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常茂生物化學工程股份有限公司
Changmao Biochemical Engineering Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 954)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

	2019	2018
	Rmb'000	*Rmb'000*
Revenue	**494,580**	639,120
Profit for the year attributable to the equity holders of the Company	**58,299**	50,525

DIVIDEND

The Directors recommend the payment of a final cash dividend of Rmb0.055 (inclusive of tax) per share for the year ended 31 December 2019.

* *For identification purpose only*

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2019 together with the audited comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019** **Rmb'000**	2018 *Rmb'000*
Revenue	2	**494,580**	639,120
Cost of sales	4	**(359,425)**	(509,394)
Gross profit		**135,155**	129,726
Other income	3	**3,402**	4,018
Other (losses)/gains, net	3	**(1,066)**	1,737
Selling expenses	4	**(14,064)**	(15,169)
Administrative expenses	4	**(60,961)**	(63,554)
Reversal of loss allowance/(loss allowance) on financial assets	4	**344**	(1,304)
Operating profit		**62,810**	55,454
Finance income		**264**	296
Finance costs		**(521)**	(1,149)
Finance costs, net	5	**(257)**	(853)
Profit before income tax		**62,553**	54,601
Income tax expense	6	**(4,626)**	(4,692)
Profit for the year		**57,927**	49,909
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		**5**	1
Total comprehensive income for the year		**57,932**	49,910
Profit for the year attributable to:			
Equity holders of the Company		**58,299**	50,525
Non-controlling interests		**(372)**	(616)
		57,927	49,909
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**58,304**	50,526
Non-controlling interests		**(372)**	(616)
		57,932	49,910
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	7	**Rmb0.110**	Rmb0.095

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	**2019** **Rmb'000**	2018 Rmb'000
ASSETS			
Non-current assets			
Patents		**575**	660
Property, plant and equipment		**270,297**	292,537
Land use rights		**–**	25,943
Right-of-use assets		**26,174**	–
Construction in progress		**109,232**	87,531
Deferred income tax assets		**20,261**	13,949
Prepayments		**493**	–
		427,032	420,620
Current assets			
Inventories		**106,183**	108,024
Trade and bills receivables	9	**64,131**	98,672
Other receivables, deposits and prepayments		**16,300**	16,830
Income tax recoverable		**2,246**	–
Derivative financial instruments		**43**	–
Pledged bank balances		**1,588**	2,774
Cash and bank balances		**120,216**	85,098
		310,707	311,398
Total assets		**737,739**	732,018
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	10	**608,722**	576,903
		661,692	629,873
Non-controlling interests		**622**	994
Total equity		**662,314**	630,867

CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2019

	Note	**2019** *Rmb'000*	2018 *Rmb'000*
LIABILITIES			
Non-current liabilities			
Deferred income		**1,452**	1,945
Lease liabilities		**309**	–
Deferred income tax liabilities		**571**	494
		2,332	2,439
Current liabilities			
Trade and bills payables	11	**20,139**	19,781
Contract liabilities, other payables and accruals		**31,799**	37,055
Income tax payable		**15**	2,565
Lease liabilities		**640**	–
Bank borrowings		**20,500**	39,311
		73,093	98,712
Total liabilities		**75,425**	101,151
Total equity and liabilities		**737,739**	732,018

Notes:

1 BASIS OF PREPARATION

The consolidated financial statements of Changmao Biochemical Engineering Company Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The financial statements have been prepared on a historical cost basis, except for derivative financial instruments which are carried at fair value.

(a) New and amended standards, improvements and interpretation adopted by the Group

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 January 2019:

- *HKFRS 16 "Leases"*
- *Amendments to HKFRS 9 – "Prepayment Features with Negative Compensation"*
- *Amendments to HKAS 28 – "Long-term Interests in Associates and Joint Ventures"*
- *Annual Improvements Projects – "Annual Improvements 2015 – 2017 Cycle"*
- *Amendments to HKAS 19 – "Plan Amendment, Curtailment or Settlement"*
- *Interpretation 23 – "Uncertainty over Income Tax Treatments"*

The Group had to change its accounting policies as a result of adopting HKFRS 16. In accordance with the transition provisions of HKFRS 16, the Group has adopted the modified retrospective application for existing leases at 1 January 2019 with certain transition reliefs and under which comparative figures are not restated. For leases previously classified as operating leases, the Group has elected to measure the right-of-use assets at the amounts equal to the lease liabilities adjusted by any prepaid or accrued lease payments. Accordingly, no adjustments were recognised to the opening balance of retained earnings at the date of initial application. This is disclosed in Note 1(c).

Saved as above, the adoption of these new and amended standards, improvements and interpretation did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) *New and amended standards and revised framework not yet adopted*

A number of new and amended standards and revised framework have been published that are not mandatory for the year ended 31 December 2019 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKAS39, HKFRS 7 and HKFRS 9	Hedge Accounting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

These new and amended standards and revised framework are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) *Changes in accounting policies*

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

As indicated in Note 1(a) above, the Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group has a non-cancellable operating lease in respect of rental of office only. Given the remaining terms of the operating lease was less than 12 months, the Group has accounted for this lease as short-term lease under the practical expedients permitted by the standard. As such, except for the adjustment recognised in the consolidated balance sheet, there was no material impact on the Group's consolidated financial position as at 1 January 2019.

Adjustments recognised in the consolidated balance sheet on 1 January 2019

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

- Land use rights – decrease by Rmb25,943,000

- Right-of-use assets – increase by Rmb25,943,000

There was no impact on retained earnings at 1 January 2019

2 REVENUE AND SEGMENT INFORMATION

Executive directors are identified as the chief operating decision maker. Management has determined the operating segments based on the information reported to the executive directors for the purposes of allocating resources and assessing performance.

The Group is engaged in the production and sales of organic acids products. Resources of the Group are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, and the executive directors consider the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirement of HKFRS 8.

	2019	2018
	Rmb'000	*Rmb'000*
Revenue from sales of goods, recognised at a point in time	**494,580**	639,120

An analysis of the Group's revenue by geographic location is as follows:

	2019	2018
	Rmb'000	*Rmb'000*
Mainland China	**263,554**	324,745
Europe	**101,066**	112,698
Asia Pacific	**81,087**	142,815
America	**36,748**	43,887
Others	**12,125**	14,975
	494,580	639,120

Europe region mainly includes the Great British, Germany, Turkey, Spain and Italy whereas Asia Pacific region mainly includes Hong Kong, Indonesia, Australia, India, Thailand and Japan.

The analysis of revenue by geographic location is based on the country area in which the customer is located. No analysis of contribution by geographic location has been presented as the ratio of profit to revenue achieved for individual geographic location is not substantially out of line with the Group's overall ratio of profit to revenue.

As at 31 December 2019, all the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb406,771,000 (2018: Rmb406,671,000) are located in Mainland China.

Included in the revenue from sales of goods, approximately Rmb29,933,000 (2018: Rmb33,580,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 6% (2018: 5%) of the total revenue of the Group. There are no single customers contributing over 10% of the Group's total revenue.

Assets and liabilities related to contract with customers

The Group has not recognised any contract assets related to contract with customers as at 31 December 2019.

(i) Significant changes in contract liabilities
Contract liabilities have been decreased by Rmb1,000,000 due to a decrease in overall contract activities.

(ii) Revenue recognised in relation to contract liabilities
Revenue of Rmb2,935,000 is recognised in relation to contract liabilities in the year ended 31 December 2019 related to carried forward contract liabilities as at 1 January 2019. There is no revenue recognised in relation to contract liabilities satisfied on or before 1 January 2019.

(iii) All contracts are for the periods of one year or less or are billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed

3 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	2019	2018
	Rmb'000	*Rmb'000*
Other income		
Sales of scrap materials	**30**	43
Government grants	**1,632**	1,618
Others	**1,740**	2,357
	3,402	4,018

	2019	2018
	Rmb'000	*Rmb'000*
Other (losses)/gains, net		
Fair value gains on derivative financial instruments	**43**	–
Loss on disposal of property, plant and equipment	**(2,144)**	(79)
Net exchange gains	**1,035**	1,816
	(1,066)	1,737

4 EXPENSES BY NATURE

	2019	2018
	Rmb'000	*Rmb'000*
Cost of inventories sold	**191,650**	310,764
Amortisation of patents	**85**	84
Amortisation of land use rights	**–**	699
Auditors' remuneration - audit services	**1,321**	1,367
Depreciation of property, plant and equipment	**34,279**	33,587
Depreciation of right-of-use assets	**995**	–
Research and development costs	**10,302**	8,677
(Reversal of loss allowance)/loss allowance on financial assets	**(344)**	1,304
Provision for inventories to net realisable value	**698**	–
Staff costs (including emoluments of Directors and Supervisors)	**65,477**	69,859
Utilities	**43,502**	58,922
Other expenses	**86,141**	104,158
	434,106	589,421

Included in research and development costs are mainly expenditures incurred for the formulation, design, evaluation and application of various forms of organic acids products for commercial use. Management assessed that those internal projects are in the research and initial development stage, and did not recognise any of those expenditure as an asset.

5 FINANCE COSTS, NET

	2019	2018
	Rmb'000	*Rmb'000*
Interest for lease liabilities	**(30)**	–
Interest on bank borrowings	**(491)**	(1,149)
	(521)	(1,149)
Interest income on bank deposits	**264**	296
Finance costs, net	**(257)**	(853)

6 INCOME TAX EXPENSE

PRC Corporate Income Tax ("CIT") is provided for on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

The amount of income tax charged to consolidated statement of comprehensive income represents:

	2019	2018
	Rmb'000	*Rmb'000*
Current income tax		
– Provision for CIT	**11,387**	9,852
– Over-provision in prior year	**(526)**	(9)
Deferred income tax	**(6,235)**	(5,151)
	4,626	4,692

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities as follows:

	2019	2018
	Rmb'000	*Rmb'000*
Profit before income tax	**62,553**	54,601
Calculated at the tax rates applicable to results of the respective consolidated entities	**6,285**	5,257
Expenses not deductible for tax purposes	**533**	1,162
Tax losses for which no deferred income tax asset was recognised	**683**	533
Timing differences for which no deferred income tax asset was recognised	**(120)**	–
Reversal of previously recognised tax losses	**320**	–
Tax incentives for research and development expenses*	**(2,373)**	(2,198)
Over-provision in prior year	**(526)**	(9)
Others	**(176)**	(53)
Income tax expense	**4,626**	4,692

* According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% (2018: 175%) of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed in ascertaining the assessable profits for the years ended 31 December 2019 and 2018.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2019 is based on the profit attributable to the equity holders of the Company of Rmb58,299,000 (2018: Rmb50,525,000) and 529,700,000 (2018: 529,700,000) weighted average number of shares in issue during the year.

The Company had no dilutive potential shares in issue during the year (2018: Nil).

8 DIVIDENDS

No interim dividend was declared during the year (2018: Nil). The dividend paid in 2019 was 26,485,000 (Rmb0.05 per share) (2018: Nil). A final dividend in respect of the year ended 31 December 2019 of Rmb0.055 per share, totalling Rmb29,134,000 is to be proposed at the Annual General Meeting on 25 May 2020. These financial statements do not reflect this dividend payable.

9 TRADE AND BILLS RECEIVABLES

	2019	2018
	Rmb'000	*Rmb'000*
Trade receivables	**48,584**	98,672
Bills receivables	**15,547**	–
	64,131	98,672

(a) The credit terms of trade receivables range from 30 to 120 days and the aging analysis which is based on the invoice date of trade receivables is as follows:

	2019	2018
	Rmb'000	*Rmb'000*
0 to 3 months	**44,217**	94,340
4 to 6 months	**5,074**	4,972
Over 6 months	**183**	719
	49,474	100,031
Less: Loss allowance	**(890)**	(1,359)
	48,584	98,672

(b) The maturity dates of bills receivables are normally within 6 months.

10 RESERVES

	Share Premium *Rmb'000*	Statutory common reserve *Rmb'000*	Capital reserve *Rmb'000*	Exchange reserve *Rmb'000*	Retained earnings *Rmb'000*	Total *Rmb'000*
At 1 January 2018	102,559	79,961	461	–	343,396	526,377
Transfer to statutory common reserve	–	7,272	–	–	(7,272)	–
Profit for the year	–	–	–	–	50,525	50,525
Other comprehensive income - currency translation difference- Group	–	–	–	1	–	1
At 31 December 2018	102,559	87,233	461	1	386,649	576,903

	Share premium ***Rmb'000***	**Statutory common reserve** ***Rmb'000***	**Capital reserve** ***Rmb'000***	**Exchange reserve** ***Rmb'000***	**Retained earnings** ***Rmb'000***	**Total** ***Rmb'000***
At 1 January 2019	**102,559**	**87,233**	**461**	**1**	**386,649**	**576,903**
Profit for the year	**–**	**–**	**–**	**–**	**58,299**	**58,299**
Other comprehensive income - currency translation difference - Group	**–**	**–**	**–**	**5**	**–**	**5**
Final dividend for the year ended 31 December 2018	**–**	**–**	**–**	**–**	**(26,485)**	**(26,485)**
At 31 December 2019	**102,559**	**87,233**	**461**	**6**	**418,463**	**608,722**

11 TRADE AND BILLS PAYABLES

	2019	2018
	Rmb'000	*Rmb'000*
Trade payables	**14,845**	10,535
Bills payables	**5,294**	9,246
	20,139	19,781

(a) The aging analysis of trade payables which is based on the invoice date of trade payables is as follows:

	2019	2018
	Rmb'000	*Rmb'000*
0 to 6 months	**13,642**	10,247
7 to 12 months	**822**	40
Over 12 months	**381**	248
	14,845	10,535

(b) The maturity dates of bills payables are normally within 3 months.

12 SUBSEQUENT EVENT

Since early 2020, the epidemic of Coronavirus Disease 2019 ("the COVID-19 outbreak") has spread across China and other countries, and it has affected business and economic activities to some extent. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at the date of this report. The Group will pay close attention to the development of the COVID-19 outbreak, perform further assessment of its impact and take relevant measures.

BUSINESS REVIEW AND OUTLOOK

Results for the Year

In 2019, the Group's production and operation was stable and promoted the continuous growth of economic benefits. The Group's sales revenue for the year ended 31 December 2019 was approximately Rmb494,580,000 representing a decrease of approximately 22.6% as compared with that of Rmb639,120,000 in last year; the net profit attributable to equity holders of the Company was approximately Rmb58,299,000. This is an increase of approximately 15.4% over that of Rmb50,525,000 in last year.

The Group continuously improves technology innovation and upgrades management. The production of maleic anhydride using the butane-method brought in cost advantage and energy efficiency. With the advantages from production along product chains, the increase in the selling price of the major products and the stable cost of raw materials in 2019, the Group have promoted the continued growth of economic benefits.

Affected by the upgrading and improvement of environmental protection facilities in the fourth quarter of 2019, the Group's Changzhou plant suspended production from October to November, which imposed certain restrictions on the supply of some best-selling products and thus reduced sales and affected sales revenue of the fourth quarter and even the whole year. As a result, the Group's overall sales in 2019 showed a downward trend compared with that in 2018.

Business Review

The Group maintains competitive by adhering to the sales strategy of differentiated competition, making use of the advantages of large-scale production, and improving the production management and production technologies and continuously improving the quality of its products. At the same time, in order to meet customers' needs for different usages of the products, the Group has communicated with customers in depth and provided customers with product technical services and support, which are well recognised by the customers. Through the efforts of these years, the Group has accumulated a number of high-end customers with long-term cooperation and gained a stable market share.

In 2019, the Group's production line was the first in China to transform from using benzene-method to butane-method to manufacture maleic anhydride. The maleic anhydride production team continued to explore and break through technical difficulties to improve both output and quality of the maleic anhydride production. By using butane instead of benzene as a raw material to manufacture maleic anhydride, the price difference between butane and benzene has achieved a reduction of production costs from the source and has gained substantial energy efficiency from the by-product, steam, which can be recycled. This has laid a solid foundation for the Group's continued improvement in economic efficiency in 2019.

Saving energy, reducing emission and costs and improving efficiency are the focuses of the production management for the Group. In order to meet the ever-increasing safety and environmental protection standards, the Group has implemented automation and intelligent transformation on the production lines and infrastructure improvements. The Group has paid attention to details and continuously innovates and optimizes the production processes. Optimal allocations of different energy levels helped to improve the comprehensive utilization of energy, reduce the cost of purchased energy, and achieve the goals of energy saving, emission reduction, improving production efficiency.

For a long time, the Group's aim is "To create value for customers and create benefit for the company" and has carried out various daily management tasks. The Group strives in achieving high standards with strict requirements, continuously updates and upgrades management system. The Group has implemented refined management in actual production operations, promoted the 5S management system, effectively organised and rectified the production lines and improved the working environment. The Group has improved the enthusiasm of employees by rational recommendations and organising labour competitions. By clarifying the assessment of responsibility, labor productivity has been improved, which promoted the long-term healthy development of the Group.

Safety management has always been the top priority of the Group's production management. In 2019, the Group focused on the implementation of safety diagnostics, established a safety production information management platform, carried out safety upgrades to the production lines of the Changzhou plant, implemented closed management of the Class A area, and increased the safety precaution capabilities of each production lines. For a long time, the Group has adhered to the promotion of safety management standardisation, strengthening the training of employees' safety awareness, approving and supervising safety operations seriously. The Group has continuously performed self-improvement during the production process, implemented rectification, strengthened safety precautions and reduced accidents.

The Group conscientiously followed the requirements in relation to environment protection imposed by the government at all levels and continued to increase investment in this respect. The Group took measures to save energy, reduce cost and reduce emissions of wastes. The Group improves its self-monitoring process to ensure the strict adherence to the 3 major types of pollutant discharge standards and actively fulfilled the corporate social responsibility beyond corporate profits. In the fourth quarter of 2019, at the requested of the government of the industrial park where the Group's Changzhou factory is located, carried out some environmental improvement. The management of the Group responded positively, made prompt decisions with its best efforts, implemented the rectification as soon as possible and resumed production in December.

In 2019, in order to reduce customs clearance time and costs, reduce the inspection rate of export products by the customs, and improve trade competitiveness, the Group's Changzhou factory passed the AEO (Authorized Economic Operator Certified Operator) customs certification, AEO customs certification is a way to promote the construction of the social credit system, establish an enterprise import and export credit management system, and a channel to promote trade security and convenience.

Research and Development

1. ***New Vitamin PQQ Project***

   In 2019, the Group's research and development team continued carrying out on the application and approval of using new vitamin PQQ as a new feed additive, researching on the medium trail production process and promoting PQQ's application. The Group submitted the application materials and supplementary editing materials to the Ministry of Agriculture and participated in a new vitamin expert review meeting organised by the Ministry of Agriculture in December. At the meeting, the economic feasibility and applicability of PQQ were recognised by the expert group. At the same time, the Group's research and development team is conducting tests on the critical points of the PQQ production process, with a view to improve its market competitiveness and accelerate the marketisation process

2. ***Pharmaceutical Adjuvant Project***

   To extend its product chain and enhance added value of products, the Group carried out the development project of pharmaceutical adjuvant. The product breadth has extended from food additives to pharmaceutical adjuvant. In 2019, the Group expanded the range of pharmaceutical adjuvant by increasing three new types of pharmaceutical adjuvant, DL-tartaric acid, maleic acid and fumaric acid. Pharmaceutical adjuvant is the Group's focus in the medium to long run. The Group will continue to promote the research and development of pharmaceutical adjuvants, increase product categories, increase sales efforts, and achieve economic benefits.

3. Active Pharmaceutical Ingredient Project

The country's policy on drug approval and the reform on deepening drug trial and strengthening drug supervision have brought a broad market for API. In 2019, the Group actively promoted cooperation projects with relevant units on the development of APIs as an extension of products on the Group's product chains, the Provincial Food and Drug Administration has given great support and guidance, which made us improved the effectiveness of our research and development and upgraded our production field equipment and facilities. The API is an update and upgrade to the existing products of the Group and an effective way to increase the added value of the products. It will contribute to the long-term economic benefits of the Group in the future.

Lianyungang Project

Since its establishment, Lianyungang Changmao has strictly complied with various national laws and regulations for project design, application and plant construction. In the initial stage of investment, the Group focused on the construction of safety and environmental protection on overall engineering facilities in the plant area. The large-scale wastewater treatment system in the plant area was designed by a professional design institute with a daily processing capacity of 1,000 tons and passed the examination of experts. A regenerative thermal oxidizer (RTO) tail gas incinerator is installed in the plant area to treat the organic tail gas generated during the production process to ensure compliance with standards. In order to ensure production safety, the production unit uses distributed control system (DCS) and independent instrument automation safety control system.

Since 2018, Jiangsu Province has continued to strengthen the rectification of the enterprises in Lianyungang City, especially those in the two chemical parks of Guanyun and Guannan, all of which had been suspended production. During this period, Lianyungang Changmao continued to upgrade the security facilities in the factory in accordance with the specifications in the documents issued by the provincial and municipal government. It has achieved personnel positioning in the production area. It also installed a video surveillance system and passed the national security level 2 standards. The production areas, warehouses and Class A tank farms all passed the fire inspection. The Group will continue to actively promote the matters related to the resumption of production and promptly resume production at Lianyungang Changmao.

Outlook and Prospects

The Group adheres to the technology innovation for its development and promotes its work based on customer needs. As a manufacturing enterprise, the Group always adheres to the principle of quality first, customer first, and relies on the advantages of the existing product chains and economic benefits to maintain its leading position in the industry. In the future, the Group will continue to reduce costs and increase efficiency, expand the scale effect, continuously improve product quality and service, and firmly establish the image of Changmao brand, and will focus on the following aspects:

1. ***Accelerating technology innovation and promoting product upgrade***

   Technological innovation is the driving force for long-term development of enterprises. The Group will continue to increase investment in technological innovation and consolidate its existing resources and research team. By relying on technological advancement and speeding up the development of new vitamin PQQ, pharmaceutical adjuvant, APIs and other new products, it will cultivate new products which are safe, environmentally friendly and with strong competitiveness. Moreover, it will optimise its product structure, promote the upgrading and extension of existing product chains, and enhance the Group's competitiveness in the high-end product market, and to seek new profit source of the Group.

2. ***Promoting the development of Lianyungang project and taking advantages of production scale***

   Lianyungang Changmao is a major development project of the Group in the near future. The construction of the new production plant in Lianyungang aimed to enhance the Group's product chain and advantages from economy of scales, provide strong support for the Group in the industry competition of the world's high-end food, pharmaceutical and new materials and will inject new development momentum into the Group.

3. ***Enhancing safety and environmental protection standards and strengthening risk control***

With the laws and regulations related to safety and environmental protection becoming stricter, the elimination process of small and medium-sized enterprises that failed to meet the standards were accelerated, leaving the industry to further concentrated on strong enterprises that complied with the relevant requirements. The Group has strictly complied with various safety and environmental regulations and this has transformed it into a competitive advantage. In terms of safety, the Group will continue to strengthen safety control, pay attention to safety risks, improve the safety of the production environment, and eliminate safety accidents in the future. In terms of environmental protection, the Group will continue to promote clean production and implement pollution prevention, endeavour to become an environment-friendly enterprise which save energy and reduce emissions of wastes which helps to reduce the impact of policy risks on production and operation, and create a resource-saving and environment-friendly enterprise to pave the way for the Group's sustainable development.

4. ***Focusing on market expansion and develop markets of high-end customers***

The Group's sales team is dedicated to develop and maintain end-customers and superior customers. It is customer-oriented. By meeting customer needs through the improvement of product quality and service, enhancing the reputation and adding value to the Changmao brand, the overall competitive advantages are enhanced. In addition, the Group will also focus on the development of the international market, and enhance the international reputation and influence of Changmao through cooperation with new international customers in new products and technologies.

5. ***Promoting Domestic A Shares Listing Project***

In consideration of the long-term development of the Group, the Board has approved the proposal to apply to the relevant securities regulatory authorities for issuance of A shares of the Company on the Shanghai Stock Exchange or the Shenzhen Stock Exchange pursuant to the Company Law of the PRC, the Securities Law of the PRC and other relevant laws, regulations and regulatory documents. As at the date of this report, the Company has not determined the plan of the proposed A Share offering and has not applied to any regulatory authorities in the PRC or anywhere else for the approval of the Proposed A Share Offering. In 2020, the Group will make every effort to implement the specific investment plan and A shares issuance plan, promote the listing of A shares in the PRC, and make the Group become a company listed with A and H shares.

There will be opportunities and challenges in the future. The Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application areas. The Group will capitalise its research and production strengths to extend its production chain, to become bigger and stronger with great results.

ANALYSIS OF KEY PERFORMANCE INDICATORS

***Revenue** (2019: Rmb494,580,000; 2018: Rmb639,120,000) **and gross profit margin** (2019: 27.3%; 2018: 20.3%)*

The decrease in revenue was mainly due to the decrease in sales volume compared to that in 2018. Affected by the improvement of environmental protection facilities in the fourth quarter of 2019, the Group's Changzhou plant suspended production from October to November, which caused certain restrictions on the supply of some best-selling products and reduced sales, which affected the sales of the fourth quarter and even that of the full year.

After the completion of the transformation of the maleic anhydride production lines in the Changzhou headquarter in the first half of 2018, the Group has resumed stable production after subsequent adjustment. The cost saving effect of these transformed production lines played full effect in 2019. By using butane instead of benzene as a raw material to manufacture maleic anhydride, the Group has reduced production costs from the source and has gained substantial energy efficiency from the by-product, steam, which has resulted in a significant increase in the Group's economic efficiency, reduced production cost and increased profit margin in 2019.

***Selling and administrative expenses** (2019: Rmb75,025,000; 2018: Rmb78,723,000)*

Selling and administrative expenses included a profit-based bonus of Rmb3,146,000 for the year ended 31 December 2019 (2018: Rmb 1,809,000). Excluding this bonus, the level of selling and administrative expenses decreased as compared to that of last year because the Changzhou factory has suspended production for two months in the fourth quarter of 2019 during which period, expenses decreased.

***Other (losses)/gains, net** (2019: losses of Rmb1,066,000; 2018: gains of Rmb1,737,000)*

The net losses for the year ended 31 December 2019 was mainly attributable to the increase in loss on disposal of property, plant and equipment by approximately Rmb2,065,000.

***Finance cost, net** (2019: Rmb257,000; 2018: Rmb853,000)*

The decrease in interest expense was due to the decrease in average bank loans compared to that in last year.

Income tax expense *(2019: Rmb4,626,000; 2018: Rmb4,692,000)*

The Company, being qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15% for the year ended 31 December 2019. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. Tax credit resulted for the year ended 31 December 2019 mainly because of the recognition of deferred tax assets on tax loss of a subsidiary. For details of the difference on the tax on the Group's profit before income tax and the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, please refer to Note 6 to the consolidated financial statements.

Profit for the year attributable to the equity holders of the Company

For the year ended 31 December 2019, the Group recorded a profit attributable to equity holders of the Company of approximately Rmb58,299,000 (2018: Rmb50,525,000), which was higher than that in last year. The increase in net profit was mainly due to the increase in gross profit margin, the contribution of Changzhou headquarters maleic anhydride production line to the cost control, and the continuous improvement of operating efficiency.

SEGMENTAL INFORMATION

Some of the Group's products are exported to Europe, Asia Pacific and America. As expressed as a percentage of revenue, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 47% (2018: 49%) of the Group's revenue while domestic sales in the PRC accounted for approximately 53% (2018: 51%) of the Group's revenue.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. The Group used forward foreign exchange contracts to partially hedge the USD exposures during the year. As at 31 December 2019, the Group had outstanding forward foreign exchange contracts with fair value amounted to Rmb43,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had total outstanding bank borrowings of Rmb20,500,000 (2018: Rmb39,311,000). The outstanding bank borrowings as at 31 December 2019 were unsecured and were all repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The average effective interest rate of all the outstanding bank loans as at 31 December 2019 was approximately 3.9% (2018: 3.8%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2019 and 2018, the Group did not have any committed borrowing facilities.

The Group generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Group is generally placed at banks to earn interest income or invested in wealth management products of low risks with banks.

As at 31 December 2019, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb6,652,000 (2018: Rmb12,328,000). These capital commitments are mainly used for the modification of production lines. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2019. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 10.2% (2018: 13.8%) as at 31 December 2019. As at 31 December 2019, the Group's cash and cash equivalents amounted to Rmb119,316,000 (2018: Rmb81,398,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2019, the Group employed a total of 461 employees (2018: 479 employees). Employees are remunerated in accordance with the nature of the job and also on individual merit. Total amount of staff costs for the year ended 31 December 2019 was approximately Rmb65,477,000 (2018: Rmb69,859,000). The incentive bonus for the directors and staff of the Group was Rmb3,146,000 (2018: 1,809,000) for the year ended 31 December 2019. Excluding the incentive bonus, the cost of staff wages, benefits and retirement was approximately Rmb62,331,000 (2018: Rmb68,050,000), which was lower than that in 2018 because (i) the average number of employees was lower than that of last year and (ii) the Changzhou factory has suspended production for two months in the fourth quarter of 2019 during which period, wages were paid as usual, but overall staff costs decreased.

Under the staff incentive scheme for each of the three years ended 31 December 2022, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before payment of the bonuses referred to below) amount to not less than Rmb40 million (the "Target Profit"):

(a) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;

(b) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable to the general manager and all the Directors (other than Mr. Rui Xin Sheng and the independent non-executive Directors) for the time being of the Company as a bonus for the relevant year; and

(c) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the Directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, which is chaired by an independent non-executive Director and currently has a membership comprising three independent non-executive Directors, has reviewed with the management and approved the consolidated financial statements for the year ended 31 December 2019.

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.055 (inclusive of tax) per share in cash, totalling approximately Rmb29,134,000 for the year ended 31 December 2019. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It is intended that the dividend will be payable on 31 July 2020 to the holders of Domestic Shares, Foreign Shares and H Shares whose names appear on the register of member of the Company at 4:30 p.m. on 3 June 2020. Further information relating to the payment of the dividend will be made by the Company in due course.

CLOSURE OF H SHARE REGISTER IN RELATION TO THE PROPOSED FINAL DIVIDEND

The H Share register of shareholders of the Company will be closed from 29 May 2020 to 3 June 2020 (both days inclusive), during which no transfer of H Shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17Mth Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 28 May 2020.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 25 May 2020. A notice convening the annual general meeting will be published in due course.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2019 and 2018.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

There are no material acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group did not have any material contingent liabilities.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap.622), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares *(Note (k))*	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares *(Note (l))*	Number of H Shares	Approximate percentage shareholding in the H Shares *(Note (m))*
Director							
Mr. Rui Xin Sheng	Beneficial owner, interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian *(Note (a))*	2,500,000	100%	135,000,000	39.30%	3,820,000	2.08%
Ms. Leng Yi Xin	Beneficial owner, interest of spouse and interest of controlled corporation *(Note (b))*	2,500,000	100%	135,000,000	39.30%	3,820,000	2.08%
Mr. Pan Chun	*(Note (c))*	–	–	*(Note (c))*	*(Note (c))*	–	–

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares *(Note (k))*	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares *(Note (l))*	Number of H Shares	Approximate percentage shareholding in the H Shares *(Note (m))*
Mr. Zeng Xian Biao	*(Note (d))*	–	–	*(Note (d))*	*(Note (d))*	–	–
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation *(Note (e))*	–	–	66,000,000	19.21%	2,620,000	1.43%
Prof. Ouyang Ping Kai	*(Note (f))*	–	–	*(Note (f))*	*(Note (f))*	–	–
Supervisor							
Ms. Zhou Rui Juan	*(Note (g))*	–	–	*(Note (g))*	*(Note (g))*	–	–
Mr. Lu A Xing	*(Note (h))*	–	–	*(Note (h))*	*(Note (h))*	–	–
Mr. Zhang Jun Peng	*(Note (i))*	–	–	*(Note (i))*	*(Note (i))*	–	–
Prof. Jiang Yao Zhong	*(Note (j))*	–	–	*(Note (j))*	*(Note (j))*	–	–

Notes:

(a) The 135,000,000 Foreign Shares are held by HK Xinsheng Ltd and the 2,500,000 Domestic Shares are held by Changzhou Xinsheng. Mr. Rui is the beneficial owner of 3,768,000 H Shares and 52,000 H Shares are held by Ms. Leng Yi Xin, spouse of Mr. Rui. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.

(b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Leng is also the beneficial owner of 52,000 H Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is personally interested in shares of the Company and also interested in HK Xinsheng Ltd, Changzhou Xinsheng, details of which are set out in Note (a) above.

(c) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. He is also the registered holder and beneficial owner of 200,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

(d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.

(e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares. Mr. Yu's wife, Ms. Lam Mau, is also the beneficial owner of 2,620,000 H Shares.

(f) Prof. Ouyang is the registered holder and beneficial owner of 4,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.

(g) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

(h) Mr. Lu is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

(i) Mr. Zhang is the registered holder and beneficial owner of 800 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Zhang is also the registered holder and beneficial owner of 120,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

(j) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.

(k) The percentage is calculated based on the 2,500,000 Domestic Shares in issue at 31 December 2019.

(l) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2019.

(m) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2019.

Save as disclosed above, as at 31 December 2019, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap.622), to be notified to the Company and the Stock Exchange.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the year was the Company, its subsidiaries or its other associated corporation a party to any arrangement (including share option scheme) to enable the Directors, Supervisors and chief executive of the Company or any of their spouses or children under eighteen years of age to hold any interests or short position in the shares of underlying shares in or debentures of the Company of its specified undertakings or other associated corporation.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31 December 2019, the followings, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares *(Note (e))*	Number of H Shares	Approximate Percentage shareholding in the H Shares *(Note (f))*
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%	–	–
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%	–	–
Jomo Limited	Beneficial owner	66,000,000	19.21%	–	–
Ms. Lam Mau	Interest of spouse and interest of controlled corporation and beneficial owner	66,000,000 *(Note (a))*	19.21%	2,620,000	1.43%
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%	–	–
上海科技創業投資股份有限公司 (Shanghai S&T Investment Company Limited*, formerly上海科技投資股份有限公司)	Interest of controlled corporation	62,500,000 *(Note (b))*	18.20%	–	–
上海科技創業投資有限公司 (Shanghai Technology Entrepreneur Investment Company*, formerly 上海科技投資公司)	Interest of controlled corporation	62,500,000 *(Note (c))*	18.20%	–	–
上海科技創業投資(集團)有限公司 (Shanghai S&T Venture Capital (Group) Co., Ltd*)	Interest of controlled corporation	62,500,000 *(Note (d))*	18.20%	–	–

Notes:

(a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares. Ms. Lam Mau is also the beneficial owner of 2,620,000 H shares.

(b) Shanghai S&T Investment Company Limited is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited, which is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(c) Shanghai Technology Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai S&T Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(d) Shanghai S&T Venture Capital (Group) Co., Ltd is the beneficial owner of 100% of the issued capital of Shanghai Technology Entrepreneur Investment Company. Shanghai Technology Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued capital of Shanghai S&T Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(e) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2019.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE CAPITAL STRUCTURE

As at 31 December 2019, the category of the issued shares of the Company is as follows:

	No. of Shares
H shares *(Note (a))*	183,700,000
Domestic Shares *(Note (b))*	2,500,000
Foreign Shares *(Note (c))*	343,500,000
	529,700,000

Notes:

(a) Overseas listed foreign shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and are traded in Hong Kong dollars and listed on Main Board.

(b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in Rmb and issued to the promoters of the Company.

(c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

The H Shares were listed on the GEM on 28 June 2002 and the listing of which was transferred from the GEM to the Main Board on 28 June 2013.

Although the到境外上市公司章程必備條款 (the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of “domestic shares”, “foreign shares” and “overseas listed foreign shares” (which definitions have been adopted in the Articles of Association of the Company), the rights attached to Foreign Shares (which are subject to certain restrictions on transfer and may become H Shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission and the Stock Exchange) have not yet been expressly dealt with under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Foreign Shares do not contravene any PRC laws or regulations.

At present, there are no applicable PRC laws and regulations governing the rights attached to the Foreign Shares. Jingtian & Gongcheng, the legal adviser to the Company as to PRC Law, have advised the Company that until new laws or regulations are introduced in this respect, holders of Foreign Shares shall have the same rights and obligations as those of the holders of Domestic Shares (in particular, in respect of the right to attend and vote in the general meetings and class meetings and to receive notice of such meetings in the same manner applicable to holders of Domestic Shares), except that holders of Foreign Shares shall enjoy the following rights:

(a) to receive dividends declared by the Company in foreign currencies;

(b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;

(c) disputes between holders of Domestic Shares and Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Foreign Shares and overseas listed foreign shares; and

(d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

PUBLIC FLOAT

At the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2019, the Company complied with the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 14 to the Listing Rules, with the exception of Code provision A.6.7 (directors attending general meetings).

Code provision A.6.7 of CG Code stipulates that non-executive Directors and independent non-executive Directors should attend general meetings. Certain non-executive Directors and independent non-executive Directors were unable to attend the annual general meeting of the Company held on 10 May 2019 due to prior business commitments.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors.

The Company had also made specific enquiry of all Directors in relation to the compliance of the Model Code. Save for the above, the Company was not aware of any non-compliance with the Model Code for the year ended 31 December 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rule and the Company considers the independent non-executive Directors remained independent.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Listing Rules. As at 31 December 2019, the audit committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Ms. Wei Xin and Ms. Au Fung Lan.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including to review, inter alia, the Group's interim and annual results during the year ended 31 December 2019 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 27 March 2020

As at the date hereof, Mr. Rui Xin Sheng (Chairman) and Mr. Pan Chun are the executive Directors, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Wang Jian Ping and Ms. Leng Yi Xin are the non-executive Directors, Prof. Ouyang Ping Kai, Ms. Wei Xin and Ms. Au Fung Lan are the independent non-executive Directors.

GLOSSARY

Board	Board of Directors of the Company
CG Code	Code provision of the Corporate Governance Code in appendix 14 of the Listing Rules
Changmao or the Company	Changmao Biochemical Engineering Company Limited
Changzhou Xinsheng	常州新生生化科技開發有限公司
CIT	Corporate Income Tax
Director(s)	Director(s) of the Company
Domestic Shares	Domestic shares of the Company
Foreign Shares	Foreign shares of the Company
GMP	Good Manufacturing Practices
GEM	Growth Enterprise Market of the Exchange
Group	the Company and its subsidiaries
HKAS	Hong Kong Accounting Standard
HK Biochem Ltd	Hong Kong Bio-chemical Advanced Technology Investment Company Limited
HK Xinsheng Ltd	Hong Kong Xinsheng Pioneer Investment Company Limited
H Shares	H shares of the Company
Lianyungang Changmao	Changmao Biochemical Lianyungang Company Limited, a subsidiary of the Company

Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Main Board	the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM, and for avoidance of doubt, it does not include GEM for the purpose hereof
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
PRC	The People's Republic of China
PQQ	Pyrroloquinoline quinone
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	Supervisor(s) of the Company
USD	United States Dollars