859,636	11,339,710	11,465,996	**10,761,704**
Current assets	4,939,134	5,106,898	8,992,610	7,992,615	**8,593,989**
Total assets	14,456,102	15,966,534	20,332,320	19,458,611	**19,355,693**
Non-current liabilities	2,647,336	1,298,851	3,319,892	3,270,836	**1,401,048**
Current liabilities	4,992,902	5,207,578	6,008,084	4,811,306	**6,265,239**
Net assets	6,815,864	9,460,105	11,004,344	11,376,469	**11,689,406**
Financial ratio					
Earnings per share (Basic) *(RMB Cents)*	51.37	57.04	72.45	44.75	**24.86**
Gross profit margin (%) *(Note 1)*	20	23	19	20	**17**
ROE (%) *(Note 2)*	16	15	17	10	**5**
Current ratio *(Note 3)*	0.99	0.98	1.50	1.66	**1.37**
Inventory turnover days (Day) *(Note 4)*	97	118	107	104	**101**
Debtors' turnover days (Day) *(Note 5)*	25	31	31	37	**30**
Trade receivable turnover days (Day) *(Note 6)*	13	15	17	15	**14**
Creditors' turnover days (Day) *(Note 7)*	58	56	52	40	**33**
Trade payable turnover days (Day) *(Note 8)*	48	53	50	40	**33**
Gearing ratio (%) *(Note 9)*	21	12	20	17	**18**

Notes:

1. Gross profit margin is equal to gross profit divided by turnover.
2. Return on equity is equal to profit attributable to shareholders divided by total equity.
3. Current ratio is equal to current assets divided by current liabilities.
4. The number of inventory turnover days is equal to inventories before provisions at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
5. The number of debtors' turnover days is equal to trade and notes receivables at the end of year divided by the turnover for the corresponding year and then multiplied by 365 days.
6. The number of trade receivable turnover days is equal to trade receivable at the end of year divided by the turnover for the corresponding year and then multiplied by 365 days.
7. The number of creditors' turnover days is equal to trade and notes payables at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
8. The number of trade payable turnover days is equal to trade payable at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
9. Gearing ratio is equal to total borrowings at the end of the year divided by total assets at the end of the corresponding year.

Corporate Information

Executive Directors

Mr. Li Xuechun
Mr. Li Deheng
Mr. Li Guangyu
Mr. Zhao Qiang (resigned on 1 June 2020)
Mr. Yu Yao Ming (resigned on 20 July 2020)

Independent Non-executive Directors

Mr. Lau Chung Wai
Ms. Zheng Yu
Mr. Xu Zheng Hong

Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in the PRC

Western section of Huaihai Road
Junan, Shandong, 276600
PRC

Principal Place of Business in Hong Kong

Suite 1204B–7A, 12/F, Tower 3
China Hong Kong City, 33 Canton Road
Tsim Sha Tsui, Kowloon, Hong Kong

Company Secretary and Qualified Accountant

Mr. Lee Wai Yin CPA FCCA

Authorised Representatives

Mr. Li Xuechun
Mr. Lee Wai Yin

Audit Committee

Mr. Lau Chung Wai *(Chairman)*
Ms. Zheng Yu
Mr. Xu Zheng Hong

Remuneration Committee

Mr. Lau Chung Wai *(Chairman)*
Ms. Zheng Yu
Mr. Xu Zheng Hong

Nomination Committee

Mr. Li Xuechun *(Chairman)*
Mr. Lau Chung Wai
Ms. Zheng Yu
Mr. Xu Zheng Hong

Principal Bankers in the PRC

China Construction Bank
Bank of China
Agriculture Bank of China
China Merchants Bank
Shanghai Pudong Development Bank
China Minsheng Bank

Principal Bankers in Hong Kong

Bank of China (Hong Kong) Limited
Mizuho Bank Limited
Hang Seng Bank Limited

Independent Auditor

PricewaterhouseCoopers

Principal Share Registrar

SMP Partners (Cayman) Limited

Branch Share Registrar

Tricor Investor Services Limited

Stock Code

546

Website

www.fufeng-group.com

SHANDONG PLANT

BAOJI PLANT

IM PLANT

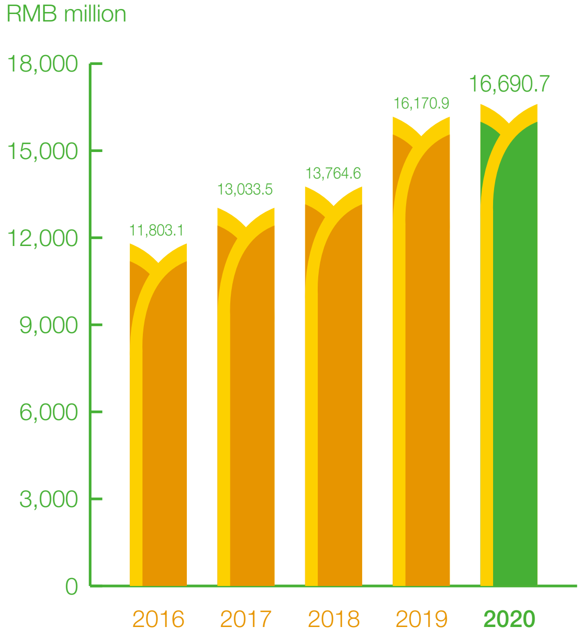
HULUNBEIR PLANT

XINJIANG PLANT

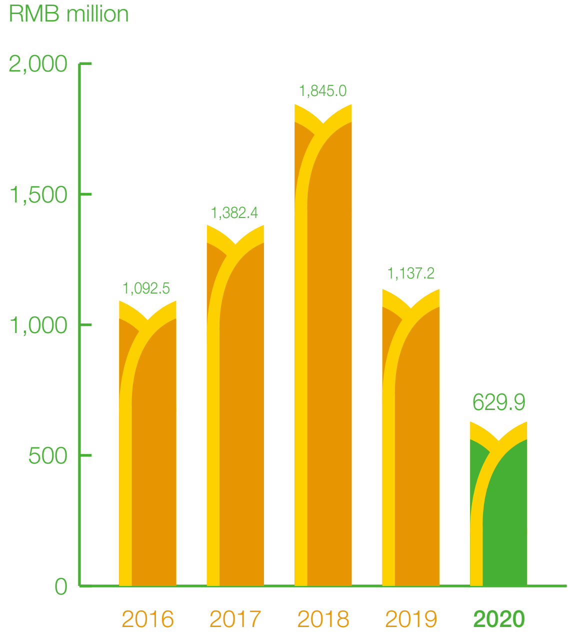
LONGJIANG PLANT

Financial Highlights

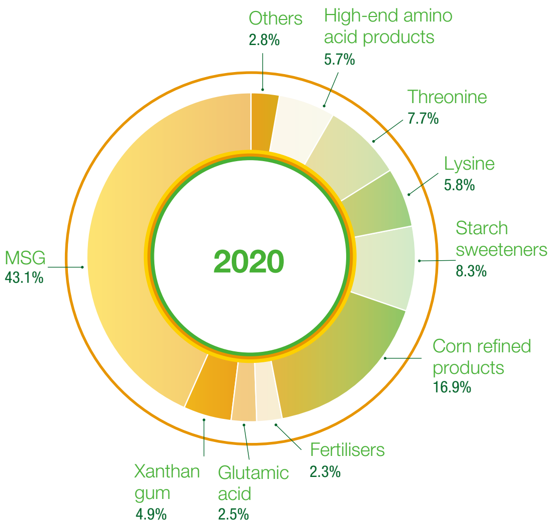
Turnover Growth

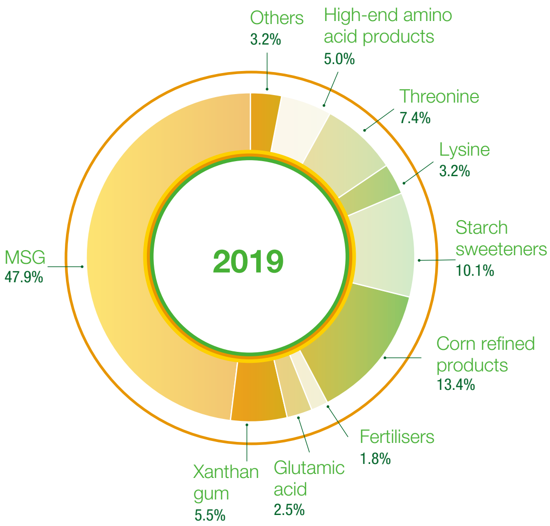


Profit Attributable to Shareholders

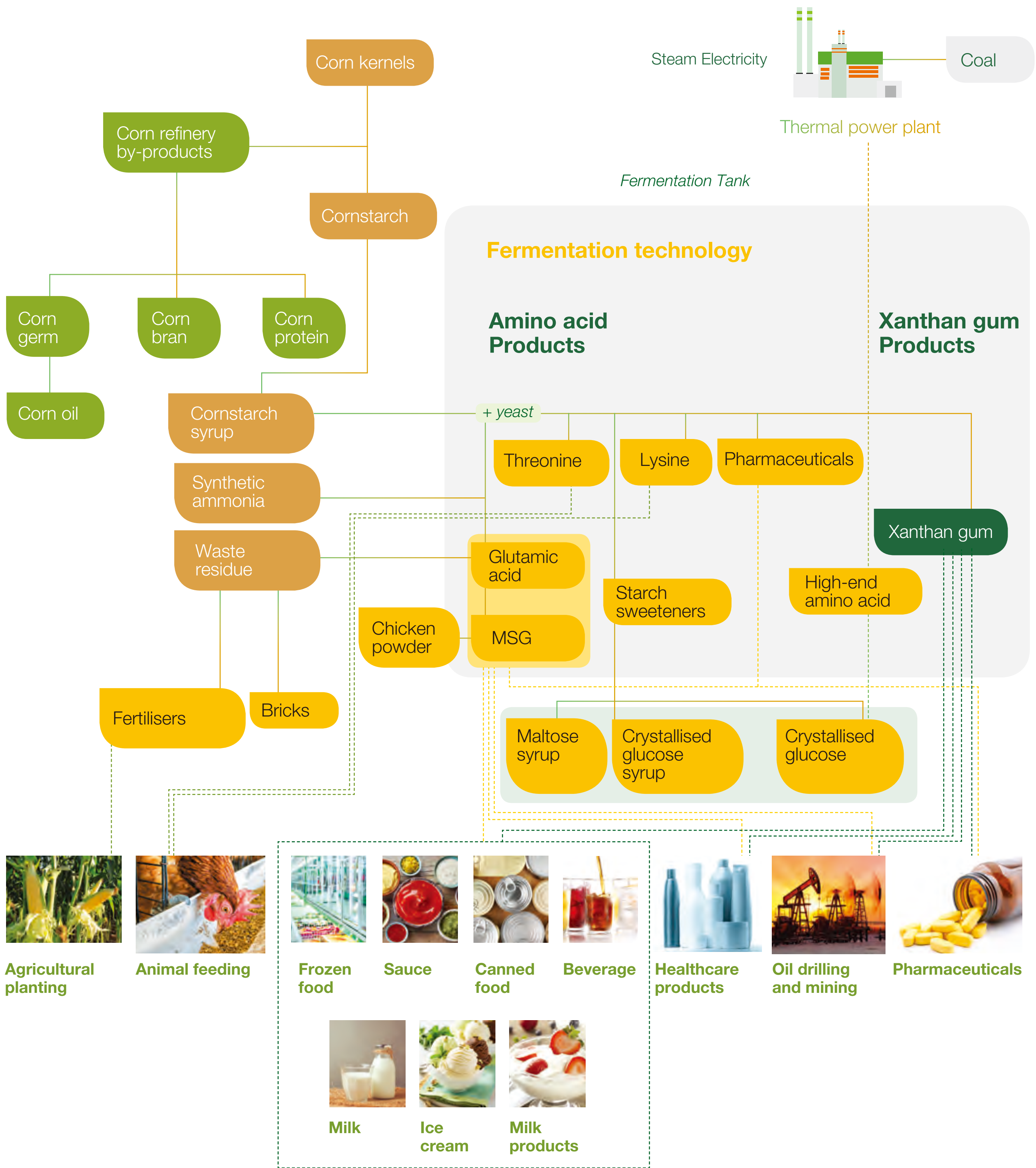


Revenue Analysis





Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 69, is the principal founder of the Group, the chairman of the Company and an executive Director. Mr. Li is also a director of Acquest Honour, Summit Challenge, Absolute Divine, Expand Base, Fufeng Singapore, Shandong Fufeng, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng, Xinjiang Fufeng, Longjiang Fufeng and Shenhua Pharmaceutical. Mr. Li is responsible for the strategic planning and formulation of overall corporate development policy of the Group. Mr. Li obtained a bachelor's degree in industrial fermentation from 山東輕工業學院 (Shandong Institute of Light Industry) in 1982. Mr. Li was honored with "Outstanding Achievement" by the government of Shandong Province in April 2003. In the same year, he was also labeled as "Model Labour" of Shandong Province. Mr. Li first joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1982 as a factory manager. Mr. Li established the Group by starting set up Shandong Fufeng in June 1999. He was appointed as a director of Shandong Fufeng upon its establishment. He has 39 years of experience in the fermentation industry. Mr. Li is the sole director of and is beneficially interested in the entire issued share capital of Motivator Enterprises Limited which in turn is interested in approximately 39.28% of the issued share capital of the Company and is a controlling shareholder of the Company. He is the father of 李廣玉 (Li Guangyu) (an executive Director) and the brother-in-law of 李德衡 (Li Deheng) (an executive Director).

李德衡 (Li Deheng), aged 52, is an executive Director and a deputy executive general manager of the Group who is responsible for the general operation of production and purchasing of the Group. He is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Longjiang Fufeng. Mr. Li graduated from the 山東聊城師範學院 (Shandong Liaocheng Teacher's College) in 1992 and obtained a bachelor's degree in chemistry education. He joined the Group in January 2001 and was appointed as a director of Shandong Fufeng in November 2003 and has over 20 years of experience in business management. Mr. Li Deheng is the brother-in-law of Mr. Li Xuechun. Mr. Li is interested in 100% of the issued share capital of Empire Spring Investments Limited, which in turn is interested in 33,320,160 Shares, representing approximately 1.32% of the issued share capital of the Company.

李廣玉 (Li Guangyu), aged 42, is an executive Director and a vice general manager of the Group who is responsible for the Group's sales and marketing activities. Mr. Li has over 15 years of experience in the fermentation industry. Mr. Li graduated from 華東政法大學研究生院 (East China University of Political Science and Law Graduate School) in 2006 and obtained a master's degree in Laws. Mr. Li is the son of Mr. Li Xuechun. Mr. Li is not interested in any shares of the Company pursuant to Part XV of the Securities and Future Ordinance.

Biographies of Directors and Senior Management

Independent Non-executive Directors

劉仲緯 (Lau Chung Wai), aged 38, was appointed as an Independent non-executive Director on 12 June 2019. Mr. Lau Chung Wai has over 15 years' experience in the field of accounting and financial management. Mr. Lau graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in accounting in November 2004 and is a fellow practising member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau has been the chief financial officer and company secretary of Kwung's Holdings Limited (stock code: 1925), a company primarily engaged in original design manufacturer and supplier of home decoration product, since March 2019 and is responsible for overseeing the investment, legal and financial affairs. From August 2015 to March 2019, Mr. Lau served in Da Sen Holdings Group Limited (stock code: 1580) as the chief financial officer and company secretary. Mr. Lau also served as an independent non-executive director of Metropolis Capital Holdings Limited (stock code: 8621) since November 2018. Mr. Lau does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. Save as disclosed above, Mr. Lau did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. Mr. Lau does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lau has entered into a service agreement with the Company commencing from 12 June 2019 for a term of two years and is subject to retirement from office and re-election at the next following general meeting of the Company in accordance with the articles of association of the Company.

鄭豫 (Zheng Yu), aged 53, was appointed as an Independent non-executive Director in December 2012. Ms. Zheng is a partner at Advantage Partners. She was a Managing Director at PineBridge Investments (formerly known as the AIG Global Investments), in charge of private equity investment in Greater China from 2008 to 2011. She also has over 21 years of experience in the management consulting industry through her service at the Boston Consulting Group and then at Roland Berger Strategy Consultants as its senior partner responsible for the industrial and automotive industries practice in Greater China. Prior to her investment and management consulting career, she also worked in the computer industry in both China and the United States. Ms. Zheng received a bachelor's degree of science from Computer Science in Beijing Normal University and her Master of Business Administration from the University of Texas at Austin in the U.S. Ms. Zheng does not have any relationship with any Directors, senior management, substantial or controlling shareholders of the Company. Ms. Zheng is also a non-executive director of Minth Group Limited (Stock code: 425) in current, save as disclosed above, she did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. Ms. Zheng is deemed to be interested 227,000 Shares which held by the spouse of Ms. Zheng, representing 0.01% of the issued share capital of the Company. In addition, Ms. Zheng was granted an option to subscribe the 300,000 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.01% of the issued share capital of the Company. Except for the above, Ms. Zheng does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance.

許正宏 (Xu Zheng Hong), aged 50, was appointed as an Independent non-executive Director on 1 December 2018. Mr. Xu has over 22 years of experience engaged in the research of microbial ecology of traditional brewed foods, bio-manufacturing and functional evaluation of nutrient chemicals. Mr. Xu is currently a professor at the School of Bioengineering at Jiangnan University, a doctoral tutor and dean. Mr. Xu graduated from Wuxi Institute of Light Industry, Department of Fermentation Engineering, with a Bachelor of Engineering degree in 1993, a Master of Science degree from Shandong University, School of Life Sciences, Department of Cell Biology in 1996, and a Ph.D in Engineering from Jiangnan University, Department of Fermentation Engineering, School of Bioengineering in 2005. Mr. Xu does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. He did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. Mr. Xu does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Xu has entered into a service agreement with the Company commencing from 1 December 2018. Mr. Xu has also confirmed that he has opted not to receive any director's fee during the term of the abovementioned service agreement.

Senior Management

陳遠 (Chen Yuan), aged 52, is a chief financial officer of the Group who was appointed on 10 July 2017. Mr. Chen obtained a bachelor degree of accountancy from Xiamen University in 1991 and then received his Master in business administration degree from Birmingham Business school of University of Birmingham in 2001. Mr. Chen has over 23 years of experience in the corporate finance, corporate development and investor relations sector. Prior to re-joining the Group, Mr. Chen was CFO of HyalRoute Communication Group Limited from January 2015 to August 2016. In his role as CFO, Mr. Chen is responsible for matters relating to financial management, capital markets, corporate development and investor relations, as well as to assist the Group to develop strategic planning, long-term development plan and also help the Group to explore potential overseas expansion opportunities. Mr. Chen was previously a key senior management of the Group, having joined the Group in September 2010, and was appointed as an executive Director on 9 November 2010 and the CFO on 13 May 2011, until 1 January 2015. During his previous tenure with the Group, Mr. Chen was also responsible for financial management, capital markets, corporate development and investor relations matters, and assisted the Group to develop strategic planning and long-term development plan. Mr. Chen was granted an option to subscribe the 5,000,000 Shares pursuant to the New Share Option Scheme, representing 0.20% of the issued share capital of the Company.

Biographies of Directors and Senior Management

來鳳堂 (Lai Fengtang), aged 52 is a general manager of Shandong Fufeng who is currently in charge of the operation of Shandong Fufeng. Mr. Lai graduated from 中國西北大學 (Northwest University of China) in 1998. He joined Shandong Furui Brewery Group in 1991. Mr. Lai joined the Group in June 1999 and has over 29 years of experience in the fermentation industry. Mr. Lai is the sole director of and is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 2.73% of the issued share capital of the Company.

趙蘭坤 (Zhao Lankun), aged 48, is a general manager of Hulunbeir Fufeng who is currently in charge of the operation of Hulunbeir Fufeng. Mr. Zhao graduated from 青島化工學院 (Institute of Chemical Technology of Qingdao) in 1994, majoring in chemical equipment and machinery. Mr. Zhao joined Shandong Furui Brewery Group in 1994, and later joined the Group in June 1999. With nearly 27 years of experience in industrial management. Mr. Zhao is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 2.73% of the issued share capital of the Company.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 52, is the qualified accountant and company secretary of the Company since August 2008. Mr. Lee graduated from the Hong Kong Shue Yan College in 1993 with a diploma in accountancy and is a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has more than 27 years of working experience in finance and accounting including some with international accounting firms.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.).

Management Discussion and Analysis

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.

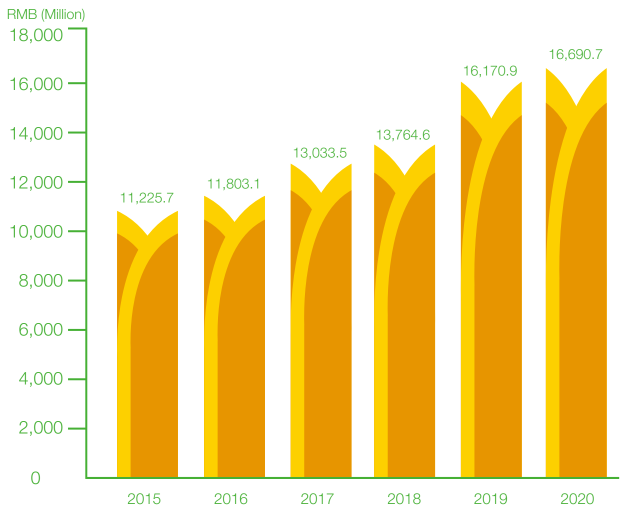
The ASP of threonine products in 2020 was approximately RMB6,903 per tonne, representing an increase of approximately 1.8% as compared to 2019. The sales volume was approximately 185,421 tonnes, representing an increase of approximately 5.1% as compared to 2019. The increase in ASP and sales volume of 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.

Management Discussion and Analysis

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 *(RMB'000)*	**16,690,736**	16,170,850	3.2
Gross profit *(RMB'000)*	**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		
	2020	2019	Change
	RMB'000	*RMB'000*	%
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.

Management Discussion and Analysis

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 *RMB'000*	Animal nutrition *RMB'000*	High-end amino acid *RMB'000*	Colloid *RMB'000*	Others *RMB'000*	Total *RMB'000*
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 2020 RMB'000	2019 RMB'000	Change %
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

Management Discussion and Analysis

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.

Management Discussion and Analysis

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

	Years ended 31 December				
	2020		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	**14,436,029**	**100.0**	13,156,240	100.0	9.7

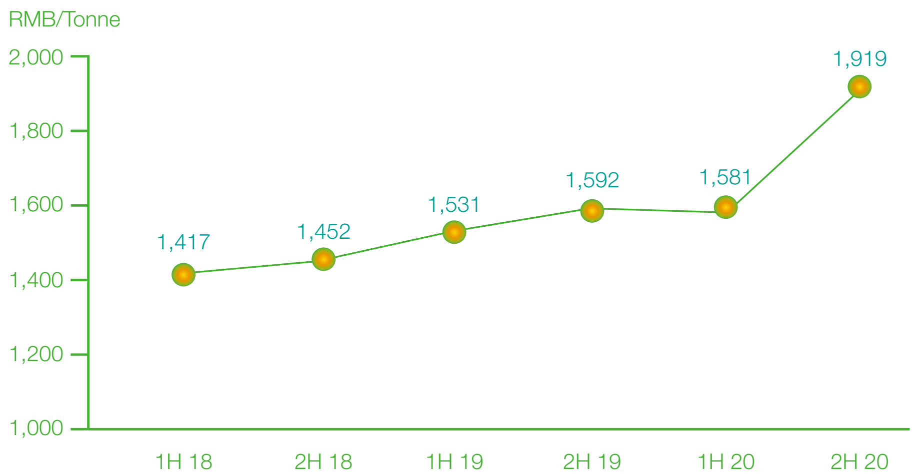
Corn kernels

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.

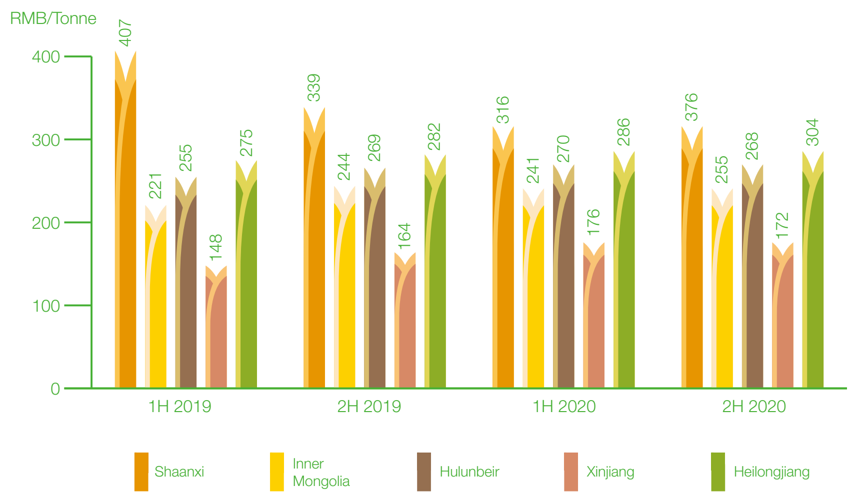
Soybeans price increased from approximately RMB3,775 per tonne in 2019 to approximately RMB4,394 per tonne in 2020, representing an increase of 16.4%.

Management Discussion and Analysis

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		
	2020	2019	Change
	Tonnes	*Tonnes*	*%*
Food additives			
MSG *(Note)*	**1,330,000**	1,330,000	–
Starch sweeteners *(Note)*	**720,000**	720,000	–
Animal nutrition			
Threonine *(Note)*	**243,000**	243,000	–
Lysine *(Note)*	**200,000**	175,000	14.3
Colloid			
Xanthan gum *(Note)*	**65,000**	65,000	–
Other			
Fertilisers *(Note)*	**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. Please refer to the paragraph headed "Share Option Scheme" under the "Directors' Report" section below for the share options granted to certain Directors and employees of the Group pursuant to the Post-IPO and New share option schemes.

Contingent Liabilities

As at 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.

Environmental, Social and Governance Report

About this Report

In accordance with the "Environmental, Social and Governance Reporting Guide" of the Stock Exchange of Hong Kong, Fufeng Group Limited (hereinafter referred to as "Fufeng Group", "Our Group" and "the Group") prepared its 2020 Environmental, Social and Governance (ESG) Report for the period from 1 January 2020 to 31 December 2020. Unless otherwise stated, the Report covers its subsidiaries 山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), 寶雞阜豐生物科技有限公司 (Fufeng Baoji Biotechnologies Co., Ltd.), 內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), 呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), 新疆阜豐生物科技有限公司 (Fufeng Xinjiang Biotechnologies Co., Ltd.) and 齊齊哈爾龍江豐生物科技有限公司 (Qiqiha'er Fufeng Longjiang Biotechnologies Co., Ltd.). Fufeng Group has been pursuing the sustainable business operation in terms of economic, social and environmental aspects, and has been in strict compliance with the regulatory requirements in relation to employment, human rights, labor interest, supply chain management, product liability and anti-corruption. The Report will illustrate the Group's performance in sustainable development from both environmental and social perspectives. To understand the Group's performance in the ESG field better, this Report should be read together with the "Annual Report 2020 of Fufeng Group Co., Ltd.".

Regulatory Structure for Environmental, Social and Governance Issues

The Board of Directors of the Group will uniformly lead the the environmental, social and governance issues. A leading work group for the ESG issues, which comprises the members of the Board and senior management, is responsible for guiding the work of the Group's ESG issues and making decisions on the implementation of the guideline requirements. The execution group for the ESG issues, which comprises the heads from our various departments and business units of our subsidiaries, is responsible for carrying out specific tasks and daily communications, as well as submitting regular reports to the steering committee. Fufeng Group has already taken ESG factors into consideration over its daily management process, which plays a fully active role in our governance structure, continues to discuss ESG policies, and takes the responsibility to disclose the Group's sustainability achievement on an annual basis.

Stakeholders Engagement and Materiality Assessment

The Group is fully aware that the continuous optimization of our ESG performance is based on the opinions and needs of our stakeholders. We actively communicate with our stakeholders through various channels to keep abreast of and respond to the needs of stakeholders.

Based on our business nature, our key stakeholders include the shareholders/investors, suppliers, customers, communities, employees, the government and regulators. Based on our communications with the stakeholders, set out below are the ESG issues concerning our key stakeholders and the channels available for communicating with us and providing feedback:

Key stakeholders	Main concerned aspects	Major channels of communications and feedback
Shareholders/Investors	Emission; use of resources; environmental and natural resources; and anti-corruption.	Shareholders' general meetings; annual and interim reports; results announcements; corporate stock exchange announcements; relevant meetings; and investor relations page.
Government and regulators	Anti-corruption; product responsibility; emission; use of resources; employment; and labor standards.	Information disclosure; Correspondence; on-site visits; and relevant meetings.
Suppliers	Supply chain management; product responsibility; and anti-corruption.	Suppliers management system; relevant meetings; and strategic cooperation negotiation.
Customers	Product responsibility; emission; use of resources; and environmental and natural resources.	Surveys on consumer satisfaction; consumers reward; daily operation/communications; and complaint and response mechanism and channels.
Communities	Community investment; emission; use of resources; and environmental and natural resources.	Community activities; Charity activities; social support projects; daily operation; and questionnaires.
Employees	Employment; employee development and training; employees' health and safety; and labor standards.	Employee polls; staff internal meetings; corporate internal notices; feedback system for the staff; and trade union.

Environmental, Social and Governance Report

Based on our stakeholders' suggestions and the characteristics of business development of the Group, the Group has identified and selected ESG issues that are relatively important to the Group and used them as important factors for report preparation and information disclosure. The more important environmental issues for the Company at this stage are emission, use of resources, and the impact of the company's operations on the environment and natural resources. The more important social issues are product responsibility, employment, employees' health and safety, employee development and training, supply chain management, labor standards, and anti-corruption. Other related issues include community investment.

A Environment

Fufeng Group, who is a responsible enterprise and understands the importance of environmental protection for social development, will incorporate environmental protection into its daily work, and resolutely abide by the requirements of relevant laws and regulations. Fufeng Group will improve the management of various emissions, including wastewater, waste gas, greenhouse gases and hazardous or non-hazardous waste, while reducing waste of resources in daily production and operation. In 2020, the Group continued to increase its investments in environmental protection by implementing a number of energy saving and emission reduction measures, further exploring environmental protection technologies and processes related to daily production and operation, and constantly raising the environmental protection awareness of employees in all departments. These initiatives were aimed at minimizing the adverse environmental impacts brought pollution generated during daily production and operation process. In 2020, Fufeng Group did not experience any related violation or complaint.

As for environmental protection, the Group continues its investments in energy-saving equipment. Its low-carbon emission production facilities are designed to minimise the environmental impact of the Group's business. The Group always attaches great importance to sustainable green production, and achieves its objectives in energy conservation, emission reduction and clean production technology immobilization. The Group complies with the regulations on energy conservation and consumption reduction issued by the nation to ensure employees' safety, green environmental protection and improvement of resource utilization and rational selection of advanced technologies and processes with low-energy consumption, energy-saving equipment designed with an advanced structure will to be used in priority in production facilities. The Group inspects the progress and actual outcome of all resource management plans annually to protect the environment of its plants and surrounding area.

The Group has strictly conducted its clean production and resource recycling economic model over the past years, as the clean production and circular economy is an important measure to enhance the overall competitiveness and overall management of an enterprise. The accountability system has been implemented for clean production and circular economy by the Group, thus ensuring that specific personnel at all levels will be held accountable. We strive to increase the awareness and skills of clean production and circular economy among our employees by advancing internal promotions and position-specific training, while encouraging our employees to proactively participate in the activities of clean production and circular economy.

A1 Emission

In strict compliance with the requirements of relevant national and municipal laws and regulations, such as the Environmental Protection law of People's Republic of China (中華人民共和國環境保護法), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Air Pollution Prevention and Control Action Plan (大氣污染防治行動計劃) and Law of the People's Republic of China on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), as well as the requirement of China Green Food Development Center and the industry standards such as ISO quality system, Fufeng Group continued to reduce such sewage, exhaust, greenhouse gases, hazardous and non-hazardous wastes that are discharged from the production and operation. In order to meet the emission standards under relevant national, provincial and municipal laws and regulations, the Group has established different management measures for various emissions to implement effective control targeted to various emissions, enabling the emissions to meet the relevant national, local and industrial discharge standards.

As for exhaust

As regards exhaust control, Fufeng Group is in strict compliance with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) and requirements of other national and municipal laws and regulations, and purify exhaust emission in accordance with the management requirements made by the Group, including Environmental Management and Control Procedure, the Exhaust Treatment and Control Procedures, the Boiler Denitrification Operating Regulation and the Desulfurization Operating Regulation, so as to ensure that the exhaust discharged meet the existing standards including the Emission Standard of Air Pollutants from Thermal Power Plants (DB12/810-2018), the Emission Standard of Air Pollutants from Industrial Furnaces (GB 9078-1996) and the Integrated Emission Standard of Air Pollutants (GB16297-1996).

The exhaust generated by Fufeng Group mainly comes from the nitrogen oxides (NO_x), sulfur dioxide (SO_2), smoke and dust as well as foul odor produced by its production companies during normal production processes. In 2020, the Group continued to increase its investments in exhaust emission control, in which case, the Group and its various production companies constantly explored new technologies and upgraded our existing technologies. A dedicated department was established to take responsibility for the daily management of exhaust emissions. In addition, each production company has installed an on-line monitoring system, data of which is sent to the local environmental protection agencies through network connected to achieve joint monitoring with the environmental protection agencies. The Group is strictly prohibited from discharging the exhaust gas without treatment, therefore, all the exhaust emitted from the vents of production equipment must be collected and treated with reasonable measures such as recovery, absorption, adsorption and catalytic combustion, in order to meet the emission standards. Meanwhile, the Group and each production company remained in active collaboration with the national and municipal environmental protection authorities on annual inspection and spot checks. In 2020, all inspections carried out by the Group and each production company reached the national and local standards.

In 2020, the Group continued to strengthen its control over exhaust emissions when there was an increase in output and coal consumption by approximately 5% as compared to the previous year, delivering an effective performance. The overall total exhaust emission only increased by 11.16 tonnes or 0.25% over the previous year, and the exhaust emission density was 0.27 tonne/million RMB revenue, which remain the same as compared to that of 2019.

Performance indicator	Unit	2019	2020
NOx emissions	tonne	2,488.40	**2,474.91**
SO_2 emissions	tonne	1,583.98	**1,595.53**
Smoke and dust emissions	tonne	370.73	**383.83**
Total exhaust emission	tonne	4,443.11	**4,454.27**
Exhaust emission density*	tonne/million RMB revenue	0.27	**0.27**

* *The exhaust emission density in 2020 is calculated based on tonne/million RMB revenue*

In 2020, major measures taken by the Group and its various production companies to strengthen exhaust control were as follows:

Besides investing RMB2 million to replace the cloth bags of two flue dust collectors in the power center to improve dust removal efficiency, Fufeng Xinjiang invested RMB1.6 million to upgrade 1# and 2# desulfurization towers to improve the desulfurization efficiency, which aims to better resolve the tail gas treatment for environmental protection purposes. As for flue gas treatment, Fufeng Xinjiang has invested a total of RMB207 million to construct flue gas treatment facilities, which are currently in good working condition. According to the ultra-low emission limits of coal-fired power plants, the concentrations of sulfur dioxide emission, and smoke and dust emission were kept at 25mg/m^3 and 5mg/m^3, respectively.

Fufeng Inner Mongolia invested nearly RMB70 million in the ultra-low emission technical upgrades for existing coal-fired boilers. On 12 May 2020, the company received the "Filing Acceptance Notification on the Boiler Flue Gas Ultra-low Emission Technical Upgrade Project for Power Workshop of Neimenggu Fufeng Biotechnologies Co., Ltd.(《關於內蒙古阜豐生物科技有限公司動力車間鍋爐煙氣超低排放改造項目的備案的通知》)" (Hu Kai Xing Shen Fa No.[2020]25) approved by Administrative Approval Service Bureau of Hohhot Economic Development Zone(呼和浩特經濟開發區行政審批服務局), and subsequently the approval for the registration of the "Registration Form for Environmental Impact of the Construction of the Boiler Flue Gas Ultra-low Emission Technical Upgrade Project for Power Workshop (《動力車間鍋爐煙氣超低排放改造項目建設項目環境影響登記表》)" (No. 20201501000100000075) from the Bureau of Ecology and Environment of Hohhot (呼和浩特市生態環境局) was received on 19 May. In the meantime, the design institute and manufacturers engaged by the Company to conduct on-site inspections developed a technical upgrade plan, pursuant to which the process for the boiler flue gas emission (the boiler →Selective Non-Catalytic Reduction(SNCR) de-nitration technology →electric-bag filter →induced draft fan →limestone →wet desulfurization →chimney emission) was transformed to the engineering process (boiler →Selective Non-Catalytic Reduction(SNCR) + Selective Catalytic Reduction(SCR) de-nitration technology →electric-bag filter →limestone →wet desulfurization →wet electric dust collector →chimney emission). The technical upgrade plan was completed on 30 September with the boiler being in normal operation, and the boiler flue gas online equipment was upgraded, replaced and commissioned. Upon completion of the technical upgrades, the pollutant emission indicators of the boiler flue gas declined. To be more specific, SO_2 declined to ≤35mg/Nm^3 from approximately 200mg/Nm^3, particulates declined to ≤10mg/Nm^3 from approximately 30mg/Nm^3 and NO_x was ≤50mg/Nm^3.

Northeast Fufeng invested RMB24.9 million to construct the deep treatment project for flue gas combustion. The treated tail gas generating from slurry-spraying granulation, which meets the discharge standard, is transported to the boiler combustion. During the combustion, organic matters in the waste gas are completely decomposed into carbon dioxide and water, so as to eliminate the odor generated by exhaust gas emissions. Such method would not produce secondary pollution and achieve zero emission of volatile organic compounds (VOCs), eliminating the VOCs in the waste gas.

Fufeng Longjiang invested RMB15 million in the energy-saving upgrade for the existing amino acid crystallization glucose technology, which adopted the multi-effect evaporator to improve quality and lower energy consumption, so that the steam consumption and the coal consumption in the amino acid production line decrease by 40,005.6 tonnes and approximately 11,000 tonnes, while the emissions of NO_x, SO_2, and smoke and dust decrease by 6.71t, 6.87t, and 1.33t every year.

As for sewage

In terms of sewage control, in strict compliance with the requirements under the laws and regulations, including the Law of the People's Republic of China on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), and the Environmental Protection Management System and the Administrative Measures on Sewage Discharge for Environmental Protection Treatment Plants issued by the Group requires Fufeng Group to manage and control the sewage discharge, ensuring that the sewage discharged by each of the respective production companies meet the existing national sewage standards for the relevant industries such as the Pollutant Discharge Standard for the MSG Industry (味精工業污染物排放標準) (GB19431-2004), the Water Pollutant Discharge Standard for the Starch Industry (澱粉工業水污染物排放標準) (GB25461-2010) and the Pollutant Discharge Standard for Urban Sewage Treatment Plants (城鎮污水處理廠污染物排放標準). In 2020, various production companies continued to maintain the standards of sewage discharge.

The sewage discharged by various production companies mainly includes the waste water generated in the production process and the domestic sewage in the plant area. In 2020, the Group continued to improve the various systems and administrative measures in favor of waste water. Based on the indicators pinpointed for wastewater emission reduction, the Group has a special team for the management of waste water treatment, which will conduct regular inspection and appraisal, and implement real-time management on the discharge of various waste water, so as to avoid random or excessive discharge of the toxic and hazardous sewage and eradicate sewage pollution accidents, thus ensuring the standard discharge of the Group's production sewage and preventing water pollution. In addition, all production companies have specialised sewage treatment facilities and equipment in place and are installed with on-line monitoring systems, data derived from which would be sent to provincial and municipal environmental protection agencies through network connection for their monitoring and inspection purposes.

The sewage treatment process of the production companies is based on the principle of the clean-up and separation process. The waste mother liquor of amino acid is evaporated and concentrated by four-effect evaporator to produce liquid fertilizer, which can be directly diluted and applied to the land with good effect. After adjusting PH through the regulating tank, starch process water, starch condensate, saccharified water, amino acid high concentration wastewater are put into the high-efficiency IC anaerobic generator by adopting "IC+AB anaerobic process". Then, the activated sludge microbial treatment is carried out during the AB aerobic process. Anaerobic biogas is collected and discharged into the biogas combustion torch through a unified pipe for combustion, and the generated steam is used for internal heating and production in the workshop in winter, while the aerobic sludge is recirculated, extracted and dried to be fertilized and recycled. After adjusting PH through the regulating tank, the lowly-concentrated amino acid sewage and the domestic wastewater generated from the living and office areas receive the activated sludge microbial treatment in the AB aerobic process, which is subsequently discharged together with the clean water.

In 2020, the Group recorded a total sewage discharge of 14,176,255.54 tonnes, representing an increase of 14.37% as compared to last year. The total recycled sewage volume increased by 2,709,834.32 tonnes or 7.72% as compared to last year, mainly due to 1) the addition of the No.5 Amino Acid Plant by Fufeng Xinjiang, the largest water-consuming company in 2020, resulting in the change of the product structure and lower the recycling rate of the wastewater from the process of producing some new products; 2)the decrease in the recycling rate of reclaimed water from 92% to 60% as a result of the aging filtration membrane, as the reclaimed water treatment equipment of Fufeng Inner Mongolia, which ranks fourth in water consumption, has been in operation for 4 years.

Performance indicators	Unit	2019	2020
Total sewage discharge	tonne	12,395,246.19	**14,176,255.54**
Recycled sewage volume	tonne	35,086,239.00	**37,796,073.32**
COD	tonne	471.34	**497.79**
$N\text{-}NH_3$	tonne	46.95	**39.01**

In 2020, the main measures taken by the Group and its production companies to strengthen wastewater treatment are as follows:

From 2019 to 2020, Fufeng Xinjiang invested a total of RMB15 million in optimizing its existing sewage treatment facilities, including upgrading the aerobic tank and replacing aeration system, to reduce the anaerobic environment and odor discharge, which enhances the sewage treatment capacity and efficiency. Besides, the company upgraded two sets of secondary sedimentation basins to improve the flocculation of activated sludge. Moreover, it optimized the aerobic pipeline and built two new pumping stations to improve the sewage treatment effect. The total investment of Fufeng Xinjiang in wastewater treatment reached RMB197 million. However, it is expected that the sewage treatment facilities will not immediately achieve noticeable results until the middle of 2021 as they need to be adjusted for operation for a period of time.

Northeast Fufeng invested RMB3.984 million in building a deep extraction project of fermentation waste liquid to optimize the protein extraction production process by replacing the box-shaped open-channel flow plate frame with the box-shaped underflow automatic plate frame. In this project, the original four-effect falling film evaporator was upgraded to a powerful climbing film evaporator, with a new addition of a set of 60t/h evaporation equipment. The glutamic acid wastewater can be made into high-purity ammonium sulfate after the process of evaporation, concentration, crystallization and separation, and the mother liquor after extraction of ammonium sulfate can be further concentrated to produce organic fertilizer, which improves the wastewater treatment. In addition, the reclaimed water recycling project, which was invested and constructed by Northeast Fufeng, has already been put into use, and the wastewater from the wastewater treatment plant has been recycled and reused through equipment such as multi-media filtration, ultrafiltration and reverse osmosis. However, it is expected that the newly constructed water recycling facility will not have a good stability until the middle of 2021 as it needs to be adjusted for operation for a period of time.

In 2020, Fufeng Inner Mongolia invested RMB200,000 in upgrading the on-line monitoring equipment and replacing the wastewater outlet valve and 798 reverse osmosis membranes due to the aged filter membranes of water treatment equipment. Meanwhile, the company took an active part in the research of the wastewater treatment process and achieved a significant reduction in wastewater treatment sludge discharge volume by adjusting the degree of aeration in the aerobic tank.

As for greenhouse gas emissions

Carbon dioxide is the major greenhouse gas produced during the operation of Fufeng Group, which is derived from the combustion process of fossil fuel in the daily production of the Group, with a small amount produced in the wet limestone-gypsum desulphurization process. In 2020, the Group's greenhouse gas emission mainly generated from industrial production emission and gasoline and diesel emission of production companies, which totaled 8,314,074.19 tonnes of carbon dioxide equivalent, representing a decrease of 6.91% as compared to the previous year. With an increase in output of 5% in 2020, Fufeng Group actively implemented the overall energy management by strictly controlling utilization of coal and enhancing environmental efficiency. The concentration of greenhouse gases was 498.13 tCO_2e/million RMB revenue, representing a decrease of 9.80% as compared to the previous year.

Performance indicator	Unit	2019	2020
Emission from fuel coal combustion	tCO_2e	7,793,888.32	**7,207,105.43**
Raw coal emission	tCO_2e	912,540.94	**912,512.39**
Limestone emission	tCO_2e	55,185.14	**8,785.61**
Sodium carbonate emission	tCO_2e	78,402.99	**85,576.03**
Methane emission from sewage treatment	tCO_2e	43,520.85	**49,900.14**
Emission from vehicle fuel combustion	tCO_2e	6,206.67	**8,425.62**
Emission from external purchase of electricity	tCO_2e	41,052.93	**41,768.97**
Total emission of greenhouse gases	tCO_2e	8,930,797.84	**8,314,074.19**
Emission concentration of greenhouse gases*	tCO_2e/million RMB revenue	552.28	**498.13**

* *The greenhouse gas list of Fufeng Group includes carbon dioxide, methane and nitrous oxide, which are mainly generated from electricity from external purchase, combustion of fossil fuel and production processes. Greenhouse gas was presented in CO_2e and calculated in accordance with Baseline Emission Factors for Regional Power Grids in China 2017" (《2017中國區域電網基準線排放因子》) published by the Ministry of Ecology and Environment of the PRC and the 2019 IPCC National Greenhouse Gas Inventories (《2019年IPCC國家溫室氣體清單指南》) published by the Intergovernmental Panel on Climate Change (IPCC)*

* *Emission concentration of greenhouse gases in 2020 was calculated based on tCO2e/million RMB revenue*

As for waste discharge

In 2020, Fufeng Group continually strengthened its waste discharge treatment. As a result, the Group attached great importance to and further revised the management documents, including the Administrative Measures on Solid Waste, the Hazardous Solid Waste Management System, Regulations for Landfill Site Management and the Administrative Measures on Industrial and Domestic Waste Disposal in accordance with the requirements of the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste (GB18599) and the Standard for Pollution Control on Hazardous Waste Storage (GB18597) and the requirements of the Law of People's Republic of China on the Prevention and Control of Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法) and the Administrative Measures on Urban Domestic Waste (城市生活垃圾管理辦法). The production companies strictly complied with the relevant systems and regulations to implement the waste management.

Solid waste generated by the Group mainly includes domestic garbage, coal ash, slag and sewage sludge from waste water treatment plants, sugar dregs, bacterial protein, adsorbed and saturated activated carbon, anaerobic and aerobic sludge, iron sulfide produced by dry desulfurization of biogas, etc. The solid waste that meets the standard will be recycled or properly treated. Among the solid wastes, the domestic garbage was uniformly handled by the sanitation department of the industrial park where the Group is located. The Group has built a temporary storage site specialized for solid waste and set up a large-scale refuse collection station in its production companies. All domestic waste is re-collected and sorted centrally, forming a sound domestic garbage management system. This system is conducive to screening and reasonable and effective recycling work within the park. Coal ash and slag are transported from the workshop to factories specialized in innovative building materials, which are processed into aerated brick for internal use and external sales. Factories shall categorise the waste acid, waste lye, residual liquid or organic solvents generated during production and equipment maintenance, and reuse them for production purposes. Alternatively, the above mentioned waste items, after being processed and treated, shall be sold to qualified third parties for disposal, and unauthorised discharge of such items is strictly prohibited. The sewage produced by sewage treatment plants is used to produce organic fertilisers. All hazardous waste shall be processed by the relevant waste disposal institutions recognised by the local environmental protection authorities. The clearance, transportation and treatment of hazardous waste shall be recorded, managed and maintained properly. Each production company reused non-hazardous waste. For example, the sugar dregs and bean dregs are reused in the feedstuff; the desulfurized sewage sludge is used as organic fertiliser; the coal ash is used as aerated brick, and sunflower slag is burned in a boiler or composted.

In 2020, Fufeng Group transferred a total of 256.51 tonnes of hazardous waste, mainly due to the emission of engine oil for maintenance and repair. The emission decreased 1% as compared to 2019, and the emission density was 0.02 tonne/million RMB revenue. The Group transferred 918,308.96 tonnes of non-hazardous waste. The emission density increased by 8.95% as compared to 2019 and the emission of coal ash and sewage from wastewater treatment increased significantly. The increase in coal ash emissions was primarily attributed to a decrease in coal ash consumption as a result of the adjustment of certain product processes by Fufeng Baoji in 2020. The sewage from the wastewater treatment was mainly attributed to the direct treatment of the filtrate used originally for the production of feeds, as the sewage treatment process improved as compared to the same in the past due to the addition of a phase 3 aerobic tank by Fufeng Xinjiang.

Performance indicators	Unit	2019	2020
Total discharge of hazardous waste	tonne	258.90	**256.51**
Total discharge of non-hazardous waste	tonne	816,659.79	**918,308.96**

Performance indicators	Unit	2019	2020
Emission intensity of hazardous waste*	tonne/million RMB revenue	0.02	**0.02**
Emission intensity of non-hazardous waste*	tonne/million RMB revenue	50.50	**55.02**

* *Emission intensity of hazardous and non-hazardous waste is calculated based on tonne/million RMB revenue in 2020*

Smoke and dust and peculiar smell emission

Fufeng Group actively implements the Environmental Protection law of People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and the Emission Standards for Odor Pollutants (《惡臭污染物排放標準》) (GB14554-93) as well as other laws and regulations, pursuant to which, the Group continued to invest in equipment for prevention and control of stench or odor pollution during the production process over the past years, ensuring the safety and a comfortable workplace for its employees to improve the overall quality of work.

In order to further reduce peculiar smell emission, the Group continued to vigorously promote liquid fertilisers to further reduce and low the production of peculiar smell. The peculiar smell emitted by Fufeng Group was mainly generated from tail gas during the fertiliser production by using slurry-spraying granulation. After the deodorization by means of venturi scrubber, spray cooling, biosorption and plasma deodorization, and the peculiar smell met the requirements of the Emission Standards of lower than 20 stipulated by the Emission Standards for Odor Pollutants (《GB 14554-1993 惡臭污染物排放標準》), and SO_2 of around 30mg/Ndm^3 to 20mg/Ndm^3. The transformation project effectively controlled the smoke and dust and peculiar smell emission.

In 2020, the main measures taken by the Group and its production companies to strengthen the control of smoke and dust and peculiar smell are as follows:

Through the construction of the flue gas combustion upgrade project, Northeast Fufeng directly introduced part of fertilizer flue gas into the power boiler for combustion, which effectively removed the odor after combustion, and there was basically no odor after combustion.

During the inspection, Fufeng Xinjiang found that there was still an odor from the anaerobic process of the sewage treatment. The Company immediately made a plan to eliminate the odor from the source by building a phase 3 aerobic tank, which reduced a large amount of sewage from the anaerobic treatment and significantly reduced the emissions of unorganized exhaust from the anaerobic facilities. The low-temperature spray drying facility was shut down in May, and as a result the odor source caused by drying fertilizers has been completely resolved. Following recent years of inspections and continuous treatment on odor sources, the daily management has been gradually improved, and the odor concentration in the plant has been inspected on a monthly basis according to the testing plan. The test results show that the odor in the plant is consistently in compliance with the emission standard. Complaint letters and visits decreased significantly year by year, and no complaints were received in 2020.

A2 Use of Resources

Fufeng Group has been striving to promote green and low-carbon development, and making tremendous efforts to conserve energy and reduce emissions in strict compliance with the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》). Centering on the Outline of the 13th Five-Year Plan for National Economic and Social Development of the People's Republic of China, the Group, after taking into consideration its actual situations, proactively followed the latest policies, regulations and standards on energy conservation provided by national, local and industrial authorities, and continued improving management measures and increasing investments in technological transformation in the field of energy conservation. In 2020, through actively implementing the programme of improving resource efficiency, the production companies continued to strengthen the environmental protection concept of reducing the impact on environment by energy conservation, thus minimize the unnecessary use of resources. The production department is responsible for the comprehensive management of water, electricity, gas and other resources, and it is also responsible for calculating the usage monthly by means of the energy measurement instruments and meters and then assess the production companies based on such calculation. The production companies designated a full-time person in charge of maintenance of the metering instruments to ensure the accuracy of energy-saving measurement.

As for energy saving

Fufeng Group formulates and fully implements a series of rules and regulations according to the national GB/T23331—2012 standard, including the Working System for Corporate Energy Management, the Management System on Energy Conservation and Consumption Reduction, the Control Procedures for Energy Monitoring, Measurement and Analysis, the Energy Management Regulations and the Energy Conservation Management System, in which case, these control procedures and systems will be constantly improved based on the annual actual situations. In addition, the Group is equipped with energy measuring devices to monitor and measure the operation and results of energy management systems in each Group to ensure that the energy management systems operate effectively to achieve the expected energy performance. The Group makes great investments in rationalizing energy consumption, reducing energy costs, and improving energy efficiency, which is aimed at constantly improving the energy performance and energy management systems.

The Group implemented a three-tier energy-saving management framework, in which the energy-saving tasks will be implemented by the energy-saving leading taskforce of the Group, the energy-saving offices of production companies of the Group and functional department heads in charge of the energy-saving matters. Each production company implements a three-tier energy-saving management system, under which, a leading group is established for energy conservation and emission reduction. The general manager acts as the leader of the energy management group, the deputy general manager as the deputy group leader, the production department as the manager and executor of the energy management and each factory manager as a group member. Each leading group from the production companies organized the formulation of energy-saving management rules, energy-saving targets, and implementation. Supervisors shall carry out regular tour inspection over the energy consumption at the Company, including measurement and supervision, statistics check, and energy record access. Furthermore, these supervisors shall prepare effective energy analysis, and compile energy-saving reports on a monthly, quarterly and annual basis.

In 2020, the total output increased by 5%, resulting in an increase of 280,039.65 tonnes or 5.45% in coal consumption, an increase of 3,249,000 kWh or 5.58% in consumption of electricity from external purchase, and an increase of 718.93 tonnes or 36.50% in consumption of diesel oil, respectively. Fufeng Inner Mongolia ranked top one in term of consumption and growth rate, as the company upgraded its boilers for the purpose of the ultra-low emission of smoke in 2020, during which a large amount of diesel fuel was required for the frequent start-up of boilers. Consumption of diesel is expected to be reduced after this upgrade.

Performance indicators	Unit	2019	2020
Direct Energy			
Coal	Tonne	5,138,690.55	**5,418,730.20**
Gasoline	Litre	51,184.00	**47,979.14**
Diesel	Tonne	1,969.74	**2,688.67**
Indirect Energy			
Electricity	kWh	58,233,400.00	**61,482,400.00**
Total energy intensity*	GJ per million RMB revenue	10,818.34	**11,035.39**

* *Total energy intensity is calculated based on GJ per million RMB revenue in 2020*

In 2020, the Group and each of its production companies adopted the energy saving initiatives which mainly include:

Fufeng Xinjiang undertook two projects in energy conservation: the intelligent manufacturing project for key technologies for sodium hyaluronate biosynthesis has a total investment of RMB35 million. To promote technological advancement in the industry, the production process for sodium hyaluronate on our current the production line was upgraded by installing two new 35m^3 intelligent fermentation tanks, one remodified intelligent fermentation tanks, and one new GMP-certified automatic extraction system, all of which were accompanied by auxiliary systems and public facilities while the original artificially controlled fermentation tanks and extraction tanks were phased out. Upon completion of the project, it is expected to save 40% steam annually, significantly lowering production costs with an improvement in both product quality and production capacity. The high-yield production and quality improvement project using the L-tryptophan energy-saving technology has a total investment of RMB45 million. Using a biological technology, the said project generates high-yield microbial strains and eliminates low-yield strains. To this end, the project further installs four sets of 350m^3 intelligent fermentation tanks, as well as one set of microfiltration membrane system, 40T evaporator, flash drying system, and novel active intelligent packaging system, all of which were accompanied by auxiliary electrical distribution systems, cooling systems and other ancillary systems to transform and upgrade the traditional industries. In this case, the project successfully reduced energy consumption and industrial waste water during the production of tryptophan with improved product quality, boosting the annual production capacity of tryptophan from 8,000 tonnes to 11,000 tonnes. During our internal inspection, an electric motor was found listed in the Catalogue of Elimination of High-power Obsolete Electromechanical Equipment (Products) (the First, Second, Third and Fourth Batches), in which case annual energy consumption of 201,900 kWh (which is translated into electricity costs of RMB76,700) can be saved if such electric motor is replaced.

As for water conservation

Fufeng Group's water consumption is principally sourced from surface water (from the Yellow River and Nenjiang River), shallow ground water, and tap water, providing ample water for production activities. In strict compliance with the Water Law of the People's Republic of China and national, provincial, municipal laws and regulations, Fufeng Group thoroughly implements the water conservation policies. The Group strengthens its philosophy on water, water consumption and water conservation measures. Each production company actively promotes water-saving technological transformation projects including recycling of greywater, constantly strengthens the awareness of all employees about water conservation and increases investments in water-saving facilities. Meanwhile, each production company developed a Management System on Energy Conservation and Consumption Reduction to regulate water use and water conservation to continuously improve the relevant water conservation projects of the respective production company. The total water consumption of the Group in 2020 was 21,422,958.13 tonnes, representing an increase of 613,721.13 tonnes as compared to that in 2019, which was mainly attributable to 1) an increase of 5% in production volume as compared with the previous year, but the water consumption only increased by 2.95% as a result of the Group 's continued optimization of water saving measures; 2) an increase in consumption of fresh water, as Fufeng Inner Mongolian, which is the fourth largest water consumer, reduced the use of recycled water due to a decrease in the recycling rate of reclaimed water. In 2020, the Group's total water consumption intensity was 1.28 tonne/thousand RMB revenue, representing a decrease of 0.78% from 2019.

Performance indicator	Unit	2019	2020
Total water consumption	tonne	20,809,237.00	**21,422,958.13**
Total water consumption intensity*	tonne/thousand RMB revenue	1.29	**1.28**

* *Total water consumption intensity is calculated based on tonne/thousand RMB revenue in 2020*

Packaging materials

Packaging materials used by the Group are mainly composite packaging materials, paper packaging materials and plastic packaging materials. Due to the impact of the COVID-19 pandemic, foreign markets were hit by the downturn, leading to a lower export volume of products. The consumption of paper packaging materials decreased significantly as foreign customers generally require to use such packaging materials. The domestic sales have bounced back since 2020. The consumption of plastic packaging materials increased substantially as such packaging materials were frequently used for domestic products. Set out below is the total amount of various packaging materials consumed in 2020:

Performance indicator	Unit	2019	2020
Composite packaging materials	tonne	11,410.11	**11,089.70**
Paper packaging materials	tonne	11,161.32	**2,569.09**
Plastic packaging materials	tonne	508.93	**5,023.59**
Total consumption of packaging materials	tonne	23,080.36	**18,682.38**
Total consumption intensity of packaging materials*	tonne/thousand tonnes output	/	**4.10**

* *Total consumption intensity packaging materials is calculated based on tonne/thousand tonnes output in 2020*

A3 Environmental and Natural Resources

In 2020, Fufeng Group has no significant impact of environmental and natural resource use. The Group has been strenuously practicing the concept of green development and vigorously promoting the green development of the industrial chain in relevant provinces and cities. The Group and its production companies have qualifications for hazardous waste treatment, and clearly stipulate the economic procedures to be adopted in the occurrence of incidents that may cause environmental pollution. The Group reports all environmental-related information to local relevant departments in a timely manner, and will cooperate with relevant departments to conduct analysis and investigation to ensure that the production and operation of the Group have no significant impact on the environment and natural resources.

In order to implement the "factory-oriented" principle, the Group has introduced various measures in all its management and operation teams, which allows us to utilize the EAM big data system in the production process to reduce wear and tear on spare parts, rationalize maintenance, and extend the service life of materials, while efficient use of materials is encouraged to minimize waste generation and to achieve sustainable development. In doing so, the Group will raise the environmental awareness for energy saving and emission reduction among the present and the next generation.

Backed by a professional science research team and sophisticated equipment, the Group continues to upgrade its bio-fermentation technologies so that our productivity, our energy utilization, and resource recycling will be further improved.

B Society

B1 Product Responsibility

Besides recognizing the importance of product quality management and safeguarding food safety, Fufeng Group continues to improve and optimize the quality management of each production company every year, so that product safety and quality can be guaranteed, while the legitimate rights and interests of our consumers are protected. On the one hand, the Group vigorously implements the international standardization management system to ensure all work at the company level proceed in a regulated and standardized manner. On the other hand, the Group makes tremendous investments in its hardware construction, which aims to transform the manufacturing environment and technological equipment of each production company into a leading professional production line in the industry worldwide. By constantly improving and reforming our management system, the Group ensures high-caliber production process management under scientific management procedures, effectively manifesting its international leadership in product and service quality.

- **Management of Product Quality and Food Safety**

  Setting itself as an example, the Group strictly complies with the requirements of such laws and regulations as the Product Quality Law of the People's Republic of China 《(中華人民共和國產品質量法》), the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法》) and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法實施條例》) to highly control and manage its production processes. By continuing to adopt and improve a comprehensive set of management systems, including Quality, Environment, Occupational Health and Safety, Food/Feed Safety Management System, BRC Global Standard for Food Safety, HALAL Certification, KOSHER Food Certification, HACCP System Certification, FAMI-QS European Code of Practice for Animal Feed Additive and Premixture Operators, and Food Safety Modernization Act, the Group will ensure that the relevant production and operation activities of the Company meet the needs of customers, employees and relevant parties, while complying with applicable laws and regulations.

  In a bid to enhance product quality management, effectively trace and address quality issues, the Group has formulated the Fufeng Group Management Measures for Quality-related Reward and Punishment. The Measures center on customer needs and specify the extent of influence and the elements that affect quality. The Quality Standards on Finished Products and Semi-finished Products formulated by the Group regulates semifinished products over the production process. The Group establishes, implements and maintains the "Hazard Analysis Control Program" and "HACCP Plan Control Program" to control the production process of monosodium glutamate (MSG), threonine, glutamic acid, edible glucose, starch sweeteners (edible glucose and isomerized sugar), xanthan gum, chicken essence, xanthan gum, corn oil and other products. The Group's quality control department carries out product quality control training from time to time every year to ensure a constant improvement in the professionalism of our skilled employees.

The Group highly maintains the operation of the internal quality control system at each production company to effectively enhance and maintain the production quality control of each production company. The Group has set up a quality control department to regulate the testing standards and methods and stipulated the treatment principles and procedures at each production company, and introduced the Administrative Rules for Quality Control Department to cover operating procedures at all testing rooms in 2020. The Group has invested in a complete range of testing equipment to build testing laboratories that meet the national standards, and has obtained for its laboratory a CNAS certificate. All testing personnel have obtained corresponding qualification certificates.

Currently, the Group has set up an external testing mechanism. By preparing the Regular Submission Inspection Plan, each production company will send its products to third-party testing platforms for independent testing. Different products are inspected according to different inspection frequencies, such as every week, every batch, or every six months, to ensure that each inspection index meets national standards. This standardizes the inspection order and behavior, and achieves the validity and timeliness of production analysis inspection. In addition, the Group has an internal testing mechanism and testing technology center, and has established the "Regulations for the Daily Management of the Testing Technology Center" to coordinate with external testing mechanisms to ensure the quality supervision of the Group's products.

- **Rights and Interests of Consumers**

  Fufeng Group has persisted in listening and understanding the true opinions of consumers for many years, and actively follow up and deal with feedback promptly. The "Management System for Customer Complaint and Return and Replacement of Goods" and "Customer Satisfaction Measurement Control Procedures" were formulated to deal with customer complaints in a timely and effective manner, improve customer information management and service quality, enhance product quality, and better serve the market. The Group has set up the 400 complaint hotline service and collected customer complaints by email and from feedback given by our sales representatives. The Group also clarifies that the quality control department should collect and coordinate the complaints and carry out follow-up measures as to the handling results. There were no outstanding customer complaints in 2020.

  The Group has established the Product Recall Procedures and the Product Recall Emergency Response Plan to regulate and direct the emergency handling work and to effectively prevent, timely control and reduce the harmful effects of food safety incidents. Such procedure and plan safeguard the public health and life safety, while protecting the economic benefits of customers and the Group's corporate image, and define the duties and work procedures of the product recall procedure. The Group and each production company formulate recall drill plans for different products every year. In 2020, the Group did not experience any product recall.

- **Advertisement and Trademark**

  When selecting advertising media, Fufeng Group will conduct a scientific evaluation over the target audiences. In addition to ensuring accurate selection, Fufeng Group will focus on investing in those advertising platforms that enjoy higher frequencies in contact with target audiences of other media and brands and a higher dependency by target audiences, as well as advertising through further multiple-screen integration. By disseminating news about our corporate activities, and accentuating our leadership in the industry, our corporate image will be further enhanced.

  In terms of trademarks, the Group has established a standard Management System on the Use of Trademarks to regulate the trademark management of the Company, and establish, maintain and safeguard the corporate reputation and image, so that the Company can continue to maintain and improve the value of its trademarks as intangible assets. The Group has formulated the Brand Protect and Control Procedures to make further requirements on the management of trademark registration, operation and printing. In addition, the Fufeng Group VI Manual Management Regulations formulated by the Group has defined its examination and approval, design, inspection and acceptance, modification, supplementation, supervision and management on the VI system.

  The Group has established the Identifications and Retrospective Control Procedures, which carries out proper identifications on raw and auxiliary materials, semi-finished goods and finished goods used in the products and their supervision and condition examination, so as to ensure the traceability of the production and sales procedures of the products. Thus, any unexpected use and delivery can be prevented.

- **Intellectual Property and Commercial Secret Protection**

  Fufeng Group has enhanced and standardized the patent work management process and responsibilities by constantly improving the Management Regulations on Corporate Intellectual Property Rights. It has been also implementing the Management System of Commercial Secrets Protection to strengthen the management of the Group's commercial secrets and protect the legitimate rights and interests of the Group. In accordance with relevant laws and regulations in the PRC and the Management Regulations on Corporate Intellectual Property Rights, the Group has established its internal confidential system and requires all the personnel to sign trade secret agreements, while certain core technicians are further required to sign the Non-competition Agreement to protect the privacy of internal information of the Group.

B2 Employment

Fufeng Group believes that talent is an important asset and is vital to the business success and future development of the Group. We have been committed to providing an equal, respectful and diverse working environment for the employees of the Company, so that each employee can enjoy a good development within the Company. At the same time, we pay attention to the life-work balance of our employees and constantly improve our welfare policies to ensure that the working hours meet the requirements of laws and regulations, and protect the rights and interests of employees on leave. The Group continues to improve its scheme on talent introduction, retention and incentives, with a view of providing our employees with comprehensive channels and broad space for personal career development within the Group.

- ### Recruitment and dismissal

  In strict compliance with the requirements of laws and regulations such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Group has established a complete personnel management system and formulated the Recruitment Process System by adhering to the principles of fairness and openness to provide positions suitable for employees. The Group has developed clear position setting, employment process and recruitment principles. The Group recruits talents through various channels and hires talents upon comprehensive evaluation by the Company. Based on the employment conditions and requirements of recruitment positions, the Group prohibits any discrimination from factors such as gender, ethnicity, age, color, region, family status, etc. during the recruitment. Fufeng Group has formulated the Regulations on Staff Entry, Post Adjustment and Resignation Management of Fufeng Group and signs formal labor contracts with staff in accordance with national and local regulations. No child labor or forced labor was employed by the Group. The Group makes contributions to social insurance for its employees in accordance with national and local laws and regulations and effectively protects the legitimate rights and interests of its employees. In addition, the Group has established a dismissal management system in accordance with laws and regulations, and stipulates the relevant provisions in the employee contract to protect the legitimate rights and interests of employees.

- ### Remuneration

  Taking into consideration the general market conditions and local remuneration level, the Group has formulated competitive remuneration policies and systems to attract excellent talent. The Management Regulations on the Probation and Remuneration of the Intermediate and Senior Staff of Fufeng Group, the Remuneration Management Measures of Fufeng Group and the Staff Position Grade Management Measures of Fufeng Group Limited issued by the Group expressly stipulate its compensation policies for staff at different departments and levels, being annual-salary remuneration system for management personnel, hierarchy based remuneration system for technicians, four-tier remuneration system for general staff, 21-level remuneration system applicable to management, technology, function and administrative and supportive sequence, sales sequence remuneration system applicable to sales staff, and operation sequence remuneration system applicable to front-line workers. Every year, Fufeng Group is committed to ensuring that the average remuneration offered to its staff is competitive in the regions where business operations the Group and its subsidiaries are located, making timely adjustments to its remuneration policies with the assistance of external parties in response to changes in the external environment, and paying salaries in full and on time to effectively protect the legitimate rights and interests of employees.

- **Benefits**

  The Group makes contributions to pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund for its employees in accordance with national and local laws and regulations. It has also formulated its Staff Leave System according to the relevant national laws and regulations. With reference to the actual conditions of the Group to formulate the Staff Leave System, we offer our staff paid holidays, including annual leave, sick leave, marriage leave, maternity leave, funeral leave and work injury leave. In the meanwhile, the Group attaches importance to gender equality at work and has incorporated it into the standards of the Company. Subject to the local governmental regulations, the Group gradually improves the Staff Leave System and provides paternity leave for male employees and menstrual leave for female employees.

- **Talents development and promotion**

  The Group firmly believes that the talents are the most valuable assets of the Company and attaches great importance to the shared growth. The Group's human resources department and Business Schools regularly provide targeted induction trainings for various new employees to help new employees to understand the corporate culture and job requirements so that they can adapt to their work content and working environment as soon as possible. In the employee career development project, the Group will provide employees with appropriate trainings based on social development and the Group's development needs, so that they can keep up with the needs of the times and keep pace with the times. The Group actively creates a favorable development environment where talents can demonstrate their specialised skills in a planned way. In addition, the Group also endeavors to constantly improve the system of personal growth and development of employees by encouraging its employees to tap into their full potential and maximize their personal value, as well as by providing protection and creating conditions for employees to promote the growth and development of both our Company and our employees. At the same time, the Group constantly updates its internal concepts on talent cultivation based on the increasing requirements on the comprehensive quality of employees and the tendency of better educated and more professional business teams.

  In light of the industry situation and development needs, the Group timely adjusts and improves its talent reserve management mechanism to meet the Group's demand for a sound, reasonable and sustainable development by effectively selecting and training the reserve talent team. Meanwhile, the Group timely revises and improves the Fufeng Group Administrative Measures on Reserve Talents. Fufeng Group has a scheme to nurtures high potential Talents, with focusing on individual learning and training, to improve their professional competence. It also regularly follows up the progress of promotion and development.

  Reserve talents are composed of management reserve talents and technical reserve talents, among which management reserve talents include echelon talents, reserve cadres and assistant general managers. Reserve talents are selected from the grass-roots and middle management and backbone staff at all levels. Furthermore, based on the Fufeng Group Administrative Measures on Reserve Talents, strict control process is also implemented to screen true talents as key targets for further cultivation, thus enhancing the Group's core competitiveness.

- **Diversity**

  The Group strives for creating a diversified work environment by providing its employees with community service facilities, such as dormitories, bathhouses, hair salons, entertainment, audio-visual and sports facilities. It also organizes a variety of cultural and sports activities in public holidays to enrich leisure life and improve physical and mental health of its employees in all respects.

  (1) Cultural and sports activities

  From 29 April to 5 May 2020, Fufeng Inner Mongolia held a series of cultural and sports activities in celebration of Labour Day. Despite the prolonged pandemic conditions, our employees remained enthusiastic about participating in these activities. In addition to traditional competitions, such as basketball, table tennis, badminton, billiards and other fun activities, the know-how contests featuring "welding operation", "arc welding operation", and "gas cutting operation" were organized, spicing up the afterwork activities of our employees at the factory. On the afternoon of 5 May, Fufeng Inner Mongolia held a closing ceremony and awarding ceremony for the series of cultural and sports activities in celebration of Labour Day at the basketball court in the living area to award prizes to the award-winning staff and teams. In order to celebrate the arrival of the National Day and the Mid-Autumn Festival, a series of cultural and sports activities were organised during the period from late September to early October by the headquarters of the Group, Fufeng Baoji, Fufeng Inner Mongolia, Northeast Fufeng, Fufeng Longjiang and Fufeng Xinjiang. Our employees successfully demonstrated the sports spirit of striving for excellence and surpassing themselves in their strong will. These activities promoted the fighting spirit of Fufeng's employees, stimulated their dauntless, aggressive and valiant spirit, and further enhanced the strength and the sense of belonging of Fufeng's employees.

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(2) *Employee tourism activities*

On 18 June 2020, six tourist buses with the first batch of 307 employees drove out of the gate of Fufeng Inner Mongolia to Linhu Gusai, kicking off the 12-day employee tour of Fufeng Inner Mongolia. The employees could at their own will choose Linhu Gusai in Zhuozi County or Shenquan in Tuo County as their tourist destination. Linhu Gusai in Zhuozi County, the new tourist destination for this year, has become the preferred destination for the majority of our employees. As an AAAA National Tourist Attraction located at Dayushu Village, Zhuozi County, Ulanqab, Inner Mongolia Autonomous Region, it is a landscape leisure tourism destination integrated with sightseeing, experience, leisure, vacation and entertainment. During this relaxing sojourn, most employees strengthened their cohesiveness and sense of belonging and broadened their horizons while relieving their stress.

From 11 to 16 July, Fufeng Xinjiang arranged a summer tour and physical examination for its employees. Divided into two batch, this tour lasted two days, which was comprised of Tianshan Tianchi Scenic Area (which is famous for Yaochi) and TianShan Grand Canyon (a national forest park dominated by hiking) as the tourist destinations. With Tianchi as the center, Tianchi Scenic Area is covered by forests, grasslands, snowy mountains, and cultural landscapes, forming a unique landscape. Tianshan Grand Canyon covers all the natural landscapes of Xinjiang other than the desert, and is a living museum of nomadic culture before the farming civilization, with high tourism appreciation, scientific investigation and historical and cultural values. The physical examination based on the health of the employees was mainly a more comprehensive examination of common medical diseases. This summer tour and physical examination aimed to relax our employees before devoting themselves to the work in the next stage with full enthusiasm and earnestness, to enhance the cohesiveness and unity of the team, and to safeguard the health of the employees through regular physical examinations, so that the employees could strive for a better life and contributes to the Company in healthier condition.

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(3) Children's Day activities

As of 1 June 2020, as the kindergarten of the Company remained closed for the children of the "Second Generation of Fufeng" due to the impact of the pandemic, parents recently worked harder to take care of their children than in previous years. To provide the children of the "Second Generation of Fufeng" with an unforgettable and meaningful Children's Day, on the afternoon of 1 June, the Company held an activity with the theme of "Working Together to Realize Colorful Fufeng Dreams for Youth (五彩斑斕阜豐夢，攜手築夢少年行)" in the function room, where holiday gifts were distributed to children at the factory during the outbreak. On that afternoon, the children in the function room jumped for joy. The activity kicked off with the children's splendid dance "Happy Pigs", which received thunderous applause. Finally, the activity successfully ended with the laughter of the children. Despite a simple activity, the children of the "Second Generation of Fufeng" who have not seen their friends for a long time enjoyed the happy hours.

- **Anti-discrimination**

  In strict compliance with the national and local laws and regulations on equal treatment of persons of different race, sex, color, age, family background, religious belief and disability, Fufeng Group shows no discrimination against any employee. The Group guarantees that all employees enjoy the equal opportunities in respect of remuneration systems, training opportunities and promotion assessments under the same standards while ensuring that there is no discrimination or preference in recruitment and promotion.

B3 Employees' Health and Safety

Fufeng Group believes that staff safety is an important pre-condition of the sustainable development of the Group by taking production safety as its first priority. Fufeng Group is committed to providing a healthy, safe, comfortable and low-emission green work environment for its staff. The Company has firmly carried out its safety production management work, identified sources of dangers and managed related risks during the production in a effective way, with a view of standardizing its safety production procedures and minimising any occupational hazards or risks. Conscientious in implementing the guidelines, policies and system on safe production provided by superior authorities, the Group lays its work emphasis on enhancing management and striving for implementation, with its work guidelines of perfecting a safety organization, offering better safety training to all the staff and scrutinizing safety hazards.

In 2020, the Group has developed a comprehensive and regulative safe production system by continuously improving its system on safe production and occupational health responsibilities, system on hidden dangers investigation and rectification, system on accident report, investigation and handling, system on fire safety management, system on special operation management, and system on related party management, etc. The Group has further improved its dual prevention mechanism and created sound safety management atmosphere in accordance with the requirements of the national, provincial and municipal governments.

- **COVID-19 precautionary measures**

  The outbreak of COVID-19 pandemic at the beginning of 2020 brought unprecedented challenges, it is essential to the operation of Fufeng Group to ensure the physical and mental health of its employees. Therefore, the Group and its production companies have taken active solutions and prevention measures at work to provide a safe working environment for the employees.

  In order to implement the requirement of the Company's "Notice on Establishing a Leading Group for Epidemic Prevention and Control to Strength the Efforts in the Prevention of COVID-19 Pandemic", and effectively implement the epidemic prevention and control measures of the Company, to ensure the health and safety of the employees, Fufeng Inner Mongolia has formulated and strictly implemented the "Epidemic Prevention and Control Plan", "Management Measures for the Quarantine of Returned Personnel", "Material Support Plan for Epidemic Prevention and Control of Fufeng Inner Mongolia", "Epidemic Prevention and Control Monitoring System for Canteens and Leasing Merchants along the Street", "Emergency Response Plan for Novel Coronavirus Pneumonia Outbreak Prevention and Control-Fufeng", "Guidelines for Epidemic Prevention", "Interim Measures for the Disinfection Management of Living Areas and Production Areas During the Period of Epidemic Prevention and Control", "Administrative Measures for Staff Canteens During the Period of Epidemic Prevention and Control (Interim)" and "Monitoring System for Concerned Personnel for Epidemic Prevention and Control".

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Fufeng Xinjiang has established an epidemic prevention and control team and developed the "Plan for Regular Prevention and Control of COVID-19 Pandemic", "Disinfection Plan for Regular Prevention and Control of COVID-19 Pandemic", "Material Support Plan for Regular Prevention and Control of COVID-19 Pandemic", "Enterprise Closed Management Plan", "System for Zero Report in Concerned-personnel-intensive Premises", "Testing Sample Collection Plan for External Trucks", "Normalized Environmental Sampling Plan", "Implementation Plan for Regular Nucleic Acid Testing" and other prevention and control plan. So far, 9 nucleic acid tests have been organized for all employees, and nucleic acid tests are required to be regulated and controlled every seven days. Since the beginning of the outbreak this year, Fufeng Xinjiang has distributed over 30,000 surgical masks, over 10,000 sets of protective clothing, 15,000 pairs of protective gloves, 100 thermometers, over 10,000 face shields and 5,000 bottles of various types of disinfectant through external procurement and government subsidies, to ensure its regular epidemic prevention and control.

In accordance with the spirit of the documents for epidemic prevention and control from higher authorities and with referent to its actual situation, Northeast Fufeng has established an epidemic prevention and control team, issued 22 notices on the epidemic prevention and control and developed relevant systems, such as "Emergency Response Plan for Novel Coronavirus Pneumonia Outbreak Prevention and Control", "Emergency Response Plan for Nucleic Acid Tests of COVID-19 Pandemic" and management system for regular epidemic prevention and control. In addition, it conducted tests for returned personnel in strict accordance with the requirements of epidemic prevention and control at higher levels and no suspected or confirmed cases were found, which ensured the stability of production during the outbreak.

Fufeng Longjiang has established an epidemic prevention and control team, and formulated the "Epidemic Prevention and Control Plan of Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.", "Safety Production Plan during the Pandemic" and "COVID-19 Pandemic Prevention and Control Measures". The company conducted closed management and provided more than 10,000 medical disposable face masks to its employees during the pandemic.

Fufeng Group will remain vigilant to the development of COVID-19 pandemic and take necessary and appropriate measures to assist its employees in these extraordinary times.

- **Developing a Management System for Occupational Health and Safety**

  All subsidiaries have adopted GB/T 28001: 2011 Standard of Occupational Health and Safety Management System. The System has been established, followed by implementation and continual improvement.

  (1) Production Safety

  In order to further strengthen the safety management work of all relevant parties, the Group improved its "Reward and Punishment System for Safe Production" and "Special Operation Management System", specifying various requirements and safety measures and increasing penalties for violations. During the construction of the project, the Group regularly conducts safety education training assessment for construction personnel of relevant parties. During the training process, except explaining safety know-how and relevant rules of the Company's safety management, the Group further enhanced the safety awareness of construction personnel through accident case training, thus reducing the possibilities of accidents of related parties.

  In addition, the Group increased more efforts to identify and detect potential risks and relevant supervision and investigation, to strengthen the safety management at site. The improvement of safety management mainly lies in continuous improvement of human behavior, equipment defects, and working environment, while the identification of equipment defects and dangerous sources of working environment mainly lies in the intensity of identification, detection and rectification of potential risks. As for identification and detection of potential risks, the Group conducted various special safety inspections in combination with factors such as seasonal characteristics and production characteristics except daily inspections and monthly comprehensive inspections. The unsafety of objects and dangerous in the operating environment were regulated and managed by enhancing equipment, improving protective facilities, and adding safety signs.

  Daily inspection of key parts and positions in all subsidiaries was carried out, and any hidden danger problems found during inspection was notified to relevant responsible departments in a timely manner and rectified immediately. The company has special personnel to conduct daily inspections so as to identify and rectify hidden dangers in a timely manner, for those which will endanger personal safety would be assessed immediately; the Group conducts comprehensive inspections on management of each departments and conducts relevant safety assessment at the end of the month. According to the requirements of higher-level government departments and the Company's safety situation, special inspections of hazardous chemicals, fire-fighting facilities, special equipment, safe electricity, summer defense, and winter defense have been conducted in a timely manner to establish the concept of "hidden dangers will be accidents". Based on the risk classification control and the safety production responsibility system, and in accordance with national laws and regulations, standards, experience and lessons from accidents, the Company formed a closed loop composed of a safety hidden checklist for the position, team, workshop and the Company, hidden danger rectification notice and hidden danger receipt list to clarify the content and responsibilities and improve enforceability.

Meanwhile, the Group conducted accident case warning education to enhance employees ability to prevent accidents. In order to improve employees awareness of safety accidents, the Group collected relevant accident cases, produced accident case warning signs, and hung them at various process positions to enable employees to fully understand the causes and consequences of various accidents, so as to further enhance their safety awareness and improve their ability to prevent accidents. All subsidiaries have strengthened safety training and education, to enhance the safety awareness of all employees, and control unsafe behaviors.

The Group strictly implements management and control on special operation to reduce the probability of accidents, and implements key supervision on processes, equipment, facilities, places and positions with significant safety risks. In 2020, Fufeng Xinjiang began training all front-line operators on safety knowledge and accident cases, and the number of trainees reached 2,300. At the same time, the workshops were required to conduct safety knowledge training for employees before each shift per day, and maintain the training records for supervision and inspection by safety inspection personnel. The security department conducted random inspections and evaluations of training effects every month, and incorporated the evaluation results into the monthly safety assessment of the workshop. In December, management personnel were organized to conduct online training for the heads of workshops and departments and safety managers on laws and regulations, safety production and accident cases.

(2) Fire safety

The Group adheres to the fire prevention policy, which giving priority to prevention. Each subsidiary of the Group incorporates fire prevention know-how and fire-fighting skill training programmes into its annual education training plan. Meanwhile, external fire training institutions are invited to provide training on fire safety know-how for production units in its subsidiaries. Under the guidance of the external fire training institutions, some subsidiaries set up firefighting emergency teams and designated specific personnel to remain on duty in the fire control room. All fire-fighting emergency members have obtained fire-fighting qualification certificates, while volunteer firefighters receive monthly training. Furthermore, regular fire drills are conducted. Our fire brigade is equipped with fire trucks, fire suits, air respirators, fully sealed chemical-proof suits and other emergency protective devices to ensure the fire efficiency and the safety of the fire brigade. In strict compliance with different risks such as fire and leakage of toxic substances at production sites, the Group requires each subsidiary to set up corresponding leakage detection alarms, automatic fire extinguishers and sprinklers, and emergency equipment such as fire hydrants, which will be subject to monthly inspections to be conducted by the Group.

In order to ensure the performance of the security work and the sufficiency of the emergency rescue force, all subsidiaries increase efforts in the daily trainings and fire emergency skills training and emergency drills of security personnel in 2020. In terms of emergency rescue, rescue teams can arrive at the scene as soon as possible and immediately start rescue through daily drills. The Company conducts 24 hours monitoring of major fire areas, and maintenance of all fire protection facilities in accordance with standard requirements to ensure that fire protection facilities are in good condition. In 2020, Fufeng Xinjiang incorporated fire prevention know-how and fire-fighting skill training programmes into its annual education training plan, specifying the time, content, methods and responsible persons of the training, so as to ensure that the training can be effectively implemented. In addition, it invited the fire brigade of Ganquanbao Technology Development Zone in Urumqi to provide training on fire safety know-how for 46 people in charge of the company and safety management personnel and organized on-site escape emergency drills. 1,500 and 1,200 people were trained in practical exercises of fire-fighting equipment in June and in November, the fire-fighting month, respectively. In addition, in June, the company organized a fire emergency team, together with experts from the Emergency Management Bureau of Urumqi, to conduct emergency rescue drills in liquid ammonia stations and alcohol tank areas, and conducted anti-terrorism drills every day in response to the superior's action of the striking blows at the underworld force. Through these drills, the emergency response ability, emergency handling level, the abilities for self-rescue and escape and safety awareness of the employees were effectively improved.

(3) *Occupational Health*

In strict compliance with requirements of the Prevention and Control of Occupational Diseases Law of the PRC and the Production Safety Law of the PRC, Fufeng Group and its subsidiaries have formulated the Responsibility System for Safe Production and Occupational Health, which clearly stipulates the responsibilities of various departments in the prevention and control of occupational diseases, and regulates "Three Simultaneities" of occupational health, occupational hazard factor detection, occupational health pre-post, post-post physical examination, and the distribution of protection supplies for occupational disease.

B4 Employee Development and Training

Fufeng Group attaches great importance to the development and training of employees, and strives to create a development planning and training mechanism that meets Fufeng Group's development standards while taking into account the personal development needs of employees. According to the different development stages of the Group, regular training is provided to employees. Induction trainings are provided to new employees to enable them to fully understand the Group's development history and business processes, and help them quickly join in Fufeng Group. For recruited employees, training will be conducted according to the needs of employees' positions, and training courses will be updated in time to improve the comprehensive knowledge and skills of employees, and realize the simultaneous development of employees and the Group.

In 2020, Fufeng Group further strengthened the engine role of Fufeng Business Schools in employee development and training. Greater efforts were invested into the Fufeng Business School to fully utilize the organisation function of our Fufeng Business School in our training and strengthen the core role of general managers of the Group, deputy general managers and human resources departments and administrative officers in the training system. In addition, the Group will improve the four training management systems intended to further the career development of our employees and design and complete induction training for new staff, job qualification training, systematic training for professional skill enhancement and management knowledge training for management personnel. Fufeng Group fully tapped into its own resources by taking the "Fufeng Group Management Regulation on Lecturers" as a guide and recruited middle and high-level management as reserve forces for the second batch of internal trainers. In 2020, to strongly support the establishment of the information resource management platform of the Group, the Business Schools of the Group also organized a number of improvement courses in professional fields, which were widely recognized by employees.

B5 Supply Chain Management

The suppliers with first-class standards are essential to Fufeng Group's pursuit of high-quality products. In order to ensure that suppliers maintain their capabilities of supplying high-standard products, we have developed an effective and pragmatic supply chain management system, and implemented integrated management on the quality of product and service and social responsibility of suppliers, to continuously improve the sense of responsibility and ability of suppliers, and achieve win-win development of social responsibility with our supply chain partners on the basis of mutually beneficial cooperation and mutual benefit. The Group continued to improve its supplier management mechanism and promoted the establishment of lifecycle management mechanism comprising the certification, evaluation, and withdrawal of suppliers, and featuring unified management with tiered accountability, and formulated systems and documents to standardize operation. Meanwhile, the Group has set up a supplier access mechanism with a unified supplier database. To determine whether to include suppliers into our database, our Group will conduct a comprehensive range of considerations as to such suppliers, including their supply capacity, qualifications, production equipment, process conditions, capability of developing new products, staff training, and system certification.

At present, the staff of Fufeng Group, such as the quality control department and workshops, conduct on-the-spot investigation and factory inspections of the cooperative suppliers from time to time to promote the environmental awareness and social risk awareness of the suppliers, and ensure the safe production and the production quality of the suppliers. Suppliers are strictly required to produce in accordance with national standards and environmental protection requirements.

The supply department of each production company performs its daily management duties to suppliers in strict accordance with relevant system requirements. Adhering to the policy of responsible procurement, the supply department constantly improved its tendering and procuring systems. To promote fair competition, the Company implemented a transparent procurement policy so as to combat corruption and commercial bribery. By encouraging and supporting the procurement of responsible products and services, the awareness and capability of suppliers' fulfillment on responsibility has been enhanced. The Group explicitly sets forth its strict environmental requirements at the beginning of the procurement from suppliers. The Group has set clear inspection and acceptance standards for all kinds of raw materials. In addition, a strict arrival acceptance mechanism is set up to safeguard the quality of raw materials through an independent quality control process.

In assessing the quality, environmental and social performance of our suppliers during our daily management, we conduct regular assessments and reviews on the use of environmentally friendly products and services by our suppliers by means of self-inspection or entrusting third parties and will adopt the review results as an important basis for supplier selection, increasing orders, rewards and punishments.

B6 Labor Standards

As clearly stipulated in Fufeng Group System on the Recruitment Process formulated by Fufeng Group, Fufeng Group shall strictly comply with international labor standards, with new staff to be at least 18 years old. In addition, employment of child labour is strictly prohibited. In continual and strict compliance with the requirements of laws and regulations such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and Prohibition of Child Labor Provisions (《禁止使用童工規定》), the Group strictly reviews its employee's identity documents and academic degree certificate in the actual recruitment process to verify and check their age. As stipulated in the Fufeng Group Regulations on Staff Entry, Post Adjustment and Resignation Management, the Group shall enter into a labor contract with its new employees and an internship agreement with internship students (which could be covered into a labor contract upon their confirmation for remaining with the Company after graduation), to ensure non-use of child labor. The Group did not engage in child labor during the reporting period.

The Group strictly complies with relevant national laws and regulations on working hours. The employees' resting time is well respected and the employees enjoy paid holidays in accordance with laws and regulations. To maintain the physical and mental balance of the employees, a human resources attendance system is established and continuously improved to achieve effective and reasonable management in the working hours and resting dates of the employees. Any imposition of mandatory measures on employees in violation of laws or human rights of employees is prohibited. To avoid forced overtime work, staff shall be arranged for overtime work (if required) on a voluntary basis, with such work hours and pay in conformity with the requirements of local regulations.

B7 Anti-Corruption

Fufeng Group always considers integrity as the cornerstone of the sustainable and healthy development of the Group. In order to prevent the occurrence of corruption and bribery, the Group strictly complies with the requirements of laws and regulations, such as the "Group Law of the People's Republic of China" 《(中華人民共和國集團法》), the "Tendering and Bidding Law of the People's Republic of China" (《中華人民共和國招標投標法》), the "Anti-Unfair Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》) and the "Interim Provisions on Banning Commercial Bribery Acts" (《關於禁止商業賄賂行為的暫行規定》), guides the establishment of a sound anti-corruption mechanism, and has established and constantly improved the Administrative Regulation on Anti-Corruption of Fufeng Group. Meanwhile, in respect of system, the Group has newly formulated and issued systems and rules such as the External Codes of Conduct of Fufeng Group and System of Declaration of Conflict of Interest of Fufeng Group. The Group advocates adherence to the code of integrity, and fully implements the integrity work for every employee. Fufeng Group conducts integrity building and professional ethics training for all employees every year, to promotes a culture of integrity, and constantly strengthen employees' awareness of anti-unfair competition.

The Group has established the Anti-Fraud Management Regulation to regulate integrity management in the procurement business and marketing business. To prevent and combat unfair competition during procurement, the Group requires all procurement agents and suppliers to enter into an Agreement against Commercial Bribery (Procurement). To enhance the integrity management and strength of the marketing team and restrain the improper practices between its customers and the Company during the course of business, the Group requires all marketing personnel to enter into an Integrity Agreement and an Agreement against Commercial Bribery (Marketing) with customers, and the sales management department will inspect sales staff to help them actively implement the integrity policy. At the same time, the Group's audit department identified and determined integrity and fraud as the key monitoring item for the audit of departure, and managed it as the top veto item.

A sound monitoring and reporting mechanism is established within the Group along with specialized telephone line and email address for whistleblowing purposes. The Group will initiate the investigation proceeding with respect to complaints after being verified by the human resources and audit department. In case that any illegal action is perpetuated, such case will be handed over to the judicial authority. Every year, the Group conducts self-examination, self-reflection, self-correction, mutual assessment and reporting work from time to time, and imposes severe penalties against the discovered corruption. In 2020, the Group conducted trainings in a variety of forms for supervisory personnel to improve business quality and ability to perform duties.

B8 Community Investment

Fufeng Group fulfills its social obligations, and uses its own resources and influence to make contribution to the region where its subsidiaries are located. With an objective of being an advocate and practitioner in the field of social public welfare, Fufeng Group continued to advance on the road of public welfare, and actively engaged in education, culture, social assistance, and rural infrastructure construction.

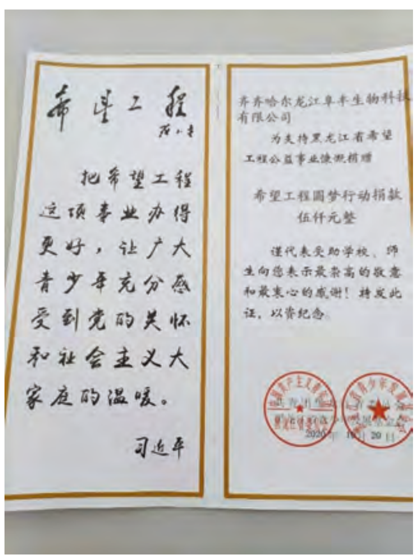
In 2020, the Group and Shandong Fufeng made substantial social donations. After the outbreak of COVID-19, Comrade Li Xuechun, chairman of Fufeng Group, actively participated in the epidemic prevention and control. He participated in the donation activity regarding the prevention and control of COVID-19 pandemic organized by the Charity Federation of Junan County (莒南縣慈善總會) and donated RMB2 million to the Charity Federation of Junan County for the prevention and control of the COVID-19 pandemic in Junan.

In the meantime, in response to his call and mobilization, the subsidiaries of Fufeng Group made donation of funds and materials according to the material needs of front-line prevention and control, fully demonstrating the homeland feelings and social responsibility of private enterprises and private entrepreneurs in Shandong. Since the outbreak of COVID-19 pandemic, Fufeng Group has donated a total of RMB4.3 million to help the epidemic prevention and control work.

During the pandemic, when we were informed of an urgent shortage of pandemic materials in the towns under Ang'angxi District, such as disinfectants, Fufeng Longjiang immediately donated a total of more than 100 barrels of disinfectants (with a concentration of 500 PPM) stored at the beginning of the year (except those for the daily routine at our production workshops) to Ang'angxi District Government and administrative authorities at the township and village levels, safeguarding the public health throughout the entire district. In addition, Fufeng Longjiang also tried to assist the government in resolving the shortage of supplies and vehicles. For instance, even when we were in need of business vehicles, we still deployed some of our own to purchase, distribute, and deliver supplies, thus securing the prime time for the pandemic prevention and control in Ang'angxi District.

Besides donating 500 kilograms of ethanol as part of pandemic supplies to the district government, Fufeng Xinjiang assisted villagers and the local government in vegetable transportation.

In October 2020, Fufeng Longjiang made a donation of RMB5,000 to "Project Hope Action" (希望工程圓夢行動) under the Heilongjiang Province Project Hope Charity.



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Fufeng Longjiang was awarded the honorary title of "Caring Company for Disability" after donating five tons of organic fertilisers to assist low-income families with severely disabled persons in the Ang'angxi District during the 30th National Disability Day.

On 17 January 2020, Northeast Fufeng donated 30 tons of coal to economically underdeveloped villages. On February 1, Northeast Fufeng donated RMB1 million to the Zhalantun Red Cross Society for pandemic prevention and control. On May 7, Northeast Fufeng donated more than RMB300,000 worth of fertilisers to surrounding villages. On September 30, the Northeast Fufeng donated RMB50,000 to financially challenged college students. In October, Northeast Fufeng donated more than RMB40,000 to financially challenged elementary students.

In 2020, Fufeng Xinjiang visited various key underprivileged families admitted to the aid program in Hongliu Village and Wutong Village during the festivals, bringing these extremely underprivileged families daily necessities, including rice, noodles, and oil, as a gesture of affinity and solicitude, and provided a monthly cash payment of RMB500 for more than 20 households registered as living in poverty. This helped promote an amicable community relationship between the Company and the minority ethnicities. In March, Fufeng Xinjiang solved the problem of employment and placement of 12 underprivileged households in South Xinjiang and donated 32 tonnes of chemical fertilizer for spring ploughing in Aketuohai Village, Wushi County, Aksu, helping to promote poverty alleviation in South Xinjiang. This winter, Fufeng Xinjiang also offered coal with a value of RMB4,500 and heating fees of RMB320,000 to the underprivileged households to help them survive the cold winter.

On 8 March 2020, our trucks arrived at Tuanjie Village, Wushen Town, Togtoh County, with 50 tonnes of fertilisers delivered to villagers at Tuanjie Village. To ensure smooth cultivation and production activities at Tuanjie Village, Fufeng Inner Mongolia was in active pursuit of corporate social responsibility, delivering 50 tonnes of fertilisers free of charge. On March 22, Fufeng Inner Mongolia actively implemented social responsibility to provide fertilisers to Xiaocunfang Villagers for free distribution. As early as 2016, Fufeng Inner Mongolia started to engage in poverty alleviation at Xiaogangfang Village, including donations of grain and oil, computers, clothing and other supplies, and resolved some employment issues. Furthermore, the company's employees made visitations as representatives on major festivals. On the morning of 29 September, a donation ceremony was held by Xiaogangfang Village Committee in recognition of the poverty alleviation funds and supplies donated by Fufeng Inner Mongolia to Xiaogangfang Village. At the donation ceremony, Li Xuepeng, the general manager of Neimenggu Fufeng Biotechnologies Co., Ltd., donated cash of RMB30,000 and 20 tonnes of feeds worth more than RMB30,000 to Xiaogangfang Village on behalf of the company. According to Mr. Li, the company earned recognition from the villagers for their ongoing and enthusiastic involvement in public charity and assistance in poverty alleviation despite the severe pandemic impact this year.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance practices. Continuous efforts are made to review and enhance the Group's internal controls and risk management procedures in light of changes in regulations and developments in best practices.

Corporate Governance Code

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 had complied with the Revised CG Code for the year from 1 January 2020 to 31 December 2020 except for the following:

Code provision A.6.7 of the Revised Code: The Independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. 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.

Board of Directors

The Board comprises (i) three executive Directors, Mr. Li Xuechun, Mr. Li Deheng, and Mr. Li Guangyu; and (ii) three Independent non-executive Directors, Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Board. Mr. Li Xuechun is the father of Mr. Li Guangyu and the brother- in-law of Mr. Li Deheng. The Group has appointed Mr. Li Deheng as the chief executive officer since 1 June 2020.

For details of the Directors' biographical information, please refer to the section headed "Biographies of Directors and Senior Management".

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is collectively responsible for promoting the success and interest of the Group through its leadership and supervision. The principal tasks of the Board are to:

– provide entrepreneurial leadership for the Company with a framework of prudent and effective controls which enables risks to be assessed and managed;

– set the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review its management performance; and

– set the Company's values and standards and ensure that its obligations to its Shareholders and others are understood and met.

No event or condition of material uncertainties was found that may cast significant doubt about the Company's ability to continue as a going concern during the year. The Directors were responsible for the preparation and the true and fair presentation of the financial statements of the Company, in all material respects, in accordance with applicable regulatory requirements.

The Division of Responsibilities Between the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group)

The roles of the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group) should be separated. Mr. Li Xuechun, being the chairman of the Group, is responsible for the orderly conduct and operation of the Board while Mr. Li Deheng, being the General Manager of the Group, is responsible for the daily operations of the Group. The division of responsibilities between the Chairman and the General Manager is clearly established.

The main duties of the Chairman include providing leadership for and overseeing the functioning of the Board; formulating overall strategies and policies of the Company; ensuring that all directors of the Board are properly briefed on issues arising at Board meetings and giving each director an opportunity to express his view at board meetings; ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner; ensuring that the Board works effectively and discharges its responsibilities; ensuring that all key and appropriate issues are discussed by the Board in a timely manner; drawing up and approving the agenda for each board meeting taking into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda; taking responsibility for ensuring that good corporate governance practices and procedures are established; encouraging all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company; ensuring that appropriate steps are taken to provide effective communication with Shareholders and that views of Shareholders are communicated to the Board as a whole; and facilitating the effective contribution of directors and ensuring constructive relations between executive directors and non-executive directors.

The duties of the General Manager include taking responsibility for the Group's operation and management; implementing decisions and plans approved by the Board; making day-to-day operational and managerial decision; and coordinating overall business operations.

Independent Non-Executive Directors

Independent non-executive Directors have been appointed for a term of two years. They are subject to retirement and re-election in accordance with the Company's Articles of Association.

In accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, the Board is of the view that all independent non-executive directors are independent and the Company has received an annual confirmation of independence from each of the Independent non-executive Directors of the Company pursuant to the Listing Rules. As the three Independent non-executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management.

Company Secretary

The Company Secretary is a full time employee of the Company and reports to the Chairman of the Board and the General Manager. He is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has more than 27 years of working experience in finance and accounting including over 13 years experience as company secretary of Hong Kong Listing Company. He confirmed he has taken no less than 15 hours of relevant professional training.

Skills, Knowledge, Experience and Attributes of Directors

All Directors of the Board had served in office during the year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to high standards of corporate governance. The executive Directors bring their perspectives to the Board through their deep understanding of the Group's business. The Independent non-executive Directors contribute their own skills and experience, understanding of local and global economies, and knowledge of capital markets to the Group's business. The Company is responsible for arranging and funding suitable continuous professional development programmes for all Directors to hone and refresh their knowledge and skills.

Directors' Induction and Continuous Professional Development

Upon appointment to the Board, each newly appointed Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enrol in a wide range of professional development courses or and seminars relating to the Listing Rules, companies ordinance or act and corporate governance practices organised by professional bodies and independent auditors so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written materials to develop and refresh their professional skills; the company secretary also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the year:

Director	Corporate Governance/ Updates on laws, rules and regulations	
	Read materials	Attend workshops
Executive Directors		
Mr. Li Xuechun	✓	✓
Mr. Li Deheng	✓	✓
Mr. Li Guangyu	✓	✓
Mr. Zhao Qiang (resigned on 1 June 2020)	✓	✓
Mr. Yu Yao Ming (resigned on 20 July 2020)	✓	✓
Independent non-executive Directors		
Mr. Lau Chung Wai	✓	✓
Mr. Xu Zheng Hong	✓	✓
Ms. Zheng Yu	✓	✓

Board Meetings

The chairman is responsible for the leadership of the Board, ensuring the effectiveness of the Board in all aspects of its role, setting agenda for board meetings, and taking into account any matters proposed by other Directors for inclusion in the agenda. Agenda and related board papers are circulated at least 7 days before the time of a board or committee meeting where possible.

The chairman is also responsible for making sure all Directors are properly briefed on issues arising at board meetings. The chairman also ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Company through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at head office and in the divisions.

All Directors have access to the services of the company secretary who regularly updates the Board on governance and regulatory matters. Any Director, who wishes to do so in the furtherance of his or her duties, may seek independent professional advice through the chairman at the Company's expense. The availability of professional advice extends to the Audit, Remuneration and other Committees.

Regular Board meetings will be held at least four times a year and the Board will convene other meetings when necessary. Before a Board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the Code. For the year ended 31 December 2020, five regular Board meetings and one annual general meeting were held. Individual attendance of each director at the Board meeting and the annual general meeting during 2020 is set out below:

Minutes of Board meetings are taken by the company secretary or the secretary to the Board and, together with any supporting Board papers, are available to all Board members. Board meetings are structured to encourage open and frank discussions to ensure the non-executive Directors provide effective enquiries to each executive Director. When necessary, the Independent non-executive Directors meet privately to discuss matters which are relevant to their specific responsibility.

In furtherance of good corporate governance, the Board has established three committees: Audit Committee, Nomination Committee and Remuneration Committee. All committees have its terms of reference which fulfill the principles set out in the CG Code. The secretary of the Board takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout the year, no claim had been made against the Directors and the officers of the Company.

Director	Board meeting attendance	Annual general meeting attendance
Executive Directors		
Mr. Li Xuechun *(Chairman)*	5/5	1/1
Mr. Li Deheng	5/5	0/1
Mr. Li Guangyu	5/5	0/1
Mr. Zhao Qiang (resigned on 1 June 2020)	1/5	0/1
Mr. Yu Yao Ming (resigned on 20 July 2020)	2/5	0/1
Independent non-executive Directors		
Mr. Lau Chung Wai	5/5	1/1
Ms. Zheng Yu	5/5	0/1
Mr. Xu Zheng Hong	5/5	0/1

Corporate Governance Functions

The Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Model Code on Securities Transactions

The Company has adopted the Model Code. Having made specific enquiry of all Directors, the Directors have complied with the Model Code since the Listing Date.

Accountability and Auditor's Remuneration

The Directors acknowledge their responsibility for preparation of consolidated financial statements of the Group. This responsibility has also been mentioned in the independent auditor's report on page 93.

The Board had conducted a review on the system of risk management and internal control of the Group and considers that the system of risk management and internal control is effectively operated.

The professional fee payable to the auditors of the Group in respect of the audit and non-audit services provided by the auditors of the Group is as follows:

Type of services	Amount *(RMB'000)*
Audit services	4,006
Non-audit services	1,000
	5,006

Non-audit services mainly represented the professional fee payable of the Group for the service related to the projects of internal control review.

Audit Committee

The Audit Committee, established with written terms of reference in compliance with the Code, comprises three Independent non-executive Directors, Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Lau Chung Wai is the chairman of the Audit Committee.

The principal functions of the Audit Committee are to review the Group's audit, interim and annual accounts of the Group and the system of risk management and internal control of the Group.

The Audit Committee meetings will be held at least twice a year. For the year ended of 31 December 2020, two Audit Committee meetings were held with Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu attended all the meetings.

The purpose of the meetings was to review the Group's results for the year 2019, the interim results for the year 2020 as well as discussing the risk management assessment and the internal control review and the audit of the Group. The Group's 2019 annual report and 2020 interim report have been reviewed by the Audit Committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements.

Risk Management and Internal Control

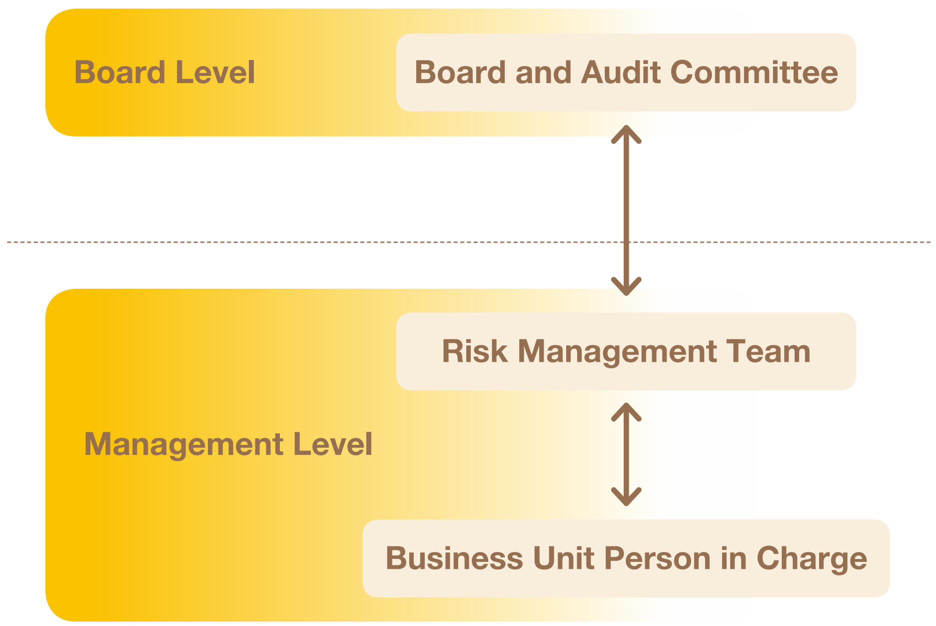
The Board acknowledges that an effective system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the assets of the Group at all times, it has conducted a review of the risk management and internal control systems during the reporting year.

The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk management and internal control framework

Risk Management

In order to continuously improve the risk management and internal control systems, as well as to enhance the level of management and risk prevention capabilities, the Company has developed a risk management manual ("Risk Management Manual"), established risk management strategy and structure, as well as defined the measures for risk assessment and risk management reporting procedures during the reporting year. The organisational structure for risk management is set out as follows:



The Board and Audit Committee oversee the structure and performance of the risk management functions, and assess the effectiveness of the underlying risk management system.

The Risk Management Team of the Group ("Risk Management Team") comprises an executive Director and management personnel from the Group. The team aims to promote the awareness of risk management in daily operations. The Risk Management Team is responsible for coordinating and conducting risk assessments in accordance with the Risk Management Manual.

Management of business units work together with the Risk Management Team to perform risk assessment at operational level, and is responsible for monitoring and managing the risks identified in activities and operations. Risk Management Team is responsible for reporting risk management status to the Board and Audit Committee.

The four key steps in the risk management process are:

- **Risk identification and assessment** – identify the key risks of the Group and analyse the risk by considering the possibility of occurrence and the impact to the Group;
- **Risk handling** – adopt an appropriate risk management strategy (i.e. risk response) for each key risk;
- **Risk monitoring** – apply monitoring mechanism to ensure the risk response are operated effectively;
- **Risk reporting** – summarise the result of risk assessment and report to Risk Management Team.

In the risk management process, the top risks within the Group are identified and assessed; and the respective risk management measures as well as the corresponding mitigating controls are discussed, agreed and implemented by the management. Risk assessment results are reported by Risk Management Team to the Board and Audit Committee annually.

Internal Control

The Company has established internal audit function and regularly carries out reviews on the effectiveness of the internal control in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

In addition, the Board and the Audit Committee have also appointed professional accounting firms to take turns to review, on behalf of the Board and the Audit Committee, the effectiveness of the internal control system for all the principal business of the Group. The Audit Committee formulates and approves the scope of review for the professional accounting firms, who have already reported to the Board and the Audit Committee on the main results of internal control review. According to the results, there is room for improvement, but no material issues. The Group will provide proper follow-up on all the recommendations by the professional accounting firms, to ensure the execution of such recommendations within a reasonable timeframe. The Board and the Audit Committee are of the view that the main part of the Group's internal control system has been implemented on a reasonable basis.

Review the effectiveness of the risk management and internal control systems

The Risk Management Team assisted by professional accounting firms has made the annual risk assessment during the year. It is reported to Audit committee. Key risks are identified and their responsive mitigating controls are documented in the risk registers and reported to the Board by the Audit committee and Risk Management Team.

Through the audit committee and risk management team, the Board has reviewed the risk management and internal control of business operations for the year ended 31 December 2020, and considered that the risk management and internal control systems were effective and sufficient. The management has provided confirmation as to the effectiveness of the system for the year ended 31 December 2020 to the audit committee and the Board. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. No significant areas of concern that may affect the Company to achieve strategic goals have been identified.

Disclosure of inside information

The Company has established policies and internal controls for the handling and dissemination of inside information to ensure that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations. The Company has implemented procedures for responding to external enquiries about the Group's affairs and has in place a strict prohibition on unauthorised use of inside information.

Remuneration Committee

The Remuneration Committee established in compliance with the Code, comprises an executive Director, Mr. Li Xuechun and three Independent non-executive Directors, Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Lau Chung Wai is the chairman of the Remuneration Committee.

The principal functions of the Remuneration Committee are to review, develop and approve the Group's policy on remuneration of all Directors and senior management for the purpose of retaining and attracting talent to manage the Group effectively. The Directors and their associates do not participate in the decisions in relation to their own remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions else where in the Group and desirability of performance-based remuneration so as to align management incentives with Shareholders' interests.

The Remuneration Committee meetings will be held at least once a year. For the year ended of 31 December 2020, one Remuneration Committee meeting was held. Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu attended the meeting. The meeting of the Remuneration committee was duly held for reviewing and determination of the annual remuneration packages of the executive Directors. The Remuneration committee consults the chairman and general manager about its proposals relating to the remuneration of other executive Directors.

Remuneration of Senior Management

The biographical details of the senior management are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

The remuneration paid/payable to senior management other than the Directors of the Company for the year ended 31 December 2020 fell within the following band:

	Number of Individuals
RMB1,000,001 to RMB1,500,000	1
RMB1,500,001 to RMB2,000,000	1
RMB3,500,001 to RMB4,000,000	1

Nomination Committee

The Company has established a Nomination Committee on 20 March 2012 in compliance with the Code. The Nomination Committee is responsible for the appointing of new directors either to fill casual vacancies or as additional Board members. The Nomination Committee comprises one executive Director, Mr. Li Xuechun and three Independent non-executive Directors, Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Nomination Committee. For the year ended of 31 December 2020, no Nomination Committee meetings were held.

Shareholders' Rights

The Company recognises the importance of good communications with the Shareholders and the investment community and also recognises the value of providing current and relevant information to Shareholders and the investors. The Board has established a Shareholders' communication policy setting out the principles of the Company in relation to the Shareholders' communication, with the objective of ensuring the Shareholders and investors are provided with ready, equal and timely access to current and relevant information about the Company.

The Company maintains on-going dialogue with Shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered Shareholders are notified by post for the Shareholders' meetings. Notice of meeting contains agenda, proposed resolutions and postal voting form.

All registered Shareholders are entitled to attend annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Annual and interim reports offer comprehensive operational and financial performance information to Shareholders and the annual general meeting of the Company provides a forum for Shareholders to exchange views directly with the Board, which together help enhance and facilitate communication with Shareholders. Shareholders who are unable to attend a general meeting may complete and return to the Company's Share Registrar the proxy form enclosed with notice of meeting to give proxy to their representatives, another Shareholder or chairman of the meetings.

Investor Relations and Communications

The Company recognises the importance of efficient and effective communications with the investor community. Briefings and meetings with institutional investors are conducted regularly to provide them with up-to-date and comprehensive information about the Group's development. Besides, the Company facilitates the initiation and coverage of the Company published by research analysts of well-received investment banks which are instrumental in providing investors with independent and professional evaluations of the Company. Moreover, the Group participates in different international forums and overseas non-deal roadshows to elaborate on the Group's business development plans to global investors. Furthermore, the Company arranges site visits for investors to our main plants in China. Last but not least, the Company has established a function dedicated to investor relations and engaged an external public relations company to take care of investor relations matters. The Company also maintains a website (http://www.fufeng-group.com) which renders Shareholders, investors and the general public direct access to the information of the Company on a timely basis.

In order to enable Shareholders to exercise their rights in an informed manner, and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders may at any time send their enquiries and concerns to the Company via the Company's website at www.fufeng-group.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

2020	Investor Relations Events
Jun	Essence International Securities – Essence International 2020 Summer Overseas Investment Forum
Oct	Bank of America – 2020 Asian Credit Conference
Nov	UBS – UBS 5th Annual DCM European-Asian Virtual Conference

Directors' Report

The Board has the pleasure in presenting the report and the audited financial statements of the Group for the year ended 31 December 2020.

Principal Activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 13 to the consolidated financial statements.

Result and Appropriations

Results of the Group for the year ended 31 December 2020 are set out under the consolidated income statement on page 98.

Interim dividend paid after the interim period of HK5.8 cents (equivalent to RMB5.22 cents (2019: HK9.3 cents (equivalent to RMB8.34 cents)) per Share totaling HKD146,951,000 (equivalent to RMB132,256,000). The Board recommends the payment of a final dividend of HK4.1 cents (equivalent to RMB3.43 cents) per Share totaling HKD103,879,000 (equivalent to RMB87,003,000) for the year ended 31 December 2020.

Material Acquisitions or Disposal of Subsidiaries and Associated Companies

The Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2020.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 25 and 35 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movement in property, plant and equipment of the Group and of the Company are set out in Note 14 to the consolidated financial statements.

Share Capital

Details of the movement in share capital of the Company are set out in Note 23 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2020, the Company's reserves available for distribution to the Shareholders amounted to RMB318,956,000 (2019: RMB269,093,000).

Directors

As at the date of this report, the Board comprised:

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Li Deheng
Mr. Li Guangyu
Mr. Zhao Qiang (resigned on 1 June 2020)
Mr. Yu Yao Ming (resigned on 20 July 2020)

Independent Non-executive Directors

Mr. Lau Chung Wai
Mr. Xu Zheng Hong
Ms. Zheng Yu

Biographical details of the directors of the Group are set out in the section headed "Biographies of Directors and Senior Management".

According to Article 87 of the articles of association of the Company, Mr. Li Guangyu and Mr. Xu Zheng Hong should retire by rotation and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Director, Mr. Li Guangyu, proposed for re-election at the forthcoming annual general meeting has a service contract with the Company for an initial term of three years commencing from 1 April 2010. They are renewable automatically for successive terms of one year each commencing from the day following the expiry of the then current term unless and until (i) terminated by either party there to giving not less than three months' prior written notice with the last day of the notice falling on the last day of the initial term or any time thereafter; or (ii) the Director not being re-elected as a Director or being removed by shareholders at general meeting of the Company in accordance with its articles of association.

The Independent non-executive Director, Mr. Xu Zheng Hong, proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company for two years commencing from 30 November 2020 and is subject to the requirement on rotation, removal, vacation or termination of office according to the articles of association of the Company, the relevant laws and the Listing Rules.

As at 31 December 2020, there was no service contract which was not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any Director proposed for re-election at the forthcoming annual general meeting.

Contract of Significance

The Company neither has any contract of significance between the Company, or any of its subsidiaries, and a controlling Shareholder or any of its subsidiaries nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries.

Business Review

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.

Compliance with Relevant Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements could lead to adverse impact on business operation and financial position of the Group. During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Relationship with Suppliers, Customers and Other Stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with suppliers and customers. During the Year, there was no material and significant dispute between the Group and its suppliers and/or customers.

Directors' Interests in Shares

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 31 December 2019, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position

Name of Director	Name of company	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
Li Xuechun	The Company	Interests of controlled corporation *(Note 1)*	995,217,461 Shares	39.28%
Li Deheng	The Company	Interests of controlled corporation *(Note 2)*	33,320,160 Shares	1.32%
Zheng Yu	The Company	Beneficial interest *(Note 3)*	300,000 Shares	0.01%
Zheng Yu	The Company	Interest of spouse *(Note 4)*	227,000 Shares	0.01%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.

2. The interest in these Shares is held by Empire Spring Investments Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Li Deheng, an executive director of the Company. Accordingly, Mr Li Deheng is deemed to be interested in all Shares held by Empire Spring Investments Limited under the SFO.

3. These shares represented the Shares which might be allotted and issued to Ms. Zheng Yu, an Independent non-executive Director who was appointed on 31 December 2012, upon the exercise in full of the option granted to her.

4. The interest in these Shares is held by Wei Wei, who is husband of Ms. Zheng Yu. Ms. Zheng Yu is deemed to be interested in all Shares held by Wei Wei under the SFO.

Save as disclosed above, as at 31 December 2020, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests of Person Holding 5% or More Interests

As at 31 December 2020, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
Motivator Enterprises Limited *(Note 1)*	The Company	Beneficial interests	995,217,461 Shares	39.28%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	995,217,461 Shares	39.28%
Treetop Asset Management SA	The Company	Beneficial interests	405,424,314 Shares	16.00%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.

2. Ms. Shi Guiling is the spouse of Mr. Li Xuechun. Accordingly, she is also deemed to be interested in the 995,217,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

Save as disclosed above, as at 31 December 2020, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

Arrangements to Purchase Shares or Debentures

Save as disclosed in the below section of share options regarding, no time during the year was the Company, or any of its subsidiaries or the Company's holding Company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Share Option Scheme

On 10 January 2007, the Shareholders approved the adoption of the Post-IPO Share Option Scheme (the "Post-IPO Share Option Scheme"). A summary of the principal terms of the Share Option Scheme, as disclosed in accordance with the Listing Rules, are as follow:

The purpose of the Post-IPO Share Option Scheme is to enable the Group to grant the share options to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity.

Under the Post-IPO Share Option Scheme, the Directors may grant share options to the following persons or entities (the "Eligible Participants") to subscribe for shares in accordance with the provisions of the Post-IPO Share Option Scheme and the Listing Rules:

(a) any employee (whether full-time or part-time and including any executive Director but not any non-executive Director) of the Group or any entity in which any member of the Group holds an equity interest (the "Invested Entity");

(b) any non-executive Director (including Independent non-executive Directors) of the Group or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity; and

(e) any consultant, adviser, manager, officer or entity that provide research, development or other technological support to the Group or any Invested Entity.

The total number of shares issued and which may fall to be issued upon exercise of the share options and the share options granted under any other share option scheme of the Group (including both exercised or outstanding share options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

In respect of any particular option, the Directors shall be entitled at any time within 10 years commencing on 8 February 2007 to make an offer for the grant of a share option. For any option granted under the Share Option Scheme, the maximum period as the Directors may determine shall not be later than 10 years. There is no minimum period required under the Post-IPO Share Option Scheme for holding of the share options before it can be exercised. The Post-IPO Share Option Scheme has expired on 7 February 2017.

An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the letter by the grantee together with a remittance in favour of the Company of HKD1.00 by way of consideration for the grant thereof is received by the Company.

The exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

On 12 May 2017, the Shareholders approved the adoption of the New Share Option Scheme (the "New Share Option Scheme"). A summary of the principal terms of the Share Option Scheme, as disclosed in accordance with the Listing Rules, are as follow:

The purpose of the New Share Option Scheme is to enable the Group to grant the share options to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity.

Under the New Share Option Scheme, the Directors may grant share options to the following persons or entities (the "Eligible Participants") to subscribe for shares in accordance with the provisions of the New Share Option Scheme and the Listing Rules:

(a) any employee (whether full-time or part-time and including any executive Director but not any non-executive Director) of the Group or any entity in which any member of the Group holds an equity interest (the "Invested Entity");

(b) any non-executive Director (including Independent non-executive Directors) of the Group or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity; and

(e) any consultant, adviser, manager, officer or entity that provide research, development or other technological support to the Group or any Invested Entity.

The total number of shares issued and which may fall to be issued upon exercise of the share options and the share options granted under any other share option scheme of the Group (including both exercised or outstanding share options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

In respect of any particular option, the Directors shall be entitled at any time within 10 years commencing on 12 May 2017 to make an offer for the grant of a share option. For any option granted under the New Share Option Scheme, the maximum period as the Directors may determine shall not be later than 10 years. There is no minimum period required under the New Share Option Scheme for holding of the share options before it can be exercised. As at 31 December 2020, the Share Option Scheme has a remaining life of up to 12 May 2027.

An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the letter by the grantee together with a remittance in favour of the Company of HKD1.00 by way of consideration for the grant thereof is received by the Company.

The exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Pursuant to a resolution in writing passed by all shareholders on 10 January 2007, the scheme mandate limit for the Post-IPO Share Option Scheme allow the Company to issue a maximum of 160,000,000 share options under the Post-IPO Share Option Scheme, representing 6.28% of the issued share capital of 2,546,734,037 Shares of the Company. The Post-IPO Share Option Scheme has expired on 7 February 2017. Based on share options were granted and still exercisable under Post-IPO Share Option Scheme, the outstanding number of the shares available for issue under the Post-IPO Share Option Scheme is 3,600,000, representing 0.14% of the issued share capital of 2,533,639,037 Shares of the Company as at 31 December 2020.

Pursuant to an ordinary resolution passed by shareholders in annual general meeting dated on 12 May 2017, the scheme mandate limit for the New Share Option Scheme allow the Company to issue a maximum of 212,668,463 share options under the New Share Option Scheme, representing 8.39% of the issued share capital of 2,533,639,037 Shares of the Company as at 31 December 2020.

In addition, the outstanding number of the shares available for issue under the New Share Option Scheme is 212,668,463, representing 8.39% of the issued share capital of 2,533,639,037 Shares of the Company as at 31 December 2020.

Under the Post-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 16,600,000 Shares, 14,700,000 Shares and 300,000 Shares on 9 April 2015, 9 November 2016 and 30 December 2016 respectively to Directors and eligible employees. Moreover, under the New Share Option Scheme, the Company granted options to subscribe for an aggregate of 5,000,000 Shares, 1,600,000 Shares, and 2,000,000 Shares on 25 August 2017, 29 December 2017 and 28 June 2018 respectively to eligible employees. Details of the share options granted and outstanding for the period ended 31 December 2020, are as follows:

		Number of share options								
Director and eligible employees	Note	At 1 January 2020	Granted during the period	Exercised during the period	Forfeited during the period	Lapsed during the period	At 31 December 2020	Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
Under the Post-IPO Share Option Scheme										
Eligible employees	A	2,800,000	–	–	–	(2,800,000)	–	9/4/2015	5.69	9/4/2016 – 8/4/2020
Zheng Yu *(Independent non-executive Director)*	B	300,000	–	–	–	–	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	12,000,000	–	–	(9,000,000)	–	3,000,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	C	300,000	–	–	–	–	300,000	30/12/2016	3.82	30/12/2018 – 29/12/2022
Under the New Share Option Scheme										
Eligible employees	D	5,000,000	–	–	–	–	5,000,000	25/8/2017	4.96	25/8/2019 – 24/8/2023
		20,400,000	–	–	(9,000,000)	(2,800,000)	8,600,000			

A) The fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options granted as at the grant dates is approximately RMB30,216,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 April 2015
Average share price	HKD4.89
Exercise price	HKD5.69
Expected life of options	5.0 years
Expected volatility	43.11%
Expected dividend yield	2.26%
Risk free rate	0.99%

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

	Granted on 9 November 2016
Average share price	HKD3.45
Exercise price	HKD3.50
Expected life of options	6.0 years
Expected volatility	44.79%
Expected dividend yield	2.15%
Risk free rate	1.39%

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

	Granted on 30 December 2016
Average share price	HKD3.81
Exercise price	HKD3.82
Expected life of options	6.0 years
Expected volatility	44.52%
Expected dividend yield	2.18%
Risk free rate	1.70%

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

	Granted on 25 August 2017
Average share price	HKD4.95
Exercise price	HKD4.96
Expected life of options	6.0 years
Expected volatility	44.41%
Expected dividend yield	3.75%
Risk free rate	1.37%

Major Customers and Suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers taken together were less than 30% of the total sales for the year 2020.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year 2020.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Sufficiency of Public Float

As at 25 March 2021, being the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

Permitted Indemnity Provisions

During the year ended 31 December 2020 and as at 31 December 2020, the Company has purchased liabilities insurance for the Directors, which provides appropriate insurance for the Group's directors. At no time during the year ended 31 December 2020 and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of Directors or an associated company.

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.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the articles of the association of the Company and the Companies Law of the Cayman Islands.

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 has complied with the Code Provisions as set out in the Code since then.

Subsequent Events

Details of the significant events occurring after the balance sheet date are set out in Note 34 to the consolidated financial statements.

Auditor

A resolution to reappoint PricewaterhouseCoopers as independent auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Xuechun
Chairman

25 March 2021

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Fufeng Group Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Fufeng Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 98 to 192, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Independent Auditor's Report *(Continued)*

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified "Revenue Recognition" as a key audit matter in our audit.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to note 2.22 and note 5 to the Group's consolidated financial statements.* Revenue from sales of goods amounted to RMB16,691 million for the year ended 31 December 2020. Revenue is recognised when control of the underlying products has been transferred to the customers. We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers that occurred in many different locations. In relation to export sales, it usually takes more time for control of products to pass over to customers than domestic sales. There is potential risk of misstatement in relation to whether revenue is recognised in the correct reporting periods.	We evaluated and validated management's key controls that are present in the Group's sales process from end-to-end, from customer order's approval, sales recording, all the way through to reconciliations with cash receipts and customers' records. We conducted testing of sales revenue recorded covering different products, locations and customers, by examining the relevant supporting documents including customer orders, goods delivery notes and customs declaration notices. In addition, we confirmed certain customers' receivable balances at the balance sheet date and their transaction amounts during the year, and tested the reconciliations between the book amounts and confirmed amounts if these were different. The items tested were selected on a sample basis by considering the amount, nature and characteristics of those customers. Our work also included testing of a sample of manual revenue-related journal entries by inquiring management of the nature of these journals and inspection of the supporting documents. Furthermore, one of our focused audit efforts was testing export sales transactions that took place shortly before and after the balance sheet date, by reconciling recognised revenue with the goods delivery notes and customs declaration notices to assess whether revenue was recognised in the correct reporting periods. We found the Group's sales transactions being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Note	Years ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	5	**16,690,736**	16,170,850
Cost of sales	8	**(13,874,382)**	(12,910,216)
Gross profit		**2,816,354**	3,260,634
Selling and marketing expenses	8	**(1,384,993)**	(1,325,638)
Administrative expenses	8	**(816,618)**	(826,447)
Net impairment losses on financial assets	*3.1(b)*	**(11,344)**	(37,869)
Other operating expenses	8	**(21,572)**	(23,993)
Other income	6	**381,594**	447,695
Other (losses)/gains – net	7	**(166,942)**	58,299
Operating profit		**796,479**	1,552,681
Finance income	10	**189,585**	103,118
Finance costs	10	**(206,058)**	(253,268)
Finance costs – net	10	**(16,473)**	(150,150)
Share of net loss of associates accounted for using the equity method	13b	**(9,369)**	(3,267)
Profit before income tax		**770,637**	1,399,264
Income tax expense	11	**(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 *(expressed in RMB cents per share)*			
– basic	12	**24.86**	44.75
– diluted	12	**24.86**	44.74

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Profit for the year	**629,901**	1,137,223
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year attributable to the shareholders	**629,901**	1,137,223

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As At 31 December 2020

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	9,748,815	10,457,268
Right-of-use assets	15	766,778	778,591
Intangible assets	16	50,751	40,663
Investments accounted for using the equity method	13b	18,818	28,187
Financial assets at fair value through profit and loss	17	2,000	–
Derivative financial instruments	18	–	14,649
Prepayment	21	51,189	–
Deferred income tax assets	29	123,353	146,638
Total non-current assets		10,761,704	11,465,996
Current assets			
Inventories	20	3,781,228	3,627,147
Trade, other receivables and prepayments	21	3,581,559	2,484,697
Cash and bank balances	22	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	23	243,261	243,261
Share premium	23	346,437	663,634
Other reserves	25	715,879	665,819
Retained earnings		10,383,829	9,803,755
Total equity		11,689,406	11,376,469

Consolidated Balance Sheet *(Continued)*

As At 31 December 2020

		As at 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Other payables	*26*	**66,461**	63,148
Deferred income	*28*	**818,450**	710,281
Borrowings	*27*	**464,427**	2,449,380
Lease liabilities	*15*	**29**	497
Deferred income tax liabilities	*29*	**26,650**	40,650
Derivative financial instruments	*18*	**25,031**	6,880
Total non-current liabilities		**1,401,048**	3,270,836
Current liabilities			
Trade, other payables and accruals	*26*	**2,609,315**	3,148,996
Contract liabilities	*5*	**505,105**	624,714
Current income tax liabilities		**84,510**	101,593
Borrowings	*27*	**3,008,801**	935,170
Lease liabilities	*15*	**390**	833
Derivative financial instruments	*18*	**57,118**	–
Total current liabilities		**6,265,239**	4,811,306
Total liabilities		**7,666,287**	8,082,142
Total equity and liabilities		**19,355,693**	19,458,611

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

The financial statements on pages 98 to 192 were approved by the Board of Directors on 25 March 2021 and were signed on its behalf.

Li Xuechun
Director

Li Deheng
Director

Consolidated Statement of Changes In Equity

For the year ended 31 December 2020

		Attributable to the shareholders				
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2019		244,436	1,430,479	574,081	8,755,348	11,004,344
Comprehensive Income						
Profit for the year		–	–	–	1,137,223	1,137,223
Total comprehensive income		–	–	–	1,137,223	1,137,223
Transactions with the shareholders						
Profit appropriation	*25*	–	–	88,816	(88,816)	–
Employee share option schemes:						
– Value of employee services	*24, 25*	–	–	2,922	–	2,922
Repurchase of shares of the Company	*23*	(1,175)	(41,873)	–	–	(43,048)
Dividends	*30*	–	(724,972)	–	–	(724,972)
Total transactions with the shareholders		(1,175)	(766,845)	91,738	(88,816)	(765,098)
Balance at 31 December 2019		243,261	663,634	665,819	9,803,755	11,376,469
Balance at 1 January 2020		**243,261**	**663,634**	**665,819**	**9,803,755**	**11,376,469**
Comprehensive Income						
Profit for the year		**–**	**–**	**–**	**629,901**	**629,901**
Total comprehensive income		**–**	**–**	**–**	**629,901**	**629,901**
Transactions with the shareholders						
Profit appropriation	*25*	**–**	**–**	**58,572**	**(58,572)**	**–**
Employee share option schemes:						
– Value of employee services	*24, 25*	**–**	**–**	**(1,869)**	**–**	**(1,869)**
– Expiry of options issued	*24, 25*	**–**	**–**	**(8,745)**	**8,745**	**–**
Provision for safety production fee		**–**	**–**	**3,600**	**–**	**3,600**
Utilisation of safety production fee		**–**	**–**	**(1,498)**	**–**	**(1,498)**
Dividends	*30*	**–**	**(317,197)**	**–**	**–**	**(317,197)**
Total transactions with the shareholders		**–**	**(317,197)**	**50,060**	**(49,827)**	**(316,964)**
Balance at 31 December 2020		**243,261**	**346,437**	**715,879**	**10,383,829**	**11,689,406**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

For the year ended 31 December 2020

	Note	Years ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	549,585	1,439,752
Interest paid		(194,966)	(184,239)
Income tax paid		(149,001)	(363,353)
Net cash generated from operating activities		205,618	892,160
Cash flows from investing activities			
Payment for acquisition of a subsidiary, net of cash acquired		–	(34,512)
Payments for property, plant and equipment		(988,607)	(1,631,015)
Payment for investment in an associate		–	4,900
Payment of intangible assets	16	(16,302)	(15,184)
Payments for financial assets at fair value through profit or loss		(2,402,000)	(67,344)
Repayment of loans by a related party		–	6,000
Loan to a third party	21(e)	–	(470,000)
Proceeds from disposal of property, plant and equipment	31(c)	2,757	3,813
Proceeds from disposal of subsidiaries, net of cash disposed	31(b)	17,923	1,016,693
Proceeds from sale of financial assets at fair value through profit or loss		2,400,000	68,968
Proceeds from disposal of derivative financial instruments	18	6,311	–
Repayments of loan from former subsidiaries	21(d)	2,357	261,209
Repayment of loans by a third party	21(e)	20,000	400,000
Assets-related government grants received	28	197,436	79,247
Interest received	10	43,648	103,118
Payment of restricted bank deposits		–	(1,100,000)
Proceeds from restricted bank deposits		–	1,969,800
Proceeds from term deposits	22	116,360	52,000
Payment of term deposits	22	(506,360)	(40,000)
Net cash (used in)/generated from investing activities		(1,106,477)	607,693
Cash flows from financing activities			
Dividends paid to the Company's shareholders		(317,091)	(735,078)
Proceeds from bank borrowings	31(e)	3,962,594	2,962,128
Repayments of bank borrowings	31(e)	(3,302,644)	(3,637,900)
Redemption of USD bonds	31(e)	(441,056)	(8,364)
Repurchase of shares of the Company	23	–	(43,048)
Loan from a third party		–	60,000
Principal elements of lease payments	31(e)	(911)	(1,365)
Net cash used in financing activities		(99,108)	(1,403,627)
Net (decrease)/increase in cash and cash equivalents		(999,967)	96,226
Cash and cash equivalents at beginning of the year	22	1,831,169	1,734,943
Cash and cash equivalents at end of the year	22	831,202	1,831,169

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. General Information

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 25 March 2021.

2. 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.

2.1 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.

2. Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(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. Summary of Significant Accounting Policies *(Continued)*

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

2. Summary of Significant Accounting Policies *(Continued)*

2.2 Principles of consolidation and equity accounting *(Continued)*

(iv) Changes in ownership interests

When the Group ceases consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2. Summary of Significant Accounting Policies *(Continued)*

2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and dividends are presented in the consolidated income statement within "Finance costs – net". All other foreign exchange gains and losses are presented in the consolidated income statement within "Other (losses)/gains – net".

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

2. Summary of Significant Accounting Policies *(Continued)*

2.6 Property, plant and equipment

Property, plant and equipment, comprising plant and building, machinery, furniture and fixtures and vehicles, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress includes plant under construction and machinery under installation and testing and which, upon completion, management intends to hold as property, plant and equipment. They are carried at cost which includes cost of construction, plant and equipment and other direct cost plus borrowing costs that used to finance these projects during the construction period less accumulated impairment losses if any. No depreciation is provided for construction in progress. The relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses when they become available for their intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment, except for construction in progress, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Plant and building	15~20 years
Machinery	8~10 years
Furniture and fixtures	3~8 years
Vehicles	5~8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the consolidated income statement under "Other (losses)/gains – net".

2. Summary of Significant Accounting Policies *(Continued)*

2.7 Intangible assets

(i) Patents

Separately acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated beneficial period of 10–20 years.

(ii) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed 10 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use;

(b) management intends to complete the intangible asset and use it;

(c) there is an ability to use the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life not exceeding five years.

2. Summary of Significant Accounting Policies *(Continued)*

2.8 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2. Summary of Significant Accounting Policies *(Continued)*

2.9 Financial assets *(Continued)*

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement and presented in "Other (losses)/gains – net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that 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, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other (losses)/gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains and impairment expenses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net with other (losses)/gains in the period in which it arises.

2. Summary of Significant Accounting Policies *(Continued)*

2.9 Financial assets *(Continued)*

(iii) Measurement *(Continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other (losses)/gains in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 21 for further details.

For notes receivables measured at FVOCI, the Group measured the impairment as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of the notes receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience, incorporating the forward-looking information on macroeconomic factors affecting the ability of the debtors.

2. Summary of Significant Accounting Policies *(Continued)*

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivative instruments held by the Group are accounted for at fair value through profit or loss. Changes in fair value of these derivative instruments are recognised immediately in the consolidated income statement under "Other (losses)/gains – net".

The fair values of derivative financial instruments are disclosed in Note 18. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity of the derivative is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months. Trading derivatives are classified as a current asset or liability.

2.12 Inventories

Inventories including raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

2.13 Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 21 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2. Summary of Significant Accounting Policies *(Continued)*

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. Summary of Significant Accounting Policies *(Continued)*

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

2. Summary of Significant Accounting Policies *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss.

2.20 Employee benefits – pension

The companies within the Group operate various pension schemes. In accordance with the rules and regulations in the PRC, the employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by the various local PRC governments. These local PRC governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's operating entities in Hong Kong participate in a mandatory provident fund ("MPF scheme") for its employees in Hong Kong. Both the entities and the employees are required to contribute 5% of the salaries of the employees', up to a maximum of HKD1,500 per head per month. The assets of MPF scheme are held separately from those of the entities in an independent administrated fund.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans and MPF scheme are recognised as employee benefit expense when incurred.

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates four equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2. Summary of Significant Accounting Policies *(Continued)*

2.21 Share-based payments *(Continued)*

(a) Equity-settled share-based payment transactions *(Continued)*

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value).

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiaries undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in a subsidiary, with a corresponding credit to equity in the parent company accounts.

2.22 Revenue recognition

Sales of goods

The Group manufactures and sells a range of fermentation-based food additives, biochemical products and starch-based products in the worldwide market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specified location or have been picked up by carriers designated by customers for domestic sales, or have been shipped on board for overseas sales, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

2. Summary of Significant Accounting Policies *(Continued)*

2.22 Revenue recognition *(Continued)*

Sales of goods *(Continued)*

The products is often sold with retrospective volume discounts based on aggregate sales over a 12 month period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discount, using expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group does not expect to have any contract containing financing components. As a consequence, the Group does not adjust any of the transition prices for the time value of money.

2.23 Safety production fee

Pursuant to regulation No. [2012] 16, "Management measures of accrual and use of safety production fee of business enterprises", issued by the Ministry of Finance and the State Administration of Work Safety, a subsidiary of the Group is required to accrue safety production fee. The fee is earmarked for improving the safety of production.

The fee should be accrued to production costs or profit or loss for current period, and credited to specific reserve. The safety expenditures of the Group that are expenses in nature are directly debited to specific reserve. The safety expenditures of the Group that are formed into fixed assets through collection of construction in progress are recognised as fixed assets when the safety projects are completed and to the expected conditions for use; at the same time, specific reserve is written down through the costs of formed fixed assets, and the same amount is credited to accumulated depreciation. For these fixed assets, there will be no further depreciation in the following accounting periods.

2.24 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to the shareholders of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2. Summary of Significant Accounting Policies *(Continued)*

2.24 Earnings per share *(Continued)*

(ii) 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.

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payment is allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. Summary of Significant Accounting Policies *(Continued)*

2.25 Leases *(Continued)*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability, and

- any lease payments made at or before the commencement date.

Right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of warehouse are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs 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. Note 6 provides further information on how the Group accounts for government grants.

2.28 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Instrument used by the Group

The Board does not consider the exposure to foreign exchange risk significant to the Group's operation as the Group mainly operates in the PRC with majority of the transactions denominated and settled in RMB.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export sales"), the issuance of USD bonds and draw-down of borrowings. In 2020, the Company borrowed a bank loan of USD27,943,879. Export sales denominated in foreign currencies amounted to approximately 29% (2019: 28%) of the Group's total revenue for the year ended 31 December 2020. The Group manages the currency risk arising from sales of products by requesting customers to pay in advance or keeping the credit period available to customers as short as possible in order to reduce the impact on the fluctuation between USD, HKD and RMB to the Group. The Group manages the currency risk arising from proceeds from draw down of bank borrowings by utilisation of the proceeds as soon as possible. In 2019 and 2020, the Group manages the currency risk arising from proceeds from draw down 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.

The cross currency swaps in relation to USD bonds and borrowings do not satisfy the requirements for hedge accounting (but are considered as economic hedges). The cross currency swaps are subject to the same risk management policies. However, they are accounted for as derivative financial instruments with gains/(losses) recognised in profit or loss.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

31 December 2020	USD *RMB'000*	HKD *RMB'000*	EUR *RMB'000*	SGD *RMB'000*	Total *RMB'000*
Cash and bank balances *(Note 22(b))*	**343,727**	**8,397**	**1,873**	**113**	**354,110**
Trade, other receivables and prepayments *(Note 21(g))*	**319,588**	**–**	**–**	**–**	**319,588**
Borrowings *(Note 27(a))*	**(2,153,821)**	**–**	**–**	**–**	**(2,153,821)**
Trade, other payables and accruals	**(35,325)**	**–**	**–**	**–**	**(35,325)**

31 December 2019	USD *RMB'000*	HKD *RMB'000*	EUR *RMB'000*	SGD *RMB'000*	Total *RMB'000*
Cash and bank balances *(Note 22(b))*	904,782	10,940	353	118	916,193
Trade, other receivables and prepayments *(Note 21(g))*	426,450	–	–	–	426,450
Borrowings *(Note 27(a))*	(2,533,347)	–	–	–	(2,533,347)
Trade, other payables and accruals	(43,660)	–	–	–	(43,660)

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

Amounts recognised in the consolidated income statement

During the year, the following foreign-exchange related amounts were recognised in the consolidated income statement:

	2020 RMB'000	2019 RMB'000
Amounts recognised in the consolidated income statement		
Other (losses)/gains – net *(Note 7)*	(77,115)	17,903
Finance income and costs *(Note 10)*	145,937	(52,111)
Total net foreign exchange gains/(losses) recognised in profit before income tax for the period	68,822	(34,208)

During the year, no foreign-exchange related amounts were recognised in other comprehensive income.

At 31 December 2020, if RMB had strengthened/weakened by 10% against the USD and HKD (pegged with USD) with all other variables held constant, the net profit for the year would have been RMB161,230,000 (2019: RMB140,684,000) higher/lower without considering the impact of cross currency swaps, mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and cash equivalents, trade receivables, and foreign exchange gains/losses on translation of USD denominated other payables and accruals and borrowings.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for bank deposits and balances, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. A portion of borrowings bear variable rates and expose the Group to cash flow interest rate risk.

Fair value interest rate risk arises from USD bonds, bank borrowings and lease liabilities. The carrying amounts and fair values of USD bonds and non-current borrowings have been disclosed in Note 27. The fair value of lease liabilities approximates to their carrying amount, as the impact of discounting is not significant.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk (Continued)

At 31 December 2020, if interest rates on borrowings obtained at variable rates had been 10% higher/lower with all other variables held constant, the net profit for the year would have been RMB956,000 (2019: RMB1,492,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at FVOCI and at FVPL, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to the customers, including outstanding receivables.

(i) Risk management

Credit risk is managed on a Group basis. Bank deposits and cash at bank are deposited in reputable financial institutions which are considered with low credit risk.

For sales of goods, customers of the Group usually pay in advance before delivery of products. Credit will only be granted to customers with long-term relationship. The Group performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on trade receivables. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivables arising from sales of products due from them is not significant.

The Group's investment in debt instruments are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets

The group has two types of financial assets that are subject to the expected credit loss model:

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

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

Trade receivables

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

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 or 1 January 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the business, financial or economic conditions of the customers and the performance and behaviour of customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables *(Continued)*

On that basis, the loss allowance for trade receivables as at 31 December 2020 and 31 December 2019 was determined under HKFRS 9 as follows:

	Within 3 months *RMB'000*	3 to 12 months *RMB'000*	Over 12 months *RMB'000*	Total *RMB'000*
31 December 2020				
Expected loss rate	3.01%	20.57%	99.67%	
Gross carrying amount	591,253	31,326	3,985	626,564
Total loss allowance	17,809	6,444	3,972	28,225

	Within 3 months *RMB'000*	3 to 12 months *RMB'000*	Over 12 months *RMB'000*	Total *RMB'000*
31 December 2019				
Expected loss rate	0.97%	12.53%	95.94%	
Gross carrying amount	599,413	57,761	6,183	663,357
Total loss allowance	5,821	7,238	5,932	18,991

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables *(Continued)*

The closing loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	Trade receivables	
	2020	2019
	RMB'000	*RMB'000*
Opening loss allowance as at 1 January	**18,991**	11,628
Provision for impairment loss allowances	**11,344**	37,869
Receivables written-off during the year as uncollectible	**(2,110)**	(30,506)
Closing loss allowance at 31 December	**28,225**	18,991

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 360 days past due.

Impairment losses on trade receivables are presented within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost

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

Net impairment losses on financial assets recognised in profit and loss

During the years ended 31 December 2020 and 2019, the following losses were recognised in "Net impairment losses on financial assets", respectively in the consolidated income statement in relation to impaired financial assets:

	2020 ***RMB'000***	2019 *RMB'000*
Impairment losses – loss allowance for trade receivables	**11,344**	37,869

(c) Liquidity risk

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

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

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

(a) non-derivative financial liabilities, and

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

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

Contractual maturities of financial liabilities	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Above 5 years *RMB'000*	Total contractual cash flows *RMB'000*
The Group					
At 31 December 2020					
Non-derivatives					
Borrowings	2,989,569	442,820	–	–	3,432,389
Interests payments on borrowings *(i)*	126,607	12,451	–	–	139,058
Lease liabilities	454	27	2	–	483
Trade and other payables (excluding non-financial liabilities)	2,248,667	–	50,520	31,710	2,330,897
Total non-derivatives	5,365,297	455,298	50,522	31,710	5,902,827
Derivatives					
Gross settled (cross currency swaps)					
– (inflow)	(85,788)	(225,258)	–	–	(311,046)
– outflow	99,112	249,630	–	–	348,742
	13,324	24,372	–	–	37,696
Total	5,378,621	479,670	50,522	31,710	5,940,523

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

Contractual maturities of financial liabilities	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Above 5 years *RMB'000*	Total contractual cash flows *RMB'000*
The Group					
At 31 December 2019					
Non-derivatives					
Borrowings	938,810	2,232,401	242,820	–	3,414,031
Interests payments on borrowings *(i)*	167,346	139,883	6,810	–	314,039
Lease liabilities	975	484	31	–	1,490
Trade and other payables (excluding non-financial liabilities)	2,784,162	–	17,100	65,130	2,866,392
Total non-derivatives	3,891,293	2,372,768	266,761	65,130	6,595,952
Derivatives					
Gross settled (cross currency swaps)					
– (inflow)	(89,794)	(116,214)	(243,360)	–	(449,368)
– outflow	92,919	119,721	249,630	–	462,270
	3,125	3,507	6,270	–	12,902
Total	3,894,418	2,376,275	273,031	65,130	6,608,854

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

3.2 Capital management

(a) Risk management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3. Financial Risk Management *(Continued)*

3.2 Capital management *(Continued)*

(a) Risk management *(Continued)*

The Group monitors capital on the basis of the gearing ratio. This ratio is equal to total borrowings divided by total assets at the end of corresponding year.

The Group's strategy is to maintain the gearing ratio below 40% (2019: 40%).The gearing ratios at 31 December 2020 and 2019 were as follows:

	2020 *RMB'000*	2019 *RMB'000*
Total borrowings *(Note 27)*	**3,473,228**	3,384,550
Total assets	**19,355,693**	19,458,611
Gearing ratio	**17.94%**	17.39%

The increase in the gearing ratio of the Group was mainly due to the increase in borrowings in 2020.

(i) Loan covenants

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

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

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

The Group has complied with these covenants throughout the reporting period. As at 31 December 2020, the ratio of consolidated total borrowings to consolidated EBITDA was 1.70 (2019: 1.25), the consolidated tangible net worth was RMB11,515,302,000 (2019: RMB11,189,168,000) and the ratio of consolidated total liabilities to consolidated tangible net worth was 0.67 (2019: 0.72).

3. Financial Risk Management *(Continued)*

3.3 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements	***Note***	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
At 31 December 2020					
Financial assets					
Financial assets measured at FVPL					
– Equity investments	*17*	**–**	**–**	**2,000**	**2,000**
Notes receivable measured at FVOCI	*21(h)*	**–**	**–**	**723,478**	**723,478**
Total financial assets		**–**	**–**	**725,478**	**725,478**
Financial liabilities					
Derivative financial instruments	*18*	**–**	**–**	**82,149**	**82,149**

Recurring fair value measurements	*Note*	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
At 31 December 2019					
Financial assets					
Derivative financial instruments	*18*	–	–	14,649	14,649
Notes receivable measured at FVOCI	*21(h)*	–	–	972,971	972,971
Total financial assets		–	–	987,620	987,620
Financial liabilities					
Derivative financial instruments	*18*	–	–	6,880	6,880

3. Financial Risk Management *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) Financial assets and liabilities *(Continued)*

(i) Fair value hierarchy (Continued)

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves
- for forward currency forwards – present value of future cash flows based on forward exchange rates at the balance sheet date
- for foreign currency options – option pricing models (eg Black Scholes model), and

All of the resulting fair value estimates are included in level 3.

3. Financial Risk Management *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) Financial assets and liabilities *(Continued)*

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 31 December 2020 and 31 December 2019:

	Equity investments *RMB'000*	Notes receivable measured at FVOCI *RMB'000*	Derivative financial instruments *RMB'000*	Total *RMB'000*
Opening balance as at 1 January 2019	–	520,241	(29,882)	490,359
Acquisitions	–	972,971	–	972,971
Disposals	–	(520,241)	–	(520,241)
Gains/(losses) recognised in other (losses)/gains – net*	–	–	37,651	37,651
Closing balance as at 31 December 2019	–	972,971	7,769	980,740
Acquisitions	2,000	723,478	–	725,478
Disposals	–	(972,971)	(14,649)	(987,620)
Gains/(losses) recognised in other (losses)/gains – net*	–	–	(75,269)	(75,269)
Closing balance as at 31 December 2020	2,000	723,478	(82,149)	643,329
* includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period				
2020	–	–	(75,269)	(75,269)
2019	–	–	37,651	37,651

4. 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.

4.1 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. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

4.2 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.

4. Critical Accounting Estimates and Judgements *(Continued)*

4.3 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.

4.4 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.

4.5 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.

5. 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

5. Segment Information *(Continued)*

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

Products by segments	2020 *RMB'000*	2019 *RMB'000*
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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

5. Segment Information *(Continued)*

The segment information for the year ended 31 December 2020 is as follows:

	Food additives *RMB'000*	Animal nutrition *RMB'000*	High-end amino acid *RMB'000*	Colloid *RMB'000*	Others *RMB'000*	Group *RMB'000*
Revenue	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	1,426,424	680,133	346,547	194,854	168,396	2,816,354

The segment information for the year ended 31 December 2019 is as follows:

	Food additives *RMB'000*	Animal nutrition *RMB'000*	High-end amino acid *RMB'000*	Colloid *RMB'000*	Others *RMB'000*	Group *RMB'000*
Revenue	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	2,127,316	449,317	266,917	250,063	167,021	3,260,634

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).

5. Segment Information *(Continued)*

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	**PRC**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Revenue from external customers	**4,790,251**	**11,900,485**	**16,690,736**
Timing of revenue recognition			
At a point in time	**4,790,251**	**11,900,485**	**16,690,736**

2019	Sales of goods		
	Overseas	PRC	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers	4,471,217	11,699,633	16,170,850
Timing of revenue recognition			
At a point in time	4,471,217	11,699,633	16,170,850

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	31 December 2019
	RMB'000	*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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

6. Other Income

	2020	2019
	RMB'000	*RMB'000*
Amortisation of deferred income *(Note 28)*	**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.

7. Other (Losses)/Gains – Net

	2020	2019
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment – net *(Note 31(c))*	**(6,220)**	(2,370)
Net loss on compensation from insurance company	**–**	(3,121)
Net foreign exchange (losses)/gains *(Note 3.1)*	**(77,115)**	17,903
Fair value (losses)/gains on changes in fair value of derivative financial instruments *(Note 18)*	**(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)
	(166,942)	58,299

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

8. Expenses By Nature

	2020 *RMB'000*	2019 *RMB'000*
Changes in inventories of finished goods and work in progress	**(557,953)**	(270,776)
Raw materials and consumables used*	**12,735,248**	11,484,418
Employee benefit expenses *(Note 9)**	**1,065,034**	1,116,774
Depreciation		
– property, plant and equipment *(Note 14)**	**1,227,906**	1,132,209
– right-of-use assets *(Note 15)*	**18,895**	17,998
Provision for impairment charges for property, plant and equipment *(Note 14)*	**–**	52,868
Amortisation of intangible assets *(Note 16)*	**6,214**	5,333
Transportation expenses	**1,027,861**	914,166
Utilities purchased	**69,050**	67,912
Travelling and office expenses	**26,517**	41,344
Provision for inventory write-down *(Note 20)*	**35,849**	41,644
Auditors' remuneration		
– Audit services	**4,006**	4,003
– Non-audit services	**1,000**	1,135
Land use tax, real estate tax and other taxes	**124,243**	156,149
Advertisement fees	**12,506**	25,131
Others	**301,189**	295,986
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**16,097,565**	15,086,294

* The Group incurred expenses amounting to a total of approximately RMB324,693,000 and RMB338,489,000 related to research and development of new products, and development of new manufacturing techniques, etc. for the years ended 31 December 2020 and 2019 respectively. All of these expenses are charged to "Administrative expenses", and mainly comprise material costs in "Raw materials and consumables used", remuneration paid to certain staff in "Employee benefit expenses" and depreciation of certain equipment in "Depreciation".

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

9. Employee Benefit Expenses Including Directors' Emoluments

	2020	2019
	RMB'000	*RMB'000*
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	**1,005,703**	1,037,139
– Pension costs – defined contribution plans (a)	**61,200**	76,713
– Share options granted to directors and employees *(Note 25)*	**(1,869)**	2,922
	1,065,034	1,116,774

(a) Pension costs – defined contribution plans

The employees of the Group's subsidiaries established in the PRC participated in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group was required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 included two directors (2019: three) whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining three (2019: two) individual during the year are as follows:

	2020	2019
	RMB'000	*RMB'000*
Salaries and allowances	**4,667**	3,155
Pension costs – defined contribution plans	**61**	32
Share options granted	**1,071**	1,841
	5,799	5,028

For the years ended 31 December 2020 and 2019, none of the directors or the five highest paid individuals received discretionary bonuses and no emoluments were paid by the Group to them as inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

9. Employee Benefit Expenses Including Directors' Emoluments *(Continued)*

(b) Five highest paid individuals *(Continued)*

The remunerations paid to the above non-director individuals for the years ended 31 December 2020 and 2019 fell within the following bands.

	Number of individuals	
	2020	2019
Emolument bands *(in HK dollar)*		
HKD1,000,001 – HKD1,500,000	**1**	1
HKD1,500,001 – HKD2,000,000	**1**	–
HKD3,500,001 – HKD4,000,000	**1**	–
HKD4,000,001 – HKD4,500,000	**–**	1
	3	2

10. FINANCE INCOME AND COSTS

	2020 *RMB'000*	2019 *RMB'000*
Finance income:		
Interest income on bank deposits and bank balances	**43,648**	103,118
Net foreign exchange gains on financing activities *(Note 3.1)*	**145,937**	–
	189,585	103,118
Finance costs:		
Interest expense		
– Bank borrowings	**(88,946)**	(71,573)
– USD bonds	**(117,068)**	(137,640)
Interest charges paid for lease liabilities *(Note 15)*	**(44)**	(88)
Net foreign exchange losses on financing activities *(Note 3.1)*	**–**	(52,111)
	(206,058)	(261,412)
Amount capitalised (i)	**–**	8,144
Finance costs expensed	**(206,058)**	(253,268)
Net finance costs	**(16,473)**	(150,150)

(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.

11. Taxation

(a) Income tax expense

	2020 *RMB'000*	2019 *RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	**131,289**	203,672
– Hong Kong income tax	**–**	(4,098)
– US income tax	**162**	1,466
Total current income tax	**131,451**	201,040
Deferred income tax *(Note 29)*	**9,285**	61,001
	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.

11. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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 *RMB'000*	2019 *RMB'000*
Profit before income tax expense	**770,637**	1,399,264
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)
	140,736	262,041

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

12. 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 ***RMB cents***	2019 *RMB cents*
Total basic earnings per share attributable to the shareholders	**24.86**	44.75

(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 ***RMB cents***	2019 *RMB cents*
Total diluted earnings per share attributable to the shareholders	**24.86**	44.74

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

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

12. Earnings Per Share *(Continued)*

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

(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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

13a. Subsidiaries

As at 31 December 2020, the Company had direct and indirect interests in the following wholly-owned subsidiaries:

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Directly held:			
Acquest Honour	The British Virgin Islands ("BVI")	USD2	Investment holding in BVI
Shenhua Health Holdings Limited	Cayman Islands	USD1	Investment holding in Cayman Islands
Indirectly held:			
Summit Challenge	BVI	USD1	Investment holding in BVI
Absolute Divine	BVI	USD1	Investment holding in BVI
Expand Base	BVI	USD1	Investment holding in BVI
Profit Champion International Ltd. ("Profit Champion")	Hong Kong	HKD2	Investment holding in Hong Kong
Full Profit Investment (Group) Ltd. ("Full Profit")	Hong Kong	HKD2	Investment holding in Hong Kong
Trans-Asia Capital Resources Ltd. ("Trans-Asia")	Hong Kong	HKD2	Investment holding in Hong Kong
Fufeng International Trade (Hong Kong) Limited ("Fufeng International")	Hong Kong	HKD2	Investment holding in Hong Kong

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

13a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Shandong Fufeng Fermentation Co., Ltd. ("Shandong Fufeng")	PRC	RMB370,500,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweetener and other related products in the PRC
Baoji Fufeng Biotechnologies Co., Ltd. ("Baoji Fufeng")	PRC	HKD250,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC
Neimenggu Fufeng Biotechnologies Co., Ltd. ("IM Fufeng")	PRC	HKD640,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweeteners and other related products, autoclaved aerated concrete block in the PRC
Shandong Fufeng Biotechnology Development Company Limited	PRC	RMB5,500,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique in the PRC
Jiangsu Shenhua Pharmaceutical Co., Ltd. ("Shenhua Pharmaceutical")	PRC	RMB122,000,000	Manufacture and sales of eubacteria material medicine, preparations and food additives and other related products in the PRC
Beijing Huijinhuaying Commercial Co., Ltd.	PRC	RMB21,000,000	Own and operate self-used office building
Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. ("Hulunbeir Fufeng")	PRC	RMB1,000,000,000	Manufacture and sales of starch, starch sweeteners, amino acids, monosodium glutamate, glutamic acid, fertilisers and other related products in the PRC

13a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Fufeng (Singapore) Pte. Ltd. ("Fufeng Singapore")	Singapore	SGD1,300,000	Sales of monosodium glutamate and other related products in the Southeast Asia
Jiangsu Fufeng Biotechnologies Co., Ltd.	PRC	RMB5,000,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique. Sales of xanthan gum, amino acids and starch sweeteners in the PRC
Hulunbeir Shengmin Agricultural Development Co., Ltd.	PRC	RMB10,000,000	Does not carry out any business activities currently
Xinjiang Fufeng Biotechnologies Co., Ltd. ("Xinjiang Fufeng")	PRC	RMB500,000,000	Manufacture and sales of amino acids, xanthan gum and other related products in the PRC
Shenhua Pharmaceutical (Jiangsu) Co., Ltd. ("Jiangsu Shenhua Medical")	PRC	RMB10,000,000	Manufacture and sales of fungal material medicine, preparations and food additives and other related products in the PRC
Fufeng Marketing and Sales Co., Ltd.	PRC	RMB220,000,000	Sales of monosodium glutamate and other related products in the PRC
Fufeng (Hong Kong) Import and Export Company., Ltd.	Hong Kong	HKD2	Sales of monosodium glutamate and other related products abroad
Full Health Global Limited	BVI	USD100	Investment holding in BVI
Full Health (Hong Kong) Limited	Hong Kong	HKD100	Investment holding in Hong Kong
First Biotech Inc.	US	USD100,000	Sales of biological products in the US

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

13a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Qingdao Yuemei Cosmetics Co., Ltd.	PRC	RMB15,843,000	Sales of cosmetic products in the PRC
Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd. ("Longjiang Fufeng")	PRC	RMB1,300,000,000	Manufacture and sales of threonine, lysine, starch sweeteners, amino acids and other related products in the PRC
Jiangsu Fufeng Import and Export Co., Ltd.	PRC	RMB0	Sales of health food and other related products abroad
Qingdao Wanchuang International Trading Co., Ltd.	PRC	RMB0	Sales of monosodium glutamate and other related products abroad
Qiqihar Lifeng Logistics Co., Ltd.	PRC	RMB5,000,000	Provide logistics service
Golden Fufeng Fertilizer Co., Ltd.	PRC	RMB0	Does not carry out any business activities currently
Neimenggu Bio-fermentation Green Manufacturing Technology Institute Co., Ltd.	PRC	RMB0	Does not carry out any business activities currently
Inner Mongolia Wofeng Agriculture Development Co., Ltd. ("Wofeng")	PRC	RMB40,000,000	Sales of fertilisers and other related products in the PRC
Qiqihar Hefeng Investment Center (Limited partnership) ("Hefeng")	PRC	RMB300,000,000	Practice investment in corn intensive processing projects
Inner Mongolia Xiangfeng chemical Co., Ltd. ("Xiangfeng")	PRC	RMB100,000,000	Sales of synthetic ammonia in the PRC
Fufeng USA Holdings Limited ("Fufeng USA Holdings") *(a)*	Hong Kong	HKD2	Investment holding in Hong Kong
Fufeng USA Incorporated ("Fufeng USA") *(b)*	US	USD100,000	Sales of biological products in the US

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

13a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Hulunbeier Northeast Fufeng Biotechnologies Co., Ltd. Dongfeng Branch ("Dongfeng") *(c)*	PRC	RMB0	Does not carry out any business activities currently

(a) Fufeng USA Holdings was established on 10 July 2020, with a registered capital of HKD2 and paid-up capital of HKD2. It is wholly owned by Trans-Asia.

(b) Fufeng USA was established on 8 July 2020, with a registered capital of USD100,000 and paid-up capital of USD100,000. It is wholly owned by Fufeng USA Holdings.

(c) Dongfeng was established on 25 August 2020. It is a branch of Hulunbeir Fufeng.

13b. Investments Accounted for Using the Equity Method

The amounts recognised in the consolidated balance sheet are as follows:

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Associates	**18,818**	28,187

The amounts recognised in the consolidated income statement are as follows:

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Associates	**(9,369)**	(3,267)

13b. Investments Accounted for Using the Equity Method *(Continued)*

Investment in an associate

Set out below is the associate of the Group as at 31 December 2020.

Nature of investment in associates as at 31 December 2020

Name of entity	Place of business/country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Jilin COFCO Biomaterial Co., Ltd. ("Jilin COFCO")	PRC	30	*Note 1*	Equity

Note 1 Jilin COFCO manufactures products and provides services relating to bio-based plastics. It is a strategic business partner for the Group, providing access to the market of new products. The associate has paid-in capital of RMB100,000,000, of which 30% are held by the Group.

The associates are private companies and there is no quoted market price available for their shares. There are no commitments or contingent liabilities relating to the Group's interest in the associates.

Summarised financial information of associates

Jilin COFCO

Set out below are the summarised financial information for Jilin COFCO as at and for the years ended 31 December 2020 and 2019 which is accounted for using the equity method.

	Jilin COFCO	
	2020	2019
	RMB'000	*RMB'000*
Total assets	**376,978**	372,460
Total liabilities	**314,253**	278,504
Net assets	**62,725**	93,956
Revenue	**83,456**	107,417
Net loss and total comprehensive loss	**(31,231)**	(10,891)

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

14. Property, Plant and Equipment

	2020					
	Plant and building *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2020	4,820,210	11,628,360	255,746	96,884	847,930	17,649,130
Additions	15,545	81,408	57,931	7,108	373,520	535,512
Transfer upon completion	327,891	651,002	–	–	(978,893)	–
Transfer to right-of-use assets	–	–	–	–	(7,082)	(7,082)
Disposals	(9,656)	(50,952)	(3,284)	(2,147)	–	(66,039)
At 31 December 2020	5,153,990	12,309,818	310,393	101,845	235,475	18,111,521
Accumulated depreciation						
At 1 January 2020	(1,419,792)	(5,380,731)	(181,399)	(58,827)	–	(7,040,749)
Charge for the year *(Note 8)*	(218,334)	(979,643)	(19,334)	(10,595)	–	(1,227,906)
Disposals	3,519	27,544	2,585	1,122	–	34,770
At 31 December 2020	(1,634,607)	(6,332,830)	(198,148)	(68,300)	–	(8,233,885)
Provision for impairment loss						
At 1 January 2020	(43,320)	(105,484)	(1,075)	(1,234)	–	(151,113)
Disposals	2,825	18,056	881	530	–	22,292
At 31 December 2020	(40,495)	(87,428)	(194)	(704)	–	(128,821)
Net book value						
At 31 December 2020	3,478,888	5,889,560	112,051	32,841	235,475	9,748,815

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

14. Property, Plant and Equipment *(Continued)*

	2019					
	Plant and building *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2019	4,120,264	10,248,813	228,940	89,563	1,635,077	16,322,657
Acquisition of a subsidiary	–	6,095	31	–	6,965	13,091
Additions	14,379	121,979	28,318	7,526	1,153,879	1,326,081
Transfer upon completion	686,868	1,261,123	–	–	(1,947,991)	–
Disposals	(1,301)	(9,650)	(1,543)	(205)	–	(12,699)
At 31 December 2019	4,820,210	11,628,360	255,746	96,884	847,930	17,649,130
Accumulated depreciation						
At 1 January 2019	(1,226,359)	(4,472,858)	(166,435)	(48,783)	–	(5,914,435)
Acquisition of a subsidiary	–	(618)	(3)	–	–	(621)
Charge for the year *(Note 8)*	(193,814)	(913,010)	(15,196)	(10,189)	–	(1,132,209)
Disposals	381	5,755	235	145	–	6,516
At 31 December 2019	(1,419,792)	(5,380,731)	(181,399)	(58,827)	–	(7,040,749)
Provision for impairment loss						
At 1 January 2019	(34,282)	(63,060)	(194)	(709)	–	(98,245)
Impairment charge	(9,038)	(42,424)	(881)	(525)	–	(52,868)
At 31 December 2019	(43,320)	(105,484)	(1,075)	(1,234)	–	(151,113)
Net book value						
At 31 December 2019	3,357,098	6,142,145	73,272	36,823	847,930	10,457,268

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

14. Property, Plant and Equipment *(Continued)*

(a) As at 31 December 2020, no plant and machinery was pledged as security for the Group's borrowings (2019: Nil).

(b) Depreciation expense included in the consolidated income statement is as follows:

	2020 ***RMB'000***	2019 *RMB'000*
Cost of sales	**1,068,115**	1,008,590
Administrative expenses	**159,791**	123,619
	1,227,906	1,132,209

(c) As at 31 December 2020, plant and buildings of the Group with a total net book value of RMB171,852,000 were without real estate titles and the Group is in the process to secure the relevant real estate certificates (2019: RMB514,934,000).

15. Leases

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

(i) Amounts recognised in the consolidated balance sheet

The balance sheet shows the following amounts relating to leases:

	2020 ***RMB'000***	2019 *RMB'000*
Right-of-use assets		
Leasehold land-use rights *(a)*	**766,230**	777,141
Buildings	**495**	1,372
Equipment	**53**	78
	766,778	778,591
Lease liabilities		
Current	**390**	833
Non-current	**29**	497
	419	1,330

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

15. Leases *(Continued)*

(i) Amounts recognised in the consolidated balance sheet *(Continued)*

(a) Leasehold land-use rights

Leasehold land-use rights represent prepaid operating lease payments for the leasehold land (with lease terms of 40 to 70 years) located in Shandong Province, Shaanxi Province, Heilongjiang Province, Inner Mongolia Autonomous Region, Xinjiang Uygur Autonomous Region, Jiangsu Province and Beijing in the PRC. Their net book values are analysed as follows:

	2020 *RMB'000*	2019 *RMB'000*
Cost		
At beginning of the year	872,284	856,605
Additions	–	420
Transfer from property, plant and equipment	7,082	–
Acquisition of a subsidiary	–	15,259
At end of the year	879,366	872,284
Depreciation		
At beginning of the year	(95,143)	(78,047)
Charge for the year *(ii)*	(17,993)	(17,096)
At end of the year	(113,136)	(95,143)
Net book value		
At end of the year	766,230	777,141

As at 31 December 2020, there was no leasehold land pledged as security for the Group's borrowings (2019: Nil).

Depreciation expense is recorded in "Administrative expenses" in the consolidated income statement.

As at 31 December 2020, the Group was still in the process of applying for the ownership certificates for various parcels of leasehold land with a total carrying amount of RMB66,096,000 (2019: RMB213,530,000).

15. Leases *(Continued)*

(ii) Amounts recognised in the consolidated income statement

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

	Note	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets			
Leasehold land-use rights		**17,993**	17,096
Buildings		**877**	877
Equipment		**25**	25
	8	**18,895**	17,998
Interest expense (included in finance cost)	*10*	**44**	88
Expense relating to short-term leases (included in administrative expenses)		**10,363**	14,414

The total cash outflow for leases in 2020 was RMB11,274,000 (2019: RMB15,779,000).

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

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

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

16. Intangible Assets

	Patents RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2019			
Cost	20,472	36,608	57,080
Accumulated amortisation	(521)	(7,818)	(8,339)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	1,955	28,790	30,745
Year ended 31 December 2019			
Opening net book amount	1,955	28,790	30,745
Additions	200	14,984	15,184
Acquisition of a subsidiary	–	67	67
Amortisation *(Note 8)*	(156)	(5,177)	(5,333)
Closing net book amount	1,999	38,664	40,663
At 31 December 2019			
Cost	20,672	51,659	72,331
Accumulated amortisation	(677)	(12,995)	(13,672)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	1,999	38,664	40,663
Year ended 31 December 2020			
Opening net book amount	1,999	38,664	40,663
Additions	5,000	11,302	16,302
Amortisation *(Note 8)*	(331)	(5,883)	(6,214)
Closing net book amount	6,668	44,083	50,751
At 31 December 2020			
Cost	25,672	62,961	88,633
Accumulated amortisation	(1,008)	(18,878)	(19,886)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	6,668	44,083	50,751

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

17. Financial Assets at Fair Value Through Profit and Loss

The Group classifies the equity investments for which the entity has not elected to recognise fair value gains and losses through OCI at fair value through profit or loss (FVPL):

Financial assets mandatorily measured at FVPL include the following:

	2020 *RMB'000*	2019 *RMB'000*
Non-current assets		
– Equity investment	2,000	–

During the year ended 31 December 2020, the Group subscribed 10% share capital of a company at RMB2,000,000. The company is engaged in biological techniques research and development.

18. Derivative Financial Instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging accounting criteria, they are accounted for at fair value through profit or loss below. The Group has the following derivative financial instruments:

	2020 *RMB'000*	2019 *RMB'000*
Non-current assets		
– Cross currency swaps (a)	–	14,649
Current liabilities		
– Cross currency swaps (c)	57,118	–
Non-current liabilities		
– Cross currency swaps (b)	25,031	6,880

18. Derivative Financial Instruments *(Continued)*

(a) USD200,000,000 Cross currency swaps in 2018

In 2018, the Company entered into cross currency swaps contracts which are non-hedging derivatives and maturing in August 2021. As at 31 December 2019, the derivative financial assets as recognised based on the fair value of these cross currency swaps contracts amounted to RMB14,649,000. The swaps were early terminated on 20 April 2020 at the proceeds of RMB6,311,000 and the Company entered into another cross currency swaps contract (Note (c)) at the same time. For information about the methods and assumptions used in determining the fair value of these derivatives, please refer to Note 3.3.

The notional principal amounts of the cross currency swaps contracts at 31 December 2019 were USD200,000,000. As the cross currency swaps contracts were terminated in 2020, a net realised loss of RMB8,338,000 (2019: an unrealised gain of RMB44,531,000) was recognised in "Other (losses)/gains-net" (note 7).

(b) USD38,000,000 Cross currency swaps in 2019

In 2019, the Company entered into cross currency swaps contract which is non-hedging derivatives and maturing in September 2022. As at 31 December 2020 and 2019, the derivative financial liabilities as recognised based on the fair value of this cross currency swaps contract amounted to RMB25,031,000 and RMB6,880,000. For information about the methods and assumptions used in determining the fair value of this derivative, please refer to Note 3.3.

The notional principal amounts of the outstanding cross currency swaps contract at 31 December 2020 was USD38,000,000 (2019: USD38,000,000) and an unrealised loss of RMB18,151,000 (2019: an unrealised loss of RMB6,880,000) was recognised in "Other (losses)/gains – net" (Note 7).

(c) USD150,000,000 Cross currency swaps in 2020

As described in note (a), the Company entered into new cross currency swaps contract which is non-hedging derivatives and maturing in August 2021. As at 31 December 2020, the derivative financial liabilities as recognised based on the fair value of this cross currency swaps contract amounted to RMB57,118,000. For information about the methods and assumptions used in determining the fair value of this derivative, please refer to Note 3.3.

The notional principal amounts of the outstanding cross currency swaps contract at 31 December 2020 was USD150,000,000 and an unrealised loss of RMB57,118,000 was recognised in "Other (losses)/gains – net" (Note 7).

19. Financial Instruments by Category

The Group holds the following financial instruments:

	Note	2020 RMB'000	2019 RMB'000
Financial assets			
Financial assets at amortised cost			
Trade and other receivables *	21	684,094	774,683
Cash and bank balances	22	1,231,202	1,880,771
Financial assets at FVOCI	21(h)	723,478	972,971
Financial assets at FVPL	17	2,000	–
Derivative financial instruments at FVPL	18	–	14,649
		2,640,774	3,643,074
Financial liabilities			
Liabilities at amortised cost			
Trade and other payables *	26	2,315,128	2,847,310
Borrowings	27	3,473,228	3,384,550
Lease liabilities	15	419	1,330
Derivative financial instruments at FVPL	18	82,149	6,880
		5,870,924	6,240,070

* Excluding non-financial assets and liabilities and notes receivable

The Group's exposure to various risks associated with the financial instruments is described in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

20. Inventories

	2020 *RMB'000*	2019 *RMB'000*
Raw materials	**1,528,282**	1,935,848
Work-in-progress	**372,718**	257,142
Finished goods	**1,880,228**	1,434,157
	3,781,228	3,627,147

Inventories recognised as an expense during the year ended 31 December 2020 amounted to RMB12,177,295,000 (2019: RMB11,213,642,000). These were included in cost of sales amounted to RMB11,932,100,000 (2019: RMB10,969,446,000) and administrative expenses amounted to RMB245,195,000 (2019: RMB244,196,000).

Write-downs of inventories to net realisable value amounted to RMB35,849,000 (2019: RMB41,644,000). These were recognised as an expense during the year ended 31 December 2020 and included in "Cost of sales" in the consolidated income statement.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

21. Trade, Other Receivables and Prepayments

	2020 *RMB'000*	2019 *RMB'000*
Trade receivables (a)	**626,564**	663,357
Less: provision for impairment loss allowance (b)	**(28,225)**	(18,991)
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	**408,156**	409,757
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	**1,817,020**	327,286
	3,632,748	2,484,697
Less: non-current portion		
Prepayments for non-current assets (i)	**(51,189)**	–
	3,581,559	2,484,697

21. Trade, Other Receivables and Prepayments *(Continued)*

(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 *RMB'000*	2019 *RMB'000*
Within 3 months	**591,253**	599,413
3 ~12 months	**31,326**	57,761
Over 12 months	**3,985**	6,183
	626,564	663,357

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. Note 3.1(b) provides for details about the calculation of the allowance.

(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.

21. Trade, Other Receivables and Prepayments *(Continued)*

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

	2020 *RMB'000*	2019 *RMB'000*
– 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 FVOCI.

	31 December 2020 *RMB'000*	31 December 2019 *RMB'000*
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.

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

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, the whole transaction was still under processing.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

22. Cash and Bank Balances

	2020 *RMB'000*	2019 *RMB'000*
Cash and cash equivalents		
– Cash on hand	**424**	369
– Cash in banks	**830,778**	1,830,800
	831,202	1,831,169
Term deposits over 3 months and within one year	**400,000**	10,000
Cash and bank balances	**1,231,202**	1,841,169
Restricted bank deposits (a)	**–**	39,602
Total cash and bank balances (b)	**1,231,202**	1,880,771

(a) The restricted bank deposits were used for the following purposes:

	2020 *RMB'000*	2019 *RMB'000*
Issuance of bank acceptance notes	**–**	39,560
Others	**–**	42
	–	39,602

(b) Total cash and bank balances are denominated in the following currencies:

	2020 *RMB'000*	2019 *RMB'000*
– RMB	**877,092**	964,578
– USD	**343,727**	904,782
– HKD	**8,397**	10,940
– EUR	**1,873**	353
– SGD	**113**	118
	1,231,202	1,880,771

(c) The Group's cash and bank balances denominated in RMB were deposited with banks in the PRC. Conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(d) The weighted average effective interest rate on cash and bank balances placed with banks by the Group was 0.29% per annum for the year ended 31 December 2020 (2019: 0.27%).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

23. Share Capital and Premium

	Number of shares (thousands)	Amount		
		Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2019	2,546,734	244,436	1,430,479	1,674,915
Repurchase of shares of the Company	(13,095)	(1,175)	(41,873)	(43,048)
Dividends	–	–	(724,972)	(724,972)
	(13,095)	(1,175)	(766,845)	(768,020)
At 31 December 2019	2,533,639	243,261	663,634	906,895
Dividends	–	–	(317,197)	(317,197)
At 31 December 2020	2,533,639	243,261	346,437	589,698

The total number of authorised share capital of the Company comprised 10,000,000,000 ordinary shares with a par value of HKD0.10 each as at 31 December 2020 and 2019.

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

In August 2019 and September 2019, the Company separately acquired 9,655,000 and 40,000 of its own ordinary shares respectively through purchases on The Stock Exchange of Hong Kong Limited. The total consideration of HKD35,987,000 and HKD148,000 respectively (equivalent to RMB31,698,000 and RMB133,000) paid for repurchase of these shares have been deducted from the ordinary share premium and ordinary share capital due to the shares were cancelled in September 2019.

According to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands and the articles of association of the Company, dividends of the Company can be declared out of its share premium account subject to a solvency test.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

24. Share-Based Payment

(a) Share options granted on 9 April 2015

The Company granted to certain eligible employees share options to subscribe for an aggregate of 16,600,000 ordinary shares of the Company on 9 April 2015. These options vest in tranches over a period of up to 5 years. There were no options being exercised during the years ended 31 December 2020 and 2019.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2020		2019	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	5.69	2,800	5.69	3,600
Forfeited	5.69	–	5.69	(800)
Lapsed	5.69	(2,800)	5.69	–
At 31 December	5.69	–	5.69	2,800

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB30,216,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 April 2015
Average share price	HKD4.89
Exercise price	HKD5.69
Expected life of options	5.0 years
Expected volatility	43.11%
Expected dividend yield	2.26%
Risk free rate	0.99%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

During the year ended 31 December 2020, all the related 2,800,000 shares options were lapsed.

The attributable amount reclassified from other reserve to retained earnings due to lapsing during the year ended 31 December 2020 was approximately RMB4,034,000 (2019: The attributable amount credited to the consolidated income statement due to forfeiture during the year ended 31 December 2019 was approximately RMB1,071,000).

24. Share-Based Payment *(Continued)*

(b) Share options granted on 9 November 2016

The Company granted to certain eligible employees share options to subscribe for an aggregate of 14,700,000 ordinary shares of the Company on 9 November 2016. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2020 and 2019.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2020		2019	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**3.50**	**12,300**	3.50	12,300
Forfeited	**3.50**	**(9,000)**	3.50	–
At 31 December	**3.50**	**3,300**	3.50	12,300

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB17,515,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 November 2016
Average share price	HKD3.45
Exercise price	HKD3.50
Expected life of options	6.0 years
Expected volatility	44.79%
Expected dividend yield	2.15%
Risk free rate	1.39%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

In 2020, three employees resigned and thus all the related 9,000,000 share options were forfeited during the year ended 31 December 2020.

The attributable amount in related to the share options forfeited after the vesting period reclassified from other reserve to retained earning during the year ended 31 December 2020 was approximately RMB4,711,000. The attributable amount in related to the share options forfeited during the vesting period credited to the consolidated income statement during the year ended 31 December 2020 was approximately RMB2,979,000 (2019: The attributable amount charged to the consolidated income statement was approximately RMB2,122,000).

24. Share-Based Payment *(Continued)*

(c) Share options granted on 30 December 2016

The Company granted to certain eligible employee share options to subscribe for an aggregate of 300,000 ordinary shares of the Company on 30 December 2016. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2020 and 2019.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2020		2019	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	3.82	300	3.82	300
At 31 December	3.82	300	3.82	300

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 30 December 2016
Average share price	HKD3.81
Exercise price	HKD3.82
Expected life of options	6.0 years
Expected volatility	44.52%
Expected dividend yield	2.18%
Risk free rate	1.70%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2020 was approximately RMB39,000 (2019: RMB70,000).

24. Share-Based Payment *(Continued)*

(d) Share options granted on 25 August 2017

The Company granted to certain eligible employee share options to subscribe for an aggregate of 5,000,000 ordinary shares of the Company on 25 August 2017. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2020 and 2019.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2020		2019	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**4.96**	**5,000**	4.96	5,000
At 31 December	**4.96**	**5,000**	4.96	5,000

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB7,852,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 25 August 2017
Average share price	HKD4.95
Exercise price	HKD4.96
Expected life of options	6.0 years
Expected volatility	44.41%
Expected dividend yield	3.75%
Risk free rate	1.37%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2020 was approximately RMB1,071,000 (2019: RMB1,801,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

25. Other Reserves

	Capital reserve *(Note (a))* RMB'000	Statutory reserve *(Note (b))* RMB'000	Safety production fee RMB'000	Share-based payment reserve *(Note 24)* RMB'000	Total RMB'000
1 January 2019	(370,760)	916,359	–	28,482	574,081
Profit appropriation	–	88,816	–	–	88,816
Employee share option schemes					
– Value of employee services *(Notes 9, 24)*	–	–	–	2,922	2,922
31 December 2019	(370,760)	1,005,175	–	31,404	665,819
Profit appropriation	–	58,572	–	–	58,572
Employee share option schemes					
– Value of employee services *(Notes 9, 24)*	–	–	–	(1,869)	(1,869)
– Expiry of options issued *(Notes 24(a), 24(b))*	–	–	–	(8,745)	(8,745)
Provision for safety production fee	–	–	3,600	–	3,600
Utilisation of safety production fee	–	–	(1,498)	–	(1,498)
31 December 2020	(370,760)	1,063,747	2,102	20,790	715,879

(a) Capital reserve

It mainly represents reserve arising from the Group's reorganisation completed in July 2006.

(b) Statutory reserve

In accordance with the PRC regulations and the articles of the association of the PRC companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

26. Trade, Other Payables and Accruals

	2020 *RMB'000*	2019 *RMB'000*
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
	2,675,776	3,212,144
Less: non-current portion		
Other payables (c)	**(66,461)**	(63,148)
	2,609,315	3,148,996

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

	2020 *RMB'000*	2019 *RMB'000*
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
	1,249,039	1,403,779

(b) As disclosed in Note 21(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 parities 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.

27. Borrowings

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

(a) Borrowings

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

	Bank borrowings		USD bonds	
	2020 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	2019 *RMB'000*
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	–	–
	1,825,560	1,196,372	1,647,668	2,188,178

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

	2020	2019
Bank borrowings	4.50%	5.17%

27. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

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

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

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 (Note 3.3).

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
	RMB'000	*RMB'000*
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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

28. Deferred Income

	2020 RMB'000	2019 RMB'000
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 RMB'000	2019 RMB'000
At beginning of the year	**710,281**	785,971
Granted during the year	**197,436**	84,494
Amortised as income *(Notes 6, 31)*	**(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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

29. Deferred Income Tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The deferred income tax assets and liabilities are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**75,660**	90,123
– Deferred income tax assets to be recovered within 12 months	**47,693**	56,515
	123,353	146,638
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(16,650)**	(16,650)
– Deferred income tax liabilities to be settled within 12 months	**(10,000)**	(24,000)
	(26,650)	(40,650)
Deferred income tax assets, net	**96,703**	105,988

The gross movement on the deferred income tax account is as follows:

	2020 *RMB'000*	2019 *RMB'000*
Beginning balance of the year	**105,988**	167,426
Acquisition of a subsidiary	**–**	(437)
Charged to consolidated income statement *(Note 11)*	**(9,285)**	(61,001)
Ending balance of the year	**96,703**	105,988

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

29. Deferred Income Tax *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Unrealised profit *RMB'000*	Deferred income *RMB'000*	Salary and staff welfare payable *RMB'000*	Impairment losses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2019	4,084	102,699	39,307	23,977	14,518	184,585
(Charged)/credited to consolidated income statement	(2,696)	(5,427)	(4,190)	3,650	(8,163)	(16,826)
At 31 December 2019	1,388	97,272	35,117	27,627	6,355	167,759
(Charged)/credited to consolidated income statement	**(533)**	**14,482**	**(1,270)**	**(1,291)**	**(4,683)**	**6,705**
At 31 December 2020	**855**	**111,754**	**33,847**	**26,336**	**1,672**	**174,464**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax assets in respect of tax losses amounted to RMB379,146,000 as at 31 December 2020 (2019: RMB235,270,000) that can be carried forward to offset against future taxable income, because it was uncertain whether there would be sufficient profit to offset in the near future. As at 31 December 2020 and 2019, the expiry date of such tax losses is as follows:

Expiry date	**2020** *RMB'000*	2019 *RMB'000*
2020	**–**	1,363
2021	**1,514**	1,514
2022	**1,117**	1,117
2023	**640**	640
2024	**2,660**	2,660
2025	**5,494**	–
2029	**227,976**	227,976
2030	**139,745**	–
	379,146	235,270

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

29. Deferred Income Tax *(Continued)*

Deferred income tax liabilities:

	Capitalisation of borrowing costs *RMB'000*	Withholding tax on unremitted earnings of certain subsidiaries *RMB'000*	Lump-sum deduction of depreciation difference *RMB'000*	Total *RMB'000*
At 1 January 2019	509	16,650	–	17,159
Acquisition of a subsidiary	–	–	437	437
(Credited)/charged to consolidated income statement	(137)	24,000	20,312	44,175
At 31 December 2019	372	40,650	20,749	61,771
(Credited)/charged to consolidated income statement	(137)	(14,000)	30,127	15,990
At 31 December 2020	235	26,650	50,876	77,761

According to the corporate income tax law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies, including those incorporated in Hong Kong.

Such withholding tax is recorded under deferred income tax. During the year ended 31 December 2018, Trans-Asia, a subsidiary of the Company, acquired qualification for the lower tax rate of 5% for dividend received from its subsidiaries in mainland China. The Group revised its estimate of Trans-Asia for the accrual based on 5% instead of 10% while the withholding tax rate for other subsidiaries in Hongkong were based on 10%. During the year ended 31 December 2020, withholding tax of RMB24,000,000 has been paid as Mainland China subsidiaries have distributed the retained earnings of RMB440,000,000 as at 31 December 2019. Withholding tax of RMB10,000,000 has been provided as the Group expects Mainland China subsidiaries to distribute the retained earnings of RMB200,000,000 as at 31 December 2020 (2019: RMB440,000,000) in the foreseeable future.

Deferred income tax liabilities as at 31 December 2020 of RMB628,966,000 (2019: RMB573,706,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB10,919,799,000 (2019: RMB10,460,594,000).

30. Dividends

	2020	2019
	RMB'000	*RMB'000*
Interim, paid	**132,256**	211,387
Final, proposed	**87,003**	184,941
	219,259	396,328

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 HK4.1 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.

31. Cash Generated from Operations

(a) Cash generated from operations

	2020 RMB'000	2019 RMB'000
Profit before income tax	**770,637**	1,399,264
Adjustments for:		
– Provision for inventory write-down *(Note 20)*	**35,849**	41,644
– Net impairment losses on financial assets	**11,344**	37,869
– Net provision for safety production fee	**2,102**	–
– Provision for impairment charge for property, plant and equipment *(Note 14)*	**–**	52,868
– Depreciation of property, plant and equipment *(Note 14)*	**1,227,906**	1,132,209
– Depreciation of right-of-use assets *(Note 15)*	**18,895**	17,998
– Amortisation of intangible assets *(Note 16)*	**6,214**	5,333
– Amortisation of deferred income *(Note 28)*	**(89,267)**	(160,184)
– Gain on disposal of financial assets through profit or loss *(Note 7)*	**–**	(1,624)
– Fair value losses/(gains) on derivative financial instruments *(Note 7)*	**83,607**	(37,651)
– Share of losses of associates *(Note 13b)*	**9,369**	3,267
– Loss on disposal of property, plant and equipment – net *(Note 7)*	**6,220**	2,370
– Employee share option schemes *(Note 9)*	**(1,869)**	2,922
– Interest income *(Note 10)*	**(43,648)**	(103,118)
– Interest expenses *(Note 10)*	**206,058**	201,157
– Net foreign exchange (gains)/losses on financing activities *(Note 10)*	**(145,937)**	52,111
– Negative goodwill gained from acquisition	**–**	(15,369)
Changes in working capital:		
– Inventories	**(189,930)**	(402,085)
– Trade, other receivables and prepayments	**(1,121,270)**	(648,088)
– Restricted bank deposits	**39,602**	23,939
– Trade, other payables and accruals	**(276,297)**	(165,080)
Cash generated from operations	**549,585**	1,439,752

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

31. Cash Generated from Operations *(Continued)*

(b) Proceeds from disposal of subsidiaries

	2020 *RMB'000*	2019 *RMB'000*
Decrease in other receivables, net of unrealised financing income *(Note 21(c))*	**17,818**	995,396
Amortised as income from unrealised financing income of other receivables	**105**	21,297
Proceeds from disposal of subsidiaries, net of cash disposed	**17,923**	1,016,693

(c) Proceeds from disposal of property, plant and equipment

	2020 *RMB'000*	2019 *RMB'000*
Net book amount for disposals *(Note 14)*	**8,977**	6,183
Loss on disposal of property, plant and equipment – net *(Note 7)*	**(6,220)**	(2,370)
Proceeds from disposal of property, plant and equipment	**2,757**	3,813

(d) Major non-cash transactions

During the year ended 31 December 2020, the Group purchased property, plant and equipment and recorded related payables without cash outflow in the amount of RMB310,686,000 (2019: RMB577,489,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

31. Cash Generated from Operations *(Continued)*

(e) Reconciliation of liabilities from financing activities

This section sets out an analysis of liabilities from financing activities and the related movements for the years ended 2020 and 2019:

	Borrowings due within 1 year *RMB'000*	Borrowings due after 1 year *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 31 December 2018	1,523,163	2,487,389	–	4,010,552
Recognised on adoption of HKFRS 16	–	–	2,275	2,275
Addition of lease *(Note 15)*	–	–	420	420
Cash flows				
– Inflow from financing activities	2,702,000	260,128	–	2,962,128
– Outflow from financing activities	(3,637,900)	(8,364)	(1,365)	(3,647,629)
Foreign exchange adjustments	1,079	40,926	–	42,005
Other non-cash movements				
– Reclassification	345,170	(345,170)	–	–
– Amortisation of borrowing costs	1,658	14,471	–	16,129
At 31 December 2019	**935,170**	**2,449,380**	**1,330**	**3,385,880**
Cash flows				
– Inflow from financing activities	**3,762,594**	**200,000**	**–**	**3,962,594**
– Outflow from financing activities	**(3,302,644)**	**(441,056)**	**(911)**	**(3,744,611)**
Foreign exchange adjustments	**(37,848)**	**(107,983)**	**–**	**(145,831)**
Other non-cash movements				
– Reclassification	**1,647,668**	**(1,647,668)**	**–**	**–**
– Amortisation of borrowing costs	**3,861**	**11,754**	**–**	**15,615**
At 31 December 2020	**3,008,801**	**464,427**	**419**	**3,473,647**

32. Commitments

Capital commitments

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

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

33. 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 *RMB'000*	2019 *RMB'000*
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

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 *RMB'000*	2019 *RMB'000*
Salaries and allowances	**15,842**	19,038
Pension costs – defined contribution plan	**708**	811
Share options granted to key management *(Note 9)*	**(1,869)**	2,922
	14,681	22,771

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

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

(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 *RMB'000*	2019 *RMB'000*
– A company controlled by a close family member of the controlling shareholder	26	3,758

(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.

34. 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 of up to USD400 million with a term of 36 months from initial funding was 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 a 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.

The final dividend described in Note 30 was proposed.

Other than the above, there was no significant event of the Group occurred after the balance sheet date.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2020

35. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		133	365
Investment in subsidiaries		460,066	460,066
Right-of-use assets		441	1,182
Derivative financial instruments		–	14,649
Total non-current assets		460,640	476,262
Current assets			
Loans to subsidiaries		985,851	1,025,396
Due from subsidiaries		1,868,911	2,001,895
Deposits and other receivables		394	596
Cash and cash equivalents		35,641	94,765
Total current assets		2,890,797	3,122,652
Total assets		3,351,437	3,598,914
EQUITY			
Capital and reserves attributable to the shareholders			
Share capital		243,261	243,261
Share premium		346,437	663,634
Other reserves	*(a)*	20,790	31,404
Accumulated losses	*(a)*	(27,481)	(394,541)
Total equity		583,007	543,758
LIABILITIES			
Non-current liabilities			
Borrowings		264,427	2,449,380
Lease liabilities		29	735
Derivative financial instruments		25,031	6,880
Total non-current liabilities		289,487	2,456,995
Current liabilities			
Borrowings		2,153,821	345,170
Due to subsidiaries		209,177	189,025
Lease liabilities		306	349
Derivative financial instruments		57,118	–
Other payables and accruals		58,521	63,617
Total current liabilities		2,478,943	598,161
Total liabilities		2,768,430	3,055,156
Total equity and liabilities		3,351,437	3,598,914

The balance sheet of the Company was approved by the Board of Directors on 25 March 2021 and was signed on its behalf.

Li Xuechun
Director

Li Deheng
Director

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

35. Balance Sheet and Reserve Movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Accumulated losses *RMB'000*	Other reserves *RMB'000*
At 1 January 2019	(488,098)	28,482
Profit for the year	93,557	–
Employee share option schemes:		
– Value of employee services	–	2,922
At 31 December 2019	(394,541)	31,404
At 1 January 2020	**(394,541)**	**31,404**
Profit for the year	**358,315**	**–**
Employee share option schemes:		
– Value of employee services	**–**	**(1,869)**
– Expiry of options issued	**8,745**	**(8,745)**
At 31 December 2020	**(27,481)**	**20,790**

36. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The emoluments of every director for the years ended 31 December 2020 and 2019 are set out as below:

	2020				
Name of Director	**Fees** *RMB'000*	**Salary** *RMB'000*	**Other benefits *(i)*** *RMB'000*	**Employer's contribution to pension scheme** *RMB'000*	**Total** *RMB'000*
Executive Directors:					
Li, Xuechun	**–**	**4,216**	**–**	**16**	**4,232**
Zhao, Qiang *(ii)*	**–**	**1,500**	**–**	**18**	**1,518**
Li, Deheng	**–**	**1,150**	**–**	**55**	**1,205**
Yu, Yaoming *(iii)*	**–**	**1,067**	**–**	**27**	**1,094**
Li, Guangyu	**–**	**782**	**–**	**55**	**837**
Independent Non-executive Directors:					
Zheng, Yu	**213**	**–**	**32**	**–**	**245**
Xu, Zhenghong	**–**	**–**	**–**	**–**	**–**
Lau, Chung Wai	**160**	**–**	**–**	**–**	**160**
	373	**8,715**	**32**	**171**	**9,291**

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2020

36. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(continued)*

			2019		
Name of Director	Fees	Salary	Other benefits *(i)*	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors:					
Li, Xuechun	–	2,779	–	16	2,795
Zhao, Qiang	–	4,500	948	54	5,502
Li, Deheng	–	1,158	–	54	1,212
Yu, Yaoming *(iv)*	–	951	–	54	1,005
Li, Guangyu	–	599	–	54	653
Pan, Yuehong *(v)*	–	274	–	13	287
Independent Non-executive Directors:					
Zheng, Yu	211	–	57	–	268
Lau, Chung Wai *(vi)*	93	–	–	–	93
Xu, Zhenghong	–	–	–	–	–
Xiao, Jianlin *(vii)*	80	–	–	–	80
	384	10,261	1,005	245	11,895

(i) Other benefits include share option granted.
(ii) Resigned on 1 June 2020
(iii) Resigned on 20 July 2020
(iv) Appointed on 20 March 2019
(v) Resigned on 20 March 2019
(vi) Appointed on 12 June 2019
(vii) Resigned on 12 June 2019

36. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(continued)*

There was no bonus paid to the directors of the Company for the years ended 31 December 2020 and 2019.

No payment was made to directors as retirement benefits during the years ended 31 December 2020 and 2019.

No payment was made to directors as compensation for the early termination of the appointment during the years ended 31 December 2020 and 2019.

No payment was made to the any third parties for making available directors' services during the years ended 31 December 2020 and 2019.

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the years ended 31 December 2020 and 2019.

No director waived or agreed to waive any remuneration for the year ended 31 December 2020 (2019: Nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Share Information

Stock Code **546**

Board lot **1,000 Shares**

Price and turnover

2020	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	3.78	3.01	46,776
February	3.28	3.00	56,900
March	3.14	2.23	110,010
April	2.66	2.31	41,297
May	2.71	2.44	39,986
June	2.67	2.44	27,508
July	2.97	2.46	75,898
August	3.00	2.55	31,550
September	2.69	2.24	18,468
October	2.61	2.35	30,925
November	3.02	2.40	35,870
December	3.01	2.75	32,490

Issued capital at 31 December 2020 **2,533,639,037 Shares**

Closing price at 31 December 2020 **HKD2.90 per Share**

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
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
COFCO	China National Cereals, Oils and Foodstuffs Corporation
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Expand Base	Expand Based Limited, an indirect wholly-owned subsidiary of the Company
Fufeng Singapore	Fufeng (Singapore) Pte. Ltd., an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries
Hero Elite	Hero Elite Limited, a company with limited liability, the issued share capital of which is owned as the 14.3% by 王龍祥 (Wang Longxiang), 14.3% by 來鳳堂 (Lai Fengtang), 14.3% by 劉振余 (Liu Zhenyu), 14.3% by 趙蘭坤 (Zhao Lankun), 10.7% by 王俊任 (Wang Junren), 10.7% by 嚴紅偉 (Yan Hongwei), 10.7% by 李曼山 (Li Manshan) and 10.7% by 沈德權 (Shen Dequan)

Glossary *(Continued)*

HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
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
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Mongolia Autonomous Region, the PRC
IM Fufeng	內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC
Listing Date	8 February 2007, the date on which the Company was listed on the Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Longjiang Fufeng	齊齊哈爾龍江阜豐生物科技有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Longjiang Plant	the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PRC	the People's Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Glossary *(Continued)*

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
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
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	新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
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
EUR	Euro, the lawful currency of the participating states within the European Union
SGD	Singapore dollars, the lawful currency of Singapore
%	per cent