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 2021

HIGHLIGHTS

	2021	2020
	RMB'000	*RMB'000*
Revenue	**547,976**	444,106
Profit for the year attributable to the equity holders of the Company	**58,318**	16,827

DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2021.

* *For identification purpose only*

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2021 together with the audited comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	**2021** *RMB'000*	2020** *RMB'000*
Revenue	3	**547,976**	444,106
Cost of sales	6	**(509,296)**	(348,657)
Gross profit		**38,680**	95,449
Other income	4	**4,692**	2,733
Other gains/(losses), net	5	**124,176**	(4,075)
Selling expenses	6	**(8,210)**	(6,340)
Administrative expenses	6	**(73,486)**	(70,888)
(Impairment losses)/reversal of loss allowance on financial assets	6	**(28)**	120
Operating profit		**85,824**	16,999
Finance income		**537**	215
Finance costs		**(1,952)**	(62)
Finance (costs)/income, net	7	**(1,415)**	153
Profit before income tax		**84,409**	17,152
Income tax expense	8	**(26,202)**	(409)
Profit for the year		**58,207**	16,743
Other comprehensive loss			
Item that may be reclassified to profit or loss			
– currency translation difference		**(2)**	(8)
Total comprehensive income for the year		**58,205**	16,735
Profit for the year attributable to:			
Equity holders of the Company		**58,318**	16,827
Non-controlling interests		**(111)**	(84)
		58,207	16,743
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**58,316**	16,819
Non-controlling interests		**(111)**	(84)
		58,205	16,735
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	9	**RMB0.110**	RMB0.032

** The consolidated statement of comprehensive income for the year ended 31 December 2020 has been restated for the voluntary change in accounting policy (Note 2).

CONSOLIDATED BALANCE SHEET

AS at 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Patents		**1,021**	1,039
Property, plant and equipment		**290,180**	235,920
Right-of-use assets		**96,215**	24,863
Construction in progress		**211,163**	140,538
Deferred income tax assets		**20,491**	25,974
Prepayments		**20,419**	9,777
		639,489	438,111
Current assets			
Inventories		**122,903**	125,540
Trade and bills receivables	11	**87,836**	69,535
Other receivables, deposits and prepayments		**32,771**	24,355
Income tax recoverable		**–**	1,980
Derivative financial instruments		**138**	123
Pledged bank balances		**14,750**	15,212
Cash and bank balances		**58,628**	134,343
		317,026	371,088
Assets classified as held for sale		**–**	38,130
		317,026	409,218
Total assets		**956,515**	847,329
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	12	**644,129**	596,407
		697,099	649,377
Non-controlling interests		**427**	538
Total equity		**697,526**	649,915

CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2021

	Note	**2021** *RMB'000*	2020 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income		**58**	712
Lease liabilities		**271**	–
Deferred income tax liabilities		**448**	368
Bank borrowings	13	**1,500**	–
		2,277	1,080
Current liabilities			
Trade and bills payables	14	**95,806**	78,707
Contract liabilities, other payables and accruals		**67,027**	116,822
Income tax payable		**6,395**	–
Lease liabilities		**584**	305
Bank borrowings	13	**86,900**	500
		256,712	196,334
Total liabilities		**258,989**	197,414
Total equity and liabilities		**956,515**	847,329

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 adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

- Covid-19-related Rent Concessions – Amendments to HKFRS 16

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

(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 2021 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023

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

2 CHANGES IN ACCOUNTING POLICIES

The Group reclassified certain transportation costs, which are part of the contract fulfilment costs incurred before the control of the goods transferred to the customers, from "selling expenses" into "costs of sales". The directors considered that the change would result in a more appropriate presentation of the Group's transactions in the financial statements and provide more relevant information.

The change in accounting policy has been applied retrospectively and comparative figures have been reclassified accordingly. It leads to the reclassification of RMB7,592,000 from "selling expenses" into "costs of sales" in 2020 annual financial report disclosed.

3 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.

	2021	2020
	RMB'000	*RMB'000*
Revenue from sales of goods, recognised at a point in time	**547,976**	444,106

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

	2021	2020
	RMB'000	*RMB'000*
Mainland China	**363,185**	284,951
Asia Pacific	**85,886**	64,287
Europe	**57,563**	66,537
America	**29,706**	16,134
Others	**11,636**	12,197
	547,976	444,106

Europe region mainly includes the Great Britain, Germany, Denmark, 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.

As at 31 December 2021, all the Group's non-current assets (other than the deferred income tax assets) amounted to RMB618,998,000 (2020: RMB412,137,000) are mainly located in Mainland China.

Included in the revenue from sales of goods, approximately RMB23,891,000 (2020: RMB18,447,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 4% (2020: 4%) 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 2021.

(i) Significant changes in contract liabilities
Contract liabilities have been increased by RMB6,199,000 due to an increase 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.

	2021	2020
	RMB'000	*RMB'000*
Sales of products	**1,824**	2,165

4 OTHER INCOME

	2021	2020
	RMB'000	*RMB'000*
Government grants	**2,923**	1,962
Others	**1,769**	771
	4,692	2,733

5 OTHER GAINS/(LOSSES), NET

	2021	2020
	RMB'000	*RMB'000*
Gain from demolition and closure (Note (a))	**126,486**	–
Fair value gains on financial assets at fair value through profit or loss	**1,049**	1,142
Net exchange losses	**(1,691)**	(3,663)
Loss on disposal of property, plant and equipment	**(1,668)**	(1,291)
Others	**–**	(263)
	124,176	(4,075)

(a) The Group has substantially completed the demolition and closure in Changzhou factory in 2021. Netting off the carrying value of related assets and expenses, the Group recognised a gain of RMB126,486,000 for the year ended 31 December 2021.

6 EXPENSES BY NATURE

	2021	2020
	RMB'000	*RMB'000*
Cost of inventories sold	**313,023**	181,112
Staff costs (including emoluments of Directors and Supervisors)	**64,859**	55,946
Utilities	**55,905**	53,163
Impairment loss on non-financial assets	**29,632**	12,869
Depreciation of property, plant and equipment	**26,617**	31,380
Transportation costs	**19,999**	17,434
Research and development costs (Note (a))	**12,649**	11,591
Maintenance costs	**8,895**	11,589
Provision for/(reversal of provision for) inventories to net realisable value	**6,733**	(175)
Estimated loss on onerous contracts (Note (b))	**5,826**	–
Depreciation of right-of-use assets	**2,330**	1,311
Auditors' remuneration – audit services	**1,604**	1,367
Amortisation of patents	**267**	92
Impairment losses/(reversal of loss allowance) on financial assets	**28**	(120)
Other expenses	**42,653**	48,206
	591,020	425,765

(a) 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.

(b) The Group has signed irrevocable sales contracts with certain customers. Due to the increase in the price of raw materials, the estimated cost of fulfilling these contracts exceeds the estimated revenue. The Group recognised a provision for onerous sales contracts of RMB5,826,000.

7 FINANCE (COSTS)/INCOME, NET

	2021	2020
	RMB'000	*RMB'000*
Interest on bank borrowings	**(1,927)**	(28)
Interest for lease liabilities	**(25)**	(34)
	(1,952)	(62)
Interest income on bank deposits	**537**	215
Finance (costs)/income, net	**(1,415)**	153

8 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 High and New Technology Enterprise ("HNTE"), is entitled to enjoy the preferential tax rate of 15% for three years starting from 2020, and should apply for HNTE qualification renewal in 2023. 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:

	2021	2020
	RMB'000	*RMB'000*
Current income tax		
– Provision for CIT	**20,639**	6,407
– Over-provision in prior year	**–**	(82)
Deferred income tax	**5,563**	(5,916)
	26,202	409

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:

	2021	2020
	RMB'000	*RMB'000*
Profit before income tax	**84,409**	17,152
Calculated at the tax rates applicable to results of the respective consolidated entities	**6,518**	(1,349)
Expenses not deductible for tax purposes	**439**	547
Tax losses and timing differences for which no deferred income tax asset was recognised	**14,598**	277
Reversal of previously recognised deferred income tax assets	**8,437**	3,477
Tax incentives for research and development expenses*	**(3,744)**	(2,417)
Others	**(46)**	(126)
Income tax expense	**26,202**	409

* According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2021 onwards, enterprises engaging in research and development activities are entitled to claim 200% (2020: 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 2021 and 2020.

9 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2021 is based on the profit attributable to the equity holders of the Company of RMB58,318,000 (2020: RMB16,827,000) and 529,700,000 (2020: 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 (2020: Nil).

10 DIVIDENDS

No interim dividend was declared during the year (2020: Nil). The dividend paid in 2021 and 2020 were RMB10,594,000 (RMB0.020 per share) and RMB29,134,000 (RMB0.055 per share) respectively. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2021.

11 TRADE AND BILLS RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**56,263**	52,389
Bills receivables	**31,573**	17,146
	87,836	69,535

(a) The credit terms of trade receivables range from 30 to 210 days and the ageing analysis which is based on the invoice date of trade receivables is as follows:

	2021	2020
	RMB'000	*RMB'000*
0 to 3 months	**56,278**	50,309
4 to 6 months	**678**	2,706
Over 6 months	**74**	113
	57,030	53,128
Less: Loss allowance	**(767)**	(739)
	56,263	52,389

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

12 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 2020	102,559	87,233	461	6	418,463	608,722
Profit for the year	–	–	–	–	16,827	16,827
Other comprehensive loss – currency translation difference – Group	–	–	–	(8)	–	(8)
Final dividend for the year ended 31 December 2019	–	–	–	–	(29,134)	(29,134)
At 31 December 2020	102,559	87,233	461	(2)	406,156	596,407

	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 2021	**102,559**	**87,233**	**461**	**(2)**	**406,156**	**596,407**
Profit for the year	**–**	**–**	**–**	**–**	**58,318**	**58,318**
Other comprehensive loss – currency translation difference – Group	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Final dividend for the year ended 31 December 2020	**–**	**–**	**–**	**–**	**(10,594)**	**(10,594)**
At 31 December 2021	**102,559**	**87,233**	**461**	**(4)**	**453,880**	**644,129**

13 BANK BORROWINGS

	2021			2020		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank borrowings	**8,500**	**1,500**	**10,000**	–	–	–
Unsecured bank borrowings	**78,400**	**–**	**78,400**	500	–	500
	86,900	**1,500**	**88,400**	500	–	500

As at 31 December 2021, the Group's bank borrowings are repayable as follows:

	2021	2020
	RMB'000	*RMB'000*
Repayable within 1 year and	**86,900**	500
Between 1 and 2 years	**1,500**	–
	88,400	500

The secured bank borrowings are secured by the Group's land use rights at Dalian with a net book value of RMB74,237,000 as at 31 December 2021 and guaranteed by the Company.

The bank borrowings are denominated in RMB. The carrying amounts of the Group's bank borrowings approximate their fair values.

As at 31 December 2021, the effective interest rate of the secured bank borrowings was 4.7% (2020: Nil) and the effective interest rate of the unsecured bank borrowings was 4.4% (2020: 4.4%).

14 TRADE AND BILLS PAYABLES

	2021	2020
	RMB'000	*RMB'000*
Trade payables	**52,212**	28,000
Bills payables	**43,594**	50,707
	95,806	78,707

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

	2021	2020
	RMB'000	*RMB'000*
0 to 6 months	**51,304**	27,646
7 to 12 months	**373**	100
Over 12 months	**535**	254
	52,212	28,000

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

(c) The carrying amounts of trade and bills payables approximate their fair values and are all denominated in RMB.

BUSINESS REVIEW AND OUTLOOK

Results for the Year

The Group's sales revenue for the year ended 31 December 2021 was approximately RMB547,976,000, which represented an increase of approximately 23% as compared with that of approximately RMB444,106,000 in last year; the net profit attributable to equity holders of the Company was approximately RMB58,318,000, which represented an increase of approximately 247% as compared with that of approximately RMB16,827,000 in last year.

In the first half of 2020, the government of Changzhou Binjiang Development Zone made plans and adjustments to the enterprises located one kilometer along the Yangtze River. The Group has entered into a "Demolition and Closure Agreement" with the government representative, Changzhou Zhengan Property Demolition Company Limited. As at 31 December 2021, the Group has substantially completed the requirements under the above agreement and received the demolition compensation consideration totaling approximately RMB205,266,000. The pre-tax net gain of approximately RMB126,486,000 was arriving from deducting the carrying value of related properties, machinery and equipment, land use rights and related expenses from the total compensation consideration which was recognised as other gains in 2021. The Group has relocated the maleic anhydride related production equipment of the Changzhou and Lianyungang factories to Dalian.

The adjustment to the enterprises in the area of one kilometer along the Yangtze River has caused the Group to cease production of maleic anhydride, the main product of the Group, and have to purchase maleic anhydride from third party. The market price of maleic anhydride rose to a historical high in 2021, resulting in an increase in the Group's production costs. In addition, the suspension of production of maleic anhydride resulted in a substantial increase in the amount of steam purchased by the Group throughout the year and the increase in the price of steam had further increased the energy consumption cost of the Group. In 2021, the global COVID-19 pandemic experienced several rounds of outbreaks, and overseas market demand was still weak. In addition, some long-term overseas orders were locked in prices in advance, which was greatly affected by the increase in raw material prices. At the same time, transportation costs had increased significantly, and factors such as the depreciation of the US dollars have also increased the costs. Various external factors have affected the Group's operations throughout the year.

Business Review

(1) Production

In 2021, the Group started the transformation and upgrading of the enterprise during the demolition of the Changzhou plant, adjusted some production lines to improve the degree of automation and intelligence. The production department is committed to improving the production process, saving energy and reducing consumption, strengthening the control of the production process, improving product quality, and fundamentally improving the competitiveness of the Group's products.

(2) Sale

In 2021, the increase in the procurement cost of maleic anhydride and the increase in the transportation costs had affected the Group's profit. However, the Group insists on honesty, trust worthiness and strict execution of contracts amid any external environment. This is not only the basic operating principle of the Group, but also a practice welcomed and recognised by customers. At the same time, the sales team also adjusted the sales strategy appropriately to strengthen the domestic sales of products such as tartaric acid and malic acid, which resulted in an approximately 27% increase in the domestic sales of the Group in 2021. To cope with the Group's business transformation and upgrading, and seeking innovation, the sales team strives to maintain good relationships with old customers, explores new users, and strengthen product quality and service awareness.

(3) Safety Management

While conscientiously implementing various daily safety management tasks, the Group actively promotes the safety improvement and renovation work in each plant area. It has completed the evaluation of the current safety situation and the filing of emergency rescue plans after the Changzhou factory has been evacuated and transformed, and has successfully applied for a hazardous chemical business license as at 31 December 2021. Safety is the red line, and it is also the premise for the survival and development of the Group. In the future, the Group will continue to strengthen the awareness of safety production, risk prevention and improve various safety management.

(4) Environmental management

During the demolition of the Changzhou plant, the Group had strictly followed the requirements to collect, organise and file the closing data of the demolition factory area. The demolished factory area was fully covered with filter screens, and the pollutants were cleaned up. A third-party authority was assigned to complete the soil survey of the vacated land and the government acceptance was obtained.

In order to implement the dual control of energy consumption and fulfill social responsibility for better sustainable development, the Group prepared a "Company Clean Production Audit Report" in early 2021 and passed the inspection by the New Northern District Ecological Environment Bureau (新北區生態環境局), and was assessed by experts that the clean production level has reached the domestic advanced level. Through this, the Group reduced pollutions from the source, improved the efficiency of resource utilisation, reduced or avoided the generation and discharge of pollutants in the process of production, service and product use, so as to reduce or eliminate the harm to human health and the environment. It has further improved the core competitiveness of the Group and created a good development environment for the survival and development of the Group.

Research And Development

The Group will continue to maintain the level of investment in research and development, and has completed plannings of the research and development project to be carried out in 2022 and has set up respective research groups before the end of 2021. The progress of key research and development projects in 2021 are as follows:

(1) New Vitamin Pyrroloquinoline Quinone Disodium (PQQ.Na2) Project

In 2021, the new feed certificate (2021) No. 02 certificate in relation to the new vitamin PQQ.Na2 issued by the Ministry of Agriculture jointly applied by the Group and its subsidiary Shanghai Medical Life Science Research Centre Limited ("Shanghai Life Sci") was obtained and PQQ.Na2 was approved as a new feed additive. This product has been developed by Shanghai Life Sci for many years, the Group has completed pilot and medium production, and will continuously adjust the process according to the application requirements. It is the first of its kind in the PRC, which can be used in the compound feed of broilers to improve the antioxidant capacity of broilers. The Group is now actively promoting the use of this product, and the product will be produced in the second phase production area of the Dalian plant.

(2) Active Pharmaceutical Ingredient (API) and Pharmaceutical Adjuvant Project

In 2021, the pharmaceutical business department of the Group focused on the preparation of the malic acid API project. Currently, the Food and Drug Inspection Center of the State Drug Administration has completed the on-site inspection of the Group's drug registration and GMP compliance certification. The L-malic acid API project was a collaboration with some domestic pharmaceutical enterprises. The L-malic acid API can be used in many varieties of compound amino acid glucose for electrolyte injection. This type of product is a domestic imitation class 3 of new drugs, and will be widely used in medical emergencies, such as fluid rehydration during surgery, fluid resuscitation, acidosis, burns, liver and kidney insufficiency, shock, craniocerebral injury, diabetes treatment, etc. It is known as the "first bottle" in emergency.

The API 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. Based on the collaborations between the Group and domestic pharmaceutical enterprises, It may bring growth to the sales of the Group's high value-added API products after formal registration has been done.

Major Projects

(1) Construction of the Dalian New Plant

Changmao (Dalian) New Material Company Limited (hereinafter as "Dalian Changmao") is the focus of the Group's development and construction in the next few years. Dalian Changxingdao has a good investment environment and is convenient for import and export. It is one of the seven major petrochemical industry bases in the country. There are advantages in the production of maleic anhydride products in Dalian. The construction of the new plant in Changxingdao, Dalian City, will expand the production scale of maleic anhydride. The production of new products, there will further enhance the production advantages of the Group. At the same time, it will accelerate the industrialisation process of the Group's research and development projects and promote the renewal and upgrading of the existing product chain.

As at 31 December 2021, the basic construction of Dalian Changmao first phase is completed, and the maleic anhydride equipment has been ready for installation and it is expected to start trial production in 2022. At the same time, the Group has also taken the lead in organising relevant personnel to carry out preparation such as investigation and data preparation on the design of the Phase 2 production area.

(2) Transformation and Upgrading of Changzhou Plant

In 2021, the Group has completed all the demolition of the Changzhou plant. Transformation and upgrading of the original second phase area the Changzhou plant continued. Opening of the new research and development office building, promotion of workshop automation, and intelligent transformation have been carried out. After the upgrading is completed, it will further enhance the Changzhou plant's safety risk control in the production process and guarantee the ability for safety production, improve the effectiveness of environmental pollution control, reduce pollutant emissions, improve working conditions, increase labour productivity, stabilise and improve product quality, and create better economic and social benefits.

(3) Lianyungang Plant

In 2021, the Lianyungang plant of the Group has resumed production. The initial resumption of production was still affected by the unstable supply of steam in the industrial park, and made the Group unable to change the loss situation in 2021. According to the situation of the Lianyungang plant, the Group has actively adjusted the production and sales strategies, coordinated the linkage of various factories. It is expected that with the commencement of production of maleic anhydride in the Dalian plant, the advantages of resource synergy will benefit the production and operation of the Lianyungang plant. It will strive to increase production and sales through various adjustments so that the Lianyungang plant would be profitable in 2022.

Outlook And Prospects

2021 was a challenging yet vigorous year for the Group. Changes in raw materials and market environment has put pressure on the production and operation, but we always believe that opportunities and challenges coexist and we always actively respond to them. In 2021, the Group completed three major achievements including the construction of the new Dalian plant, the transformation and upgrading of the Changzhou plant and the resumption of production of the Lianyungang plant. The production and operation of the Group will gradually return to the normal track.

In the future, the Group will continue to increase investment in research and development and promote the development of the enterprise with technological innovation. The Group will focus on customer needs and economic benefits, rely on the supporting advantages of the product chain, operate with honestly and trustworthy, and maintain a leading position in the industry. The Group will continue to reduce costs and increase efficiency, expand economies of scale, continuously improve product quality, and firmly establish and maintain Changmao's brand image. Specifically, it will focus on the following aspects:

(1) Accelerating transformation and upgrading, and promoting the construction of new plants

The Group will fully support the construction of the new plant in Dalian. The Dalian plant has a good foundation. It has new equipment with large scale, which is in line with the policy trend and is supported by the local government. The Dalian plant will serve as the main production base of the Group's chemical products in the future. Restarting the production of maleic anhydride will help reduce the Group's production costs. Combined with the advantages of the existing product chain and the industrialisation process of scientific research results. It will be a producer of high-end food additives and pharmaceutical adjuvant and API, new vitamin and new materials and will create new economic benefits for the Group.

(2) Accelerating technology innovation and promoting product upgrade

The Group insists that technological innovation is essential for long-term development of an enterprise. During the period of transformation and upgrading, we had overcome difficulties and maintained a continuous increase in research and development investment. In the future, the Group will actively integrate existing resources and research and development team, increase investment, attract talents, focus on tackling key problems, create a new maleic anhydride new material industry chain and the speed of the research and development and commencement of production of other new products, cultivate new products that are safe, environmentally friendly and competitive in the market, promote the upgrading of existing product chains, and seek new profit source.

(3) Enhancing safety and environmental protection standards and strengthening risk controls

The Group's long-term focus on safety and environmental protection investment will be transformed into a competitive advantage. In terms of safety, the Group will continue to strengthen safety risk controls, constantly improve safety in production environment, and reduce or even eliminate safety incidents. In terms of environmental protection, the Group will continue to implement clean production, implement pollution prevention and fulfill social responsibilities. The Group will always strive to improve its standards in energy and resource consumption, carbon neutrality, and pollutant emissions, so as to build a resource-saving and environment-friendly enterprise in line with the national dual-carbon strategy.

(4) Focusing on market expansion and develop markets of high-end customers

The Group's sales team is customer-oriented and is dedicated to the development of key customers and end users. It will actively research and develop new products to meet customer needs. It aims at being honest and trustworthy in operation, improving the reputation and added value of Changmao brand through the improvement of product quality and service, and improving its comprehensive competitiveness. In addition, the Group will continue to focus on the development of the international market, and enhance Changmao's international reputation and influence through collaborating with major international customers on 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 selected Stock Exchange pursuant to the Company Law of the PRC, the Securities Law of the PRC and other relevant laws, regulations and regulatory documents. The Group is currently in the listing counseling period and has been listed as a key enterprise in Changzhou under preparation for listing. 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, improve the competitiveness of its existing products, and actively explore new markets and new application areas. The Group will capitalise its research and production strengths to develop new functional food additives, feed additives, APIs and new materials, etc. It will continue to extend its production chain, to become bigger and stronger and create a new future with great results.

ANALYSIS OF KEY PERFORMANCE INDICATORS

Revenue *(2021: RMB547,976,000; 2020: RMB444,106,000)* ***and gross profit margin*** *(2021: 7.1%; 2020: 21.5%)*

The increase in revenue over last year was mainly due to the increase in domestic sales of most products. However, with the continuation of the COVID-19 epidemic in 2021, the demand from overseas customers weakened. Gross margin of the Group for the year ended 31 December 2021 has been adversely affected by the following factors:

(i) After production of maleic anhydride has been ceased in June 2020, 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. Also, 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, leading to a decline in gross profit margin.

(ii) Export market demand had been weakened and transportation costs had greatly increased at the same time as a result of the COVID 19 pandemic, and the depreciation of United States Dollars had all adversely affected the performance of the Group.

(iii) The Group has signed some irrevocable sales contracts with certain customers. Due to the increase in the price of raw materials, the estimated cost of fulfilling these contracts exceeds the estimated revenue resulting an estimated loss of RMB7,982,000 (2020: Nil).

(iv) In order to comply with the government policies of Lianyungang and the long-term development plan of the Group, the Group is relocating the maleic anhydride production line in its subsidiary, Lianyungang Changmao to the upcoming new production plant in Dalian City. After that, Lianyungang Changmao resumed its operation with trial run in July 2021. However, the operation was still in loss in 2021. After further assessment, taking into account the trial run result of product production in Lianyungan Changmao, the Group has made a provision for impairment of the property, plant and equipment and construction in progress of RMB17,552,000 (2020: Nil) in relation to Lianyungang Changmao which was recorded as cost of sales according to its nature for the year ended 31 December 2021.

The Group has started to construct a new production plant in Changxingdao, Dalian City, Liaoning Province, the PRC in 2021 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 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** (2021: RMB81,696,000; 2020: RMB77,228,000)*

The Group would relocate certain properties, plant and equipment and construction in progress to Dalian factory because they would be not be used in in Lianyungang Changmao after the maleic anhydride production lines was suspended, to comply with the local government policies. After assessment the utilisation of these assets, the Group has made a provision for impairment of RMB12,080,000 (2020: RMB12,869,000). Otherwise, the increase in selling and administrative expenses was mainly due to the increase in expenses such as staff costs and research and development expenses.

***Other gains/(losses), net** (2021: net gains of RMB124,176,000; 2020: net losses of RMB4,075,000)*

Other gains for the year ended 31 December 2021 was mainly derived from the demolition gain. 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 Company has received all the compensation consideration and substantially completed the demolition in 2021. The total compensation consideration less the carrying value of the concerned property, plant and equipment, land use rights and the related expense (the "Demolition Gain") amounting to RMB126,486,000 (2020: Nil) was recognised as other gains for the year ended 31 December 2021.

Finance (costs)/income, net *(2021: net costs of RMB1,415,000; 2020: net income of RMB153,000)*

The average balance of bank borrowings increased as compared with that of last year resulted in higher interest expenses.

Income tax expense *(2021: RMB26,202,000; 2020: RMB409,000)*

The Company, being qualified as a High and New Technology Enterprise, is entitled to a preferential CIT rate of 15% for the year ended 31 December 2021. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. 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 8 to the consolidated financial statements. As at 31 December 2021, 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 RMB8,437,000 (2020: RMB3,477,000).

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

For the year ended 31 December 2021, the Group recorded a profit attributable to equity holders of the Company of approximately RMB58,318,000 (2020: RMB16,827,000), which was mainly derived from the Demolition Gains. Excluding this factor, the Group recorded a net loss of RMB49,195,000, which was mainly due to the impairment loss made by the Group on the construction in progress and property, plant and equipment of the Lianyungang Changmao, and the decrease in gross profit margin due to the increase in production costs.

SEGMENTAL INFORMATION

Some of the Group's products are exported to Asia Pacific, Europe and America. As expressed as a percentage of revenue, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 33.7% (2020: 35.6%) of the Group's revenue while domestic sales in the PRC accounted for approximately 66.3% (2020: 64.2%) 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 2021, the Group had outstanding forward foreign exchange contracts with fair value amounted to RMB138,000 (2020: RMB123,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had total outstanding bank borrowings of RMB88,400,000 (2020: RMB500,000), of which RMB86,900,000 were repayable within one year and RMB1,500,000 will be repayable in 2023.

The average effective interest rate of all the outstanding bank loans as at 31 December 2021 was approximately 4.4% (2020: 4.4%) per annum. The Company expects to renew the short-term bank borrowings in due time if necessary.

The Company has entered into a loan agreement with a state-owned commercial bank in 2021. The total amount of the loan is RMB200 million, of which RMB10 million has been drawn in 2021, and the remaining will be drawn in 2022. The purpose of the loan is for the construction of the Group's new factory in Dalian. The bank loan is secured by the Group's Dalian land use rights with a net book value of RMB74,237,000 and guaranteed by the Company as at 31 December 2021. Save for this, the bank loans outstanding as at 31 December 2021 were not secured.

Except for the bank borrowings disclosed above, as at 31 December 2021 and 2020, 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 2021, the Group had capital commitments for property, plant and equipment amounting to approximately RMB89,275,000 (2020: RMB6,547,000). These capital commitments are mainly used for the construction of the Dalian factory and 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.

Save as disclosed above, the Group did not have any charge on its assets during the year ended 31 December 2021. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 27.1% (2020: 23.3%) as at 31 December 2021. The increase in liabilities-to-assets ratio is mainly due to the increase in bank borrowings for the construction of Dalian factory. As at 31 December 2021, the Group's cash and cash equivalents amounted to RMB58,178,000 (2020: RMB133,693,000). The decrease in cash and cash equivalents was mainly because the Group used part of the cash to finance the construction of the new factory in Dalian. The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2021, the Group employed a total of 452 employees (2020: 431 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 2021 was approximately RMB64,859,000 (2020: RMB55,946,000). The incentive bonus for the directors and staff of the Group was RMB Nil (2020: Nil) for the year ended 31 December 2021. The cost of staff wages, benefits and retirement increased mainly due to the PRC social insurance concession policy which was only effective in 2020. Increased average number of employees and annual salary also resulted in higher employee costs.

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.

As the net profit in 2021 was mainly derived from the Demolition Gain, the Board considered that such subsidies should not be included in the target profit, so no incentive bonus was distributed in 2021.

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 2021.

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 2021 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 2021.

DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2021.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 25 May 2022. 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 2021 and 2020.

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 2021.

CONTINGENT LIABILITIES

As at 31 December 2021 and 2020, 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 2021, the interests (including interests in shares and short positions) of the Directors, the 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 (i))*	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares *(Note (j))*	Number of H Shares	Approximate percentage shareholding in the H Shares *(Note (k))*
Director							
Mr. Rui Xin Sheng	Beneficial owner, interest of spouse, 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%

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares *(Note (i))*	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares *(Note (j))*	Number of H Shares	Approximate percentage shareholding in the H Shares *(Note (k))*
Mr. Pan Chun	*(Note (c))*	–	–	*(Note (c))*	*(Note (c))*	–	–
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. Zhang Jun Peng	*(Note (h))*	–	–	*(Note (i))*	*(Note (i))*	–	–

Notes:

(a) Mr. Rui is the registered holder and beneficial owner of 96,500 Class “A” shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class “A” shares and 100,000 Class “B” shares. Mr. Rui is also the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui is the beneficial owner of 3,768,000 H Shares and Ms. Leng Yi Xin, a Director and spouse of Mr. Rui, is the beneficial owner of 52,000 H Share. Ms. Leng Yi Xin is also interested in HK Xinsheng 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, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class “A” shares and 100,000 Class “B” shares. Ms. Leng is also 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 the beneficial owner of 52,000 H Share and Mr. Rui Xin Sheng (a Director and spouse of Ms. Leng) is the beneficial owner of 3,768,000 H Shares. Mr. Rui is also interested in HK Xinsheng and 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, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng 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 Bio, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Bio is 6,750,000 shares.

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

(e) Mr. Yu and his spouse (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 spouse, 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, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng 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 Bio, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Bio is 6,750,000 shares.

(h) Mr. Zhang is the registered holder and beneficial owner of 800 Class “B” shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng 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 Bio, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Bio is 6,750,000 shares.

(i) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 31 December 2021.

(j) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2021.

(k) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2021.

Save as disclosed above, as at 31 December 2021, 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 2021, 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 2021.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2021.

Save as disclosed above, as at 31 December 2021, 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 2021, 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 2021, 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 18 May 2021 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 2021.

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 2021, 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 2021 and to recommend the Board the appointment of external auditors.

Important Events After the Reporting Period

On 25 November 2021, Dalian Changmao and a state-own commercial bank entered into a loan agreement, pursuant to which the Group was provided with a loan amounting to RMB200,000,000. The loan was secured by land use rights at Dalian and also guaranteed by the Company. From January to March in 2022, Dalian Changmao has received loans proceeds from the bank amounting to RMB185,000,000.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 25 March 2022

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 (Changzhou Xinsheng Biochemical Technology Development Company Limited*)
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
GEM	Growth Enterprise Market of the Stock Exchange
Group	the Company and its subsidiaries
H Shares	H shares of the Company
HKAS	Hong Kong Accounting Standard
HK Bio	Hong Kong Bio-chemical Advanced Technology Investment Company Limited
HK Xinsheng	Hong Kong Xinsheng Pioneer Investment Company Limited
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
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