

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 2020**

<b>HIGHLIGHTS</b>	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue	<b>444,106</b>	494,580
Profit for the year attributable to the equity holders of the Company	<b>16,827</b>	58,299

**DIVIDEND**

The Directors recommend the payment of a final cash dividend of RMB0.020 (inclusive of tax) per share for the year ended 31 December 2020.

\* For identification purpose only

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

	<i>Note</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
Revenue	2	<b>444,106</b>	494,580
Cost of sales	4	<b>(341,065)</b>	(359,425)
Gross profit		<b>103,041</b>	135,155
Other income	3	<b>2,733</b>	3,402
Other losses, net	3	<b>(4,075)</b>	(1,066)
Selling expenses	4	<b>(13,932)</b>	(14,064)
Administrative expenses	4	<b>(70,888)</b>	(60,961)
Reversal of loss allowance on financial assets	4	<b>120</b>	344
Operating profit		<b>16,999</b>	62,810
Finance income		<b>215</b>	264
Finance costs		<b>(62)</b>	(521)
Finance income/(costs), net	5	<b>153</b>	(257)
Profit before income tax		<b>17,152</b>	62,553
Income tax expense	6	<b>(409)</b>	(4,626)
Profit for the year		<b>16,743</b>	57,927
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		<b>(8)</b>	5
Total comprehensive income for the year		<b>16,735</b>	57,932
Profit for the year attributable to:			
Equity holders of the Company		<b>16,827</b>	58,299
Non-controlling interests		<b>(84)</b>	(372)
		<b>16,743</b>	57,927
Total comprehensive income for the year attributable to:			
Equity holders of the Company		<b>16,819</b>	58,304
Non-controlling interests		<b>(84)</b>	(372)
		<b>16,735</b>	57,932
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	7	<b>RMB0.032</b>	RMB0.110

# **CONSOLIDATED BALANCE SHEET**

*As at 31 December 2020*

		<b>2020</b>	<b>2019</b>
	<i>Note</i>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Patents		<b>1,039</b>	575
Property, plant and equipment		<b>235,920</b>	270,297
Right-of-use assets		<b>24,863</b>	26,174
Construction in progress		<b>140,538</b>	109,232
Deferred income tax assets		<b>25,974</b>	20,261
Prepayments		<b>9,777</b>	493
		<b>438,111</b>	427,032
<b>Current assets</b>			
Inventories		<b>125,540</b>	106,183
Trade and bills receivables	9	<b>69,535</b>	64,131
Other receivables, deposits and prepayments		<b>24,355</b>	16,300
Income tax recoverable		<b>1,980</b>	2,246
Derivative financial instruments		<b>123</b>	43
Pledged bank balances		<b>15,212</b>	1,588
Cash and bank balances		<b>134,343</b>	120,216
		<b>371,088</b>	310,707
Assets classified as held for sale		<b>38,130</b>	—
		<b>409,218</b>	310,707
<b>Total assets</b>		<b>847,329</b>	737,739
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		<b>52,970</b>	52,970
Reserves	10	<b>596,407</b>	608,722
		<b>649,377</b>	661,692
<b>Non-controlling interests</b>		<b>538</b>	622
<b>Total equity</b>		<b>649,915</b>	662,314

**CONSOLIDATED BALANCE SHEET (Continued)***As at 31 December 2020*

	<i>Note</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		<b>712</b>	1,452
Lease liabilities		—	309
Deferred income tax liabilities		<b>368</b>	571
		<u><b>1,080</b></u>	<u>2,332</u>
<b>Current liabilities</b>			
Trade and bills payables	11	<b>78,707</b>	20,139
Contract liabilities, other payables and accruals		<b>116,822</b>	31,799
Income tax payable		—	15
Lease liabilities		<b>305</b>	640
Bank borrowings		<b>500</b>	20,500
		<u><b>196,334</b></u>	<u>73,093</u>
<b>Total liabilities</b>		<u><b>197,414</b></u>	<u>75,425</u>
<b>Total equity and liabilities</b>		<u><b>847,329</b></u>	<u>737,739</u>

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 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 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.

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

The following new standards, amendments, interpretation to standards and accounting guideline have been published that are not mandatory for the year ended 31 December 2020 and have not been early adopted by the Group:

		<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 1	Classification of Liabilities as Current or Noncurrent	1 January 2023
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
Annual Improvements	Annual Improvements to HKFRS Standards 2018-2020 Cycle	1 January 2022

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.

## 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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from sales of goods, recognised at a point in time	<b>444,106</b>	494,580

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	<b>284,951</b>	263,554
Europe	<b>66,537</b>	101,066
Asia Pacific	<b>64,287</b>	81,087
America	<b>16,134</b>	36,748
Others	<b>12,197</b>	12,125
	<b>444,106</b>	494,580

Europe region mainly includes the Great Britain, 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 2020, all the Group's non-current assets (other than the deferred income tax assets) amounted to RMB412,137,000 (2019: RMB406,771,000) are located in Mainland China.

Included in the revenue from sales of goods, approximately RMB18,447,000 (2019: RMB29,933,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 4% (2019: 6%) 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 2020.

- (i) Significant changes in contract liabilities  
Contract liabilities have been decreased by RMB295,000 due to a decrease in overall contract activities.
- (ii) Revenue recognised in relation to contract liabilities  
The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

Revenue recognised that was included in the balance of contract liabilities at the beginning of the period.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Sales of products	<u>2,165</u>	<u>2,935</u>

### **3 OTHER INCOME AND OTHER LOSSES, NET**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other income		
Government grants	1,962	1,632
Others	<u>771</u>	<u>1,770</u>
	<u>2,733</u>	<u>3,402</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other losses, net		
Fair value gains on financial assets at fair value through profit or loss	1,142	43
Net exchange (losses)/gains	(3,663)	1,035
Loss on disposal of property, plant and equipment	(1,291)	(2,144)
Others	<u>(263)</u>	<u>—</u>
	<u>(4,075)</u>	<u>(1,066)</u>

#### 4 EXPENSES BY NATURE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of inventories sold	181,112	191,650
Staff costs (including emoluments of Directors and Supervisors)	55,946	65,477
Utilities	53,163	43,502
Depreciation of property, plant and equipment	31,380	34,279
Transportation costs	17,434	17,272
Impairment loss on non-financial assets	12,869	–
Research and development costs	11,591	10,302
Maintenance costs	11,589	11,815
Auditors' remuneration – audit services	1,367	1,321
Depreciation of right-of-use assets	1,311	995
Amortisation of patents	92	85
Reversal of loss allowance on financial assets	(120)	(344)
(Reversal of)/provision for inventories to net realisable value	(175)	698
Other expenses	48,206	57,054
	<u>425,765</u>	<u>434,106</u>

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 INCOME/(COSTS), NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest for lease liabilities	(34)	(30)
Interest on bank borrowings	(28)	(491)
	<u>(62)</u>	<u>(521)</u>
Interest income on bank deposits	215	264
	<u>215</u>	<u>264</u>
Finance income/(costs), net	153	(257)



## 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current income tax		
– Provision for CIT	6,407	11,387
– Over-provision in prior year	(82)	(526)
Deferred income tax	(5,916)	(6,235)
	<u>409</u>	<u>4,626</u>

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before income tax	<u>17,152</u>	<u>62,553</u>
Calculated at the tax rates applicable to results of the respective consolidated entities	(1,349)	6,285
Expenses not deductible for tax purposes	547	533
Tax losses for which no deferred income tax asset was recognised	360	683
Timing differences for which no deferred income tax asset was recognised	(83)	(120)
Reversal of previously recognised tax losses	3,477	320
Tax incentives for research and development expenses*	(2,417)	(2,373)
Over-provision in prior year	(82)	(526)
Others	(44)	(176)
Income tax expense	<u>409</u>	<u>4,626</u>

- \* 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% (2019: 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 2020 and 2019.

## 7 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2020 is based on the profit attributable to the equity holders of the Company of RMB16,827,000 (2019: RMB58,299,000) and 529,700,000 (2019: 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 (2019: Nil).

## 8 DIVIDENDS

No interim dividend was declared during the year (2019: Nil). The dividend paid in 2020 and 2019 were RMB29,134,000 (RMB0.055 per share) and RMB26,485,000 (RMB0.050 per share) respectively. A final dividend in respect of the year ended 31 December 2020 of RMB0.020 per share, totalling RMB10,594,000 is to be proposed at the Annual General Meeting on 18 May 2021. These financial statements do not reflect this dividend payable.

## 9 TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	52,389	48,584
Bills receivables	17,146	15,547
	<u>69,535</u>	<u>64,131</u>

- (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:

	2020 RMB'000	2019 RMB'000
0 to 3 months	50,309	44,217
4 to 6 months	2,706	5,074
Over 6 months	113	183
	<u>53,128</u>	<u>49,474</u>
Less: Loss allowance	(739)	(890)
	<u>52,389</u>	<u>48,584</u>

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

## 10 RESERVES

	Share premium <i>RMB'000</i>	Statutory common reserve <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>102,559</u>	<u>87,233</u>	<u>461</u>	<u>6</u>	<u>418,463</u>	<u>608,722</u>
	<b>Share Premium <i>RMB'000</i></b>	<b>Statutory common reserve <i>RMB'000</i></b>	<b>Capital reserve <i>RMB'000</i></b>	<b>Exchange reserve <i>RMB'000</i></b>	<b>Retained earnings <i>RMB'000</i></b>	<b>Total <i>RMB'000</i></b>
At 1 January 2020	102,559	87,233	461	6	418,463	608,722
Profit for the year	–	–	–	–	16,827	16,827
Other comprehensive income – currency translation difference – Group	–	–	–	(8)	–	(8)
Final dividend for the year ended 31 December 2019	–	–	–	–	(29,134)	(29,134)
At 31 December 2020	<u>102,559</u>	<u>87,233</u>	<u>461</u>	<u>(2)</u>	<u>406,156</u>	<u>596,407</u>

## 11 TRADE AND BILLS PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	28,000	14,845
Bills payables	<u>50,707</u>	<u>5,294</u>
	<u><b>78,707</b></u>	<u><b>20,139</b></u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 6 months	27,646	13,642
7 to 12 months	100	822
Over 12 months	<u>254</u>	<u>381</u>
	<u><b>28,000</b></u>	<u><b>14,845</b></u>

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

## **BUSINESS REVIEW AND OUTLOOK**

### **Results for the Year**

The Group's sales revenue for the year ended 31 December 2020 was approximately RMB444,106,000, which represented a decrease of approximately 10% as compared with that of RMB494,580,000 in last year; the net profit attributable to equity holders of the Company was approximately RMB16,827,000. This was a decrease of approximately 71% over that of RMB58,299,000 in last year.

In 2020, the COVID-19 pandemic burst out on a global scale and continued to ferment, which had a negative impact on the Group's export sales and new business development to varying degrees and caused the decline in sales. The government of Changzhou Binjiang Development Zone has made new planning adjustments to enterprises that located within one kilometer along the Yangtze River. Maleic anhydride, the source of the Group's product chain, is also on the affected list. After production of maleic anhydride has been ceased, the Group has to purchase raw materials for all major products from third parties. In the second half of 2020, the price of maleic anhydride continued to rise, resulting in a substantial increase in the Group's production costs. In addition, the Group is no longer able to benefit from recycling the steam generated during the maleic anhydride production process which further increased the production cost and had a negative impact on the Group's annual performance. The Company's wholly-owned subsidiary, Changmao Biochemical Lianyungang Company Limited, was not able to resume production in 2020. Lianyungang Changmao's continuous operating losses and impairment of non-financial assets due to the relocation of chemical production facilities also severely affected the performance of the Group in 2020.

### **Business Review**

Starting from 2020, the outbreak of COVID-19 pandemic became severe, and the prevention and control level of the epidemic in the PRC has been continuously improved. The impose of short-term production suspension measures by the government greatly affected the Group's production and sales. Due to the implementation of the Yangtze River Protection Policy, the Group has signed a closure and relocation agreement with the government representative of the Changzhou Binjiang District in September 2020. According to the requirements of the agreement, all the plants and production equipment on the land of the Changzhou Plant 1 were dismantled. Since maleic anhydride can no longer be produced in Changzhou, the Group planed to relocate the related equipment to the upcoming new production plant in Dalian. In addition, the food additive production lines, the research and development centre and office building of the Changzhou Plant 1 will be moved to the Changzhou Plant 2. The total amount of government compensation to the Group for the closure and relocation of the Changzhou Plant 1 is approximately RMB205,266,000. As at 31 December 2020, the Group has received approximately RMB88,261,000 compensation and recorded it as a government compensation in relation to relocation in other payables. The relocation of the Group's main food additives production lines has been substantially completed in early 2021, and its future production capacity will not be affected.

Due to the planning adjustment and relocation of enterprises within one kilometer along the Yangtze River, the production of maleic anhydride, the source of the Group's product chain, has been ceased in June 2020 and the Group has to purchase raw materials of all major products from third parties. In the second half of 2020, the price of maleic anhydride continued to rise, resulting in a substantial increase in the Group's production costs. After the production of maleic anhydride has been ceased, the Group is no longer able to benefit from recycling the steam generated during the maleic anhydride production process which further increased the production costs. In this regard, the Group imposed detailed controls through innovation and optimization in the production process, and rationally used different energy levels to improve the comprehensive utilisation of energy, strengthen energy saving and reduced emission to reduce costs and increase efficiency, and minimize the negative impact on economic benefits.

In terms of sales, due to the continued outbreak of the epidemic abroad, there was a decline in demand in the Group's main export regions, such as Europe and the United States. The sales volume and prices of tartaric acid, which accounted for a relatively large portion of the Group's export, had dropped significantly. At the same time, the COVID-19 pandemic has caused a huge impact on the global transportation. Shipping companies have been forced to reduce space or cancel routes, resulting in a substantial increase in shipping costs for exports to the United States, Europe and Australia. The shipping costs were three to four times higher than that in previous years. Sales expenses increased substantially due to the increase in freight charges on the CIF sales orders. The Group's performance in 2020 has experienced a significant decline as a result of these factors.

Changmao Biochemical Lianyungang Company Limited, the wholly-owned subsidiary of the Group, was not able to resume production since the suspension in early 2018. After reviewing the business development plan of Lianyungang Changmao and in accordance with the policies of the local government, the management of the Group decided to relocate the maleic anhydride production lines and convert it from a chemical enterprise into a light industrial enterprise. The management conducted an impairment assessment on the production facilities to be dismantled and relocated. The impairment loss of non-financial assets of Lianyungang Changmao in 2020 was RMB12,869,000, which caused a significant negative impact on the Group's net profit in 2020.

Safety management has always been the top priority of the Group's production management. The Group continued to implement safety management standardisation, established and continued to improve the safety production information management platform and focused on the implementation of safety diagnostics. For a long time, the Group insisted on self-improvement during the production process, implemented rectification, strengthened safety precautions and reduced accidents.

In terms of environmental protection, the Group conscientiously followed the requirements imposed by the government at all levels, upgraded environmental protection equipment and facilities, and improved the on-site production environment. In 2020, the Group installed electronic monitoring systems on the environmental protection production facilities and pollution control facilities in each production line to monitor the normal operation of environmental protection facilities. The Group will continue to increase investment in environmental protection, adopt new technologies and new methods to promote the emission reduction of pollutants, and continuously improve its self-monitoring system to ensure the 3 major types of pollutant discharge standards is meet.

## **Research and Development**

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

In 2020, the Group accelerated the application for approval of using the new vitamin PQQ as a new feed additive, carried out the medium trail production research and promoted PQQ's application. Following the meeting with the Ministry of Agriculture in Beijing at the end of 2019, the Group submitted the supplementary materials based on the opinions of the expert group. At the end of November 2020, the Group participated in the second review meeting with the Ministry of Agriculture with a satisfactory result. The research and development team of the Group will continue to actively promote the approval of new vitamin PQQ as a new feed additive and strive to obtain the approval as soon as possible.

### **2. *Pharmaceutical Adjuvant Project***

To extend its production chain and enhance added value of products, the Group carried out the development project of pharmaceutical adjuvant to extend the product breadth from food additives to pharmaceutical adjuvants. In 2020, the Group expanded the types of pharmaceutical adjuvants by completed the application of L-potassium hydrogen tartrate and L-tartaric acid as pharmaceutical adjuvants. 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***

In 2020, the Group actively promoted collaboration projects with relevant entities on the development of active pharmaceutical ingredients as an extension of the Group's product chains. At present, the active pharmaceutical ingredient production line has been completed. Application for approval will be made to the National Drug Approval Center after the approval has been obtained from the Provincial Food and Drug Administration. The certification threshold for active pharmaceutical ingredients is high and the process time is long, therefore a long incubation period is required to achieve industrialization and large-scale production. The active pharmaceutical ingredient project is an update and upgrade of the Group's existing products, and is an effective way to increase the added value and economic benefits of the products.

## **Major Projects**

### **1. *Construction Project of Changmao Biochemical Lianyungang Company Limited***

Since its establishment, Lianyungang Changmao has strictly complied with various national laws and regulations for project design, approval application and plant construction. Since the suspension of production in early 2018, Lianyungang Changmao has never slackened its safety and environmental protection work. It has continuously upgraded the safety facilities and wastewater treatment system in the plant according to the specifications and requirements of the provincial and municipal governments at all levels. The rectifications proposed by the relevant government departments during the site inspection have all been put in place.

At present, the Group is actively communicating with the local government for production resumption and decide to relocate the maleic anhydride production line and convert the Lianyungang plant from a chemical enterprise into a light industrial enterprise. It has started to relocate maleic anhydride and other chemical production lines to the upcoming new production plant in Dalian. Only light industrial production lines for food additives will be retained in the Lianyungang plant. Lianyungang Changmao is actively cooperating with the government in the inspection and the approving process, and strives to resume production in July 2021.

### **2. *Construction Project of Changmao (Dalian) New Materials Company Limited***

After the on-site inspections and having comprehensive assessments for half year, the new investment of the Group finally landed on Changxingdao, Dalian City, Liaoning Province. On 2 December 2020, the Group signed an investment agreement with the Dalian Changxingdao Economic Zone Management Committee, and plans to set up a wholly-owned subsidiary, Changmao (Dalian) New Materials Company Limited in Changxingdao, Dalian City which will bid for a parcel of land located at Changxingdao for industrial use through the “bid, auction and listing” procedures. The new subsidiary will mainly engage in the development and production of maleic anhydride and its derivatives. The Group plans to transfer some of the maleic anhydride equipment and facilities dismantled from the Lianyungang plant and the Changzhou plant to the upcoming new production plant in Changxingdao, Dalian City, for the construction of a new maleic anhydride production line. The Changxingdao investment project also received strong support from the local management committee, which promised to provide the Group with support for project application approval and various infrastructure construction. The members of the Dalian project team have been stationed in Changxingdao and have started preparations for the establishment of the new company, the design of a new plant, and the start of construction.



Changmao (Dalian) New Materials Company Limited is the new focus of the Group's development and construction in the next few years. Changxingdao of Dalian City has a good investment environment and is one of the seven major petrochemical industrial bases in the PRC. Compared with Changzhou, there are more advantages in the production of maleic anhydride products in Dalian. The construction of the new plant in Changxingdao, Dalian City aims to improve the Group's product chain, further enhance the Group's advantages in large-scale production, accelerate the industrialisation process of the Group's research and development projects, and promote the upgrading of the existing product chain.

## **Outlook and Prospects**

The Group adheres to the technology innovation for its development and promotes its work according to customer needs. The Group always adheres to the principle of quality first, customer first, even in the new situation. The Group always focus on economic benefits both internally and externally, and promote the Group's own development to maintain its leading position in the industry. In the future, the Group will continue to reduce costs and increase efficiency and expand the scale effect, continuously to improve product quality and service, and firmly establish the image of Changmao brand, and will focus on the following aspects:

### ***1. Accelerating the transformation and upgrading and promoting the construction of new production base***

After considering the long-term development direction and increasing the economic scale to realise the sustainable development of the enterprise, the Group plans to relocate the production line of maleic anhydride and some other products to the new upcoming production plant in Changxingdao, Dalian City. The Changxingdao manufacturing plant will be constructed according to the supporting policies of the local government. Combining the advantages of existing product chain of Changmao and the industrialisation process of scientific research results, the Group will continue to extend its product range to high-end food additives, pharmaceutical adjuvant, active pharmaceutical ingredients, new feed additives and new materials, etc. to create new economic benefits.

### ***2. 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, active pharmaceutical ingredients 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 to seek new profit source.

**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 those 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, endeavor 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 customer-oriented and is dedicated to develop and maintain end-customers and superior customers. 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 competitiveness of Changmao through cooperation with new international customers in new products and technologies.

**5. *Strengthening Capital Operation, Promoting A Shares Listing***

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. On 11 March 2020, the Group submitted a counseling application to the Jiangsu Securities Regulatory Bureau and was accepted. The Group is currently in the listing counseling period. 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.

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*** (2020: RMB444,106,000; 2019: RMB494,580,000) ***and gross profit margin*** (2020: 23.2%; 2019: 27.3%)

Revenue and gross profit margin decreased mainly because (i) there was a weakened demand from the customers and the decrease in average selling prices of the Group's products as a result of the outbreak of the COVID-19 pandemic in early 2020; and (ii) the Company has to close and relocate certain production lines in its Changzhou production plant in the affected area to cope with the changes in government policies. The Group ceased the production of maleic anhydride in June 2020. Before that, the Group produced part of the maleic anhydride used as raw materials for other products in the Changzhou Plant 1. After production of maleic anhydride has been ceased, the Group has to purchase all the maleic anhydride from third parties. Starting in the fourth quarter of 2020, the price of maleic anhydride has increased significantly; in addition, the Group is no longer able to benefit from recycling the steam generated during the maleic anhydride production process. These factors had increased the production costs of the Group.

The Group plans to construct a new production plant in Changxingdao, Dalian City, Liaoning Province, the PRC and relocate the maleic anhydride production lines of the Changzhou production plant and Lianyungang production plant to the new production plant in Changxingdao, Dalian City. The Company has entered into an investment agreement with 大連長興島經濟區管理委員會 (Dalian Changxingdao Economic Zone Management Committee\*) ("Changxingdao Committee") on 2 December 2020 and agreed to construct a manufacturing plant for the production of products including maleic anhydride, etc. in Changxingdao, Dalian City, and to bid a parcel of land at Changxingdao, Dalian City through the "bid, auction and listing" procedures; and the Changxingdao Committee agreed to provide infrastructure construction subsidies to the Company in relation to the construction of the manufacturing plant. The Board expected that the production of maleic anhydride of the Group will return to normal after the Dalian production plant is put into operation.

***Selling and administrative expenses*** (2020: RMB84,820,000; 2019: RMB75,025,000)

Selling and administrative expenses increased as compared to that of last year was mainly because a provision for impairment of the non-financial assets of Lianyungang production plant of RMB12,869,000 has been made (2019: Nil). In order to comply with the government policies of Lianyungang and the long-term development plan of the Group, the Group will relocate the maleic anhydride production line in Lianyungang to the upcoming new factory in Dalian. Due to this operational adjustment, certain construction in progress and properties, plant and equipment can no longer be used, therefore the Group needs to make a provision for impairment in this regard.

Excluding the above impairment loss, the decrease in sales and administrative expenses compared to that of last year was mainly due to a provision for profit-based bonuses of approximately RMB3,146,000 for the year ended 31 December 2019. Due to the decrease in net profit, no profit-related bonus was provided for the year ended 31 December 2020.

***Other losses, net (2020: RMB4,075,000; 2019: RMB1,066,000)***

The other losses, net for the year ended 31 December 2020 increased as compare to that of last year because of the decline in the average U.S. dollar exchange rate resulted in an exchange loss of RMB3,663,000 (2019: exchange gain of RMB1,035,000).

***Finance income/(costs), net (2020: net income of RMB153,000; 2019: net costs of RMB257,000)***

The decrease in average bank loans compared to that of last year has reduced the interest expenses and resulted in a net finance income.

***Income tax expense (2020: RMB409,000; 2019: RMB4,626,000)***

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 2020. 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 2020 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. As at 31 December 2020, part of Lianyungang Changmao's deferred tax assets recognised for tax losses carried forward has been reversed as they were not probable to be realised. The amount reversed was RMB3,477,000 (2019: RMB320,000).

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

For the year ended 31 December 2020, the Group recorded a profit attributable to equity holders of the Company of approximately RMB16,827,000 (2019: RMB58,299,000), which was significantly reduced compared with that of last year. The decrease in net profit was mainly due to the decrease in revenue and gross profit margin and the Group has to make a provision for the impairment of the construction in progress and property, machinery and equipment of the Lianyungang production plant.

**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 36% (2019: 47%) of the Group's revenue while domestic sales in the PRC accounted for approximately 64% (2019: 53%) 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 2020, the Group had outstanding forward foreign exchange contracts with fair value amounted to RMB123,000 (2019: RMB43,000).

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2020, the Group had total outstanding bank borrowings of RMB500,000 (2019: RMB20,500,000). The outstanding bank borrowings as at 31 December 2020 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 2020 was approximately 4.4% (2019: 3.9%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2020 and 2019, 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 2020, the Group had capital commitments for property, plant and equipment amounting to approximately RMB6,547,000 (2019: RMB6,652,000). 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 2020. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 23.3% (2019: 10.2%) as at 31 December 2020. The increase in liabilities-to-assets ratio is mainly due to the proceed received from the government compensation in relation to relocation. As at 31 December 2020, the Group's cash and cash equivalents amounted to RMB133,693,000 (2019: RMB119,316,000). The Directors believe that the Group is in a healthy financial position.

## **EMPLOYEES**

Including the Directors and Supervisors, as at 31 December 2020, the Group employed a total of 431 employees (2019: 461 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 2020 was approximately RMB55,946,000 (2019: RMB65,477,000). The incentive bonus for the directors and staff of the Group was RMB Nil (2019: 3,146,000) for the year ended 31 December 2020. The cost of staff wages, benefits and retirement decrease mainly because the average number of employees was lower than that of last year.

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 equivalent 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 equivalent 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 equivalent 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 2020.

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 2020 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 2020.

## **DIVIDEND**

The Directors recommend the payment of a final dividend of RMB0.020 (inclusive of tax) per share in cash, totalling approximately RMB10,594,000 for the year ended 31 December 2020. 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 30 July 2021 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 31 May 2021. 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 26 May 2021 to 31 May 2021 (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 25 May 2021.

## **ANNUAL GENERAL MEETING**

The annual general meeting of the Company will be held on 18 May 2021. 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 2020 and 2019.

## **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 2020.

## **CONTINGENT LIABILITIES**

As at 31 December 2020 and 2019, 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 2020, 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:***

		Approximate percentage shareholding		Approximate percentage shareholding		Approximate percentage shareholding	
	Capacity	Number of Domestic Shares	in the Domestic Shares (Note (k))	Number of Foreign Shares	in the Foreign Shares (Note (l))	Number of H Shares	in the H Shares (Note (m))
Director							
Mr. Rui Xin Sheng	Beneficial owner, interest of spouse and interest of controlled corporation (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))	–	–
Mr. Zeng Xian Biao	(Note (d))	–	–	(Note (d))	(Note (d))	–	–



			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))
	Capacity		Number of Domestic Shares				
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))	-	-
<i>Supervisor</i>							
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. Ms. Leng Yi Xin, spouse of Mr. Rui, is the beneficial owner of 52,000 H Shares. 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. 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 and 53,000 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. 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. Ms. 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 2020.
- (l) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2020.
- (m) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2020.

Save as disclosed above, as at 31 December 2020, 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 2020, 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, 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 2020.
- (f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2020.

Save as disclosed above, as at 31 December 2020, 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 underlying 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 2020, the category of the issued shares of the Company is as follows:

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

*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 2020, 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. Except for Ms. Au Fung Lan, all the other Directors were unable to attend the annual general meeting held on 25 May 2020 and the extraordinary general meeting held on 30 June 2020, due to the outbreak of the COVID-19 pandemic.

## **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 2020.

## **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 2020, 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 2020 and to recommend the Board the appointment of external auditors.

By order of the Board  
**Rui Xin Sheng**  
Chairman

The PRC, 30 March 2021

*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 Stock 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
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