

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 2022**

HIGHLIGHTS	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>730,034</u>	<u>547,976</u>
Profit for the year attributable to the shareholders of the Company	<u>81,423</u>	<u>58,318</u>

DIVIDEND

The Directors recommend the payment of a final cash dividend of RMB0.077 (inclusive of tax) per share for the year ended 31 December 2022.

* For identification purpose only

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2022 together with the audited comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Note</i>	2022 RMB'000	2021 RMB'000
Revenue	2	730,034	547,976
Cost of sales	4	(549,203)	(509,296)
Gross profit		180,831	38,680
Other income		3,477	4,692
Other gains, net	3	1,895	124,176
Selling expenses	4	(8,421)	(8,210)
Administrative expenses	4	(88,545)	(73,486)
Reversal/(Impairment losses) allowance on financial assets	4	136	(28)
Operating profit		89,373	85,824
Finance income		940	537
Finance costs		(2,669)	(1,952)
Finance costs, net		(1,729)	(1,415)
Profit before income tax		87,644	84,409
Income tax expense	5	(6,286)	(26,202)
Profit for the year		81,358	58,207
Other comprehensive income/(loss)			
Item that may be reclassified to profit or loss – currency translation difference		9	(2)
Total comprehensive income for the year		81,367	58,205
Profit for the year attributable to:			
Shareholders of the Company		81,423	58,318
Non-controlling interests		(65)	(111)
		81,358	58,207
Total comprehensive income for the year attributable to:			
Shareholders of the Company		81,432	58,316
Non-controlling interests		(65)	(111)
		81,367	58,205
Earnings per share for profit attributable to Shareholders of the Company – basic and diluted	6	RMB0.154	RMB0.110

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

	<i>Note</i>	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Patents		773	1,021
Property, plant and equipment		427,492	290,180
Right-of-use assets		95,386	96,215
Investment properties		4,128	–
Construction in progress		250,544	211,163
Deferred income tax assets		24,654	20,491
Prepayments		30,744	20,419
Other non-current assets		10,988	–
		<u>844,709</u>	<u>639,489</u>
Current assets			
Inventories		160,911	122,903
Trade and bills receivables	8	75,422	87,836
Other receivables, deposits and prepayments		48,496	32,771
Income tax recoverable		1,244	–
Derivative financial instruments		–	138
Financial assets at fair value through other comprehensive income		3,636	–
Pledged bank balances		12,344	14,750
Cash and bank balances		59,993	58,628
		<u>362,046</u>	<u>317,026</u>
Total assets		<u><u>1,206,755</u></u>	<u><u>956,515</u></u>
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		52,970	52,970
Reserves		725,561	644,129
		<u>778,531</u>	<u>697,099</u>
Non-controlling interests		<u>362</u>	<u>427</u>
Total equity		<u><u>778,893</u></u>	<u><u>697,526</u></u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Deferred income		40	58
Lease liabilities		1,207	271
Deferred income tax liabilities		525	448
Bank borrowings	9	<u>152,073</u>	<u>1,500</u>
		<u>153,845</u>	<u>2,277</u>
Current liabilities			
Trade and bills payables	10	66,538	95,806
Contract liabilities, other payables and accruals		69,065	67,027
Derivative financial instruments		192	–
Income tax payable		–	6,395
Lease liabilities		680	584
Bank borrowings	9	<u>137,542</u>	<u>86,900</u>
		<u>274,017</u>	<u>256,712</u>
Total liabilities		<u>427,862</u>	<u>258,989</u>
Total equity and liabilities		<u>1,206,755</u>	<u>956,515</u>

Notes:

1 GENERAL INFORMATION AND BASIS OF PREPARATION

Changmao Biochemical Engineering Company Limited (the “Company”) is a joint stock limited company incorporated in the People’s Republic of China (the “PRC”). The Company formerly listed its H shares on GEM operated by The Stock Exchange of Hong Kong Limited (“SEHK”) on 28 June 2002 which was then transferred to the Main Board of the SEHK on 28 June 2013. The principal activities of the Company and its subsidiaries (together, the “Group”) are the production and sales of organic acids products.

The address of the Company’s registered office is No.1228 Chang Jiang Bei Road, New North Zone, Changzhou City, Jiangsu Province, 213034, the PRC.

These consolidated financial statements are presented in Renminbi, unless otherwise stated.

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 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018-2020
- Reference to the Conceptual Framework – Amendments to HKFRS 3
- Covid-19 Related Rent Concessions beyond 30 June 2021 - Amendment to HKFRS 16 (March 2021) (the “HKFRS 16 Amendment (March 2021)”)
- Amendments to AG 5 Merger Accounting for Common Control Combinations

The Group also elected to adopt the following amendments early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12, and
- Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2.

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*

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity 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.

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from sales of goods, recognised at a point in time	<u>730,034</u>	<u>547,976</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Mainland China	474,146	363,185
Asia Pacific	106,921	85,886
Europe	90,098	57,563
America	45,938	29,706
Others	<u>12,931</u>	<u>11,636</u>
	<u>730,034</u>	<u>547,976</u>

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 2022, all the Group's non-current assets (other than the deferred income tax assets) which amounted to RMB820,055,000 (2021: RMB618,998,000) are mainly located in Mainland China.

Included in the revenue from sales of goods, approximately RMB33,388,000 (2021: RMB26,439,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 5% (2021: 5%) of the total revenue of the Group. There are no single customers contributing over 10% of the Group's total revenue.

Assets and liabilities related to contract with customers

The Group has not recognised any contract assets related to contract with customers as at 31 December 2022.

(i) Significant changes in contract liabilities

Contract liabilities have been decreased by RMB2,042,000 due to delivery of the goods.

(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.

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Sales of products	<u>7,374</u>	<u>1,824</u>

3 OTHER GAINS, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Gain from demolition and closure (Note (a))	–	126,486
Fair value (losses)/gains on financial assets at fair value through profit or loss	(1,526)	1,049
Net exchange gains/(losses)	7,770	(1,691)
Loss on disposal of property, plant and equipment	<u>(4,349)</u>	<u>(1,668)</u>
	<u>1,895</u>	<u>124,176</u>

- (a) Pursuant to new regulations regarding the latest development plan along the Yangtze River of Changzhou City and Binjiang Development Zone, production of certain chemical products along the Yangtze River was restricted. The Company’s production facilities in Changzhou were located in the restricted areas. On 28 September 2020, the Company entered into a closure and relocation agreement (the “Agreement”) with Changzhou Zhengnan Property Demolition Company Limited, the representative delegated by the local Government (the “Government Representative”), pursuant to which the Company will dispose of certain land use rights and the property, plant and equipment attached thereon to the Government Representative for a total compensation consideration of RMB205,266,000. The Company has received all the compensation consideration and completed substantially the disposal of related assets 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.

4 EXPENSES BY NATURE

	2022 <i>RMB’000</i>	2021 <i>RMB’000</i>
Changes in inventories of finished goods and work in progress	(66,843)	16,908
Raw materials and consumables used	378,371	296,115
Staff costs (including emoluments of Directors and Supervisors)	91,520	64,859
Utilities	80,072	55,905
Impairment loss on non-financial assets	8,875	29,632
Depreciation of property, plant and equipment	28,558	26,617
Transportation costs	26,198	19,999
Research and development costs (Note (a))	13,920	12,649
Maintenance costs	16,093	8,895
Provision for inventories to net realisable value	17,607	6,733
Estimated loss on onerous contracts (Note (b))	334	5,826
Depreciation of right-of-use assets	2,814	2,330
Auditors’ remuneration – audit services	1,604	1,604
Amortisation of patents	248	267
(Reversal of loss allowance)/impairment losses on financial assets	(136)	28
Other expenses	46,798	42,653
	646,033	591,020

- (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 RMB334,000 for the year ended 31 December 2022 (2021: RMB5,826,000).

5 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current income tax		
– Provision for CIT	10,372	20,639
Deferred income tax	(4,086)	5,563
	6,286	26,202

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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before income tax	87,644	84,409
Calculated at the tax rates applicable to results of the respective consolidated entities	11,029	6,518
Expenses not deductible for tax purposes	376	439
Tax losses and timing differences for which no deferred income tax asset was recognised	8,185	14,598
Reversal of previously recognised deferred income tax assets	903	8,437
Previously unrecognised tax losses now recouped to reduce deferred tax expense (c)	(7,314)	–
Previously unrecognised timing differences used to reduce deferred tax expense	(1,146)	–
Tax incentives for equipment (a)	(1,977)	–
Tax incentives for research and development expenses (b)	(3,723)	(3,744)
Others	(47)	(46)
Income tax expense	6,286	26,202

- (a) According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2022 onwards, the newly purchased equipment can be one-off deducted in the calculation of taxable income in 2022, and 100% additional deduction before tax is allowed during the period from 1 October 2022 to 31 December 2022. The 100% additional deduction incentive has led to a reduction in income tax expenses.
- (b) 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% (2021: 200%) 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 2022 and 2021.
- (c) Changmao Biochemical Lianyungang Company Limited (“Lianyungang Changmao”) was qualified as a Technology-based Small and Medium Enterprises starting from 2022, and therefore its tax losses can be carried forward to offset taxable net profits for 10 years instead of the usual 5 years.

6 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2022 is based on the profit attributable to the shareholders of the Company of RMB81,423,000 (2021: RMB58,318,000) and 529,700,000 (2021: 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 (2021: Nil).

7 DIVIDENDS

No interim dividend was declared during the year (2021: Nil). The dividend paid in 2022 and 2021 were Nil and RMB10,594,000 (RMB0.020 per share) respectively. A final dividend in respect of the year ended 31 December 2022 of RMB0.077 per share, totalling RMB40,787,000 is to be proposed at the Annual General Meeting on 18 May 2023. These financial statements do not reflect this dividend payable.

8 TRADE AND BILLS RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	53,957	56,263
Bills receivables	<u>21,465</u>	<u>31,573</u>
	<u><u>75,422</u></u>	<u><u>87,836</u></u>

- (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:

	2022	2021
	RMB'000	RMB'000
0 to 3 months	53,387	56,278
4 to 6 months	1,241	678
Over 6 months	73	74
	54,701	57,030
Less: Loss allowance	(744)	(767)
	53,957	56,263

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

9 BANK BORROWINGS

	2022			2021		
	Current	Non-current	Total	Current	Non-current	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings	33,642	152,073	185,715	8,500	1,500	10,000
Unsecured bank borrowings	103,900	-	103,900	78,400	-	78,400
	137,542	152,073	289,615	86,900	1,500	88,400

As at 31 December 2022, the Group's bank borrowings are repayable as follows:

	2022	2021
	RMB'000	RMB'000
Repayable within 1 year and	137,542	86,900
Between 1 and 2 years	35,145	1,500
Between 2 and 5 years	116,928	-
	289,615	88,400

The secured bank borrowings are secured by the Group's land use rights at Dalian with a net book value of RMB72,729,000 (2021: RMB74,237,000) as at 31 December 2022 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 2022, the effective interest rate of the secured bank borrowings was 4.3% (2021: 4.7%) and the effective interest rate of the unsecured bank borrowings was 3.6% (2021: 4.4%).

10 TRADE AND BILLS PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	27,222	52,212
Bills payables	39,316	43,594
	<u>66,538</u>	<u>95,806</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0 to 6 months	26,766	51,304
7 to 12 months	20	373
Over 12 months	436	535
	<u>27,222</u>	<u>52,212</u>

- (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 2022 was approximately RMB730,034,000, which represented an increase of approximately 33% as compared with that of approximately RMB547,976,000 in last year; the net profit attributable to shareholders of the Company was approximately RMB81,423,000, which represented an increase of approximately 40% as compared with that of approximately RMB58,318,000 in last year.

BUSINESS REVIEW

(1) Production

In 2022, the Group has continued to carry out transformation and upgrading work, and the primary goal of each factory of the Group is to improve quality, and fundamentally improve product competitiveness. Factories in Changzhou and Lianyungang continue to adjust their production lines, improve the degree of automation and intelligence, strengthen management in the production process, and release production capacity while at the same time save energy and reduce consumption. At the same time, the Dalian factory has stepped up its pace of construction. During the year, the first-phase production lines have started trial production, and the construction of the second-phase production lines has also started.

(2) Sales

Benefiting from the recovery of downstream consumption demand and the hard adjustment of the production and sales team of the Group, the Group's sales in 2022 maintained a growth momentum. 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 strengthens product quality and service awareness.

(3) Safety Management

The Group conscientiously implements various daily safety management measures. In 2022, the Group has continued to promote overall safety improvement and transformation, learnt the "Shengrui Working Method", and improved the construction and operation of the company's safety culture system. 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

With the improvement of domestic environmental protection requirements, the Group has continued to increase investment in environmental protection, and coordinated and organised various departments to implement various enhancements and improvements.

In 2022, the Changzhou and Lianyungang factories of the Group has reduced energy consumption and emissions through the construction of key projects and equipment upgrades such as using Mechanical Vapor Recompression evaporator and carried out waste gas absorption transformation project to further improve the core competitiveness of the enterprise and create a good development environment for the survival and development of the enterprise.

RESEARCH AND DEVELOPMENT

The Group will continue to maintain the level of investment in research and development, and has formulated plannings of the research and development projects to be carried out in 2023. The progress of key research and development projects in 2022 are as follows:

(1) *Continue to promote the New Vitamin Pyrroloquinoline Quinone Disodium (PQQ. Na2) Project*

After the Group obtained the new feed additive certificate last year, the Group continued to invest in PQQ products and carried out follow-up research, trial and market development. In 2022, the Group has cooperated with customers and has obtained some feedback information. A production line for PQQ products will be set up in the second phase of the Dalian factory.

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

In 2022, the L-malic acid API project of the Group's pharmaceutical business department received the "Notice of Approval of Marketing Application for Chemical Raw Material Drugs" issued by the State Drug Administration, and obtained the approval from the Drug Evaluation Center of the State Drug Administration and was officially launched to market.

The API and pharmaceutical adjuvant project is an update and upgrade of the Group's existing products, an effective way to increase the added value and economic benefits of products, and it is also the product direction that the Group will continue to invest in and focus on expanding.

MAJOR PROJECTS

(1) Construction of the Dalian New Plant

The Dalian factory will still be the focus of the Group's development in the next few years. In 2022, the first phase of the project has completed and trial production has begun, and the construction of the second phase of the project also started in the year. The commissioning and construction of the Dalian factory, on the one hand, assumes the key links of the Group's maleic anhydride production, to ensure that the raw materials of the Group's products are independently controllable. On the other hand, the newly built production line has great advantages in the compositions of new products, which can further develop the strengths of the Group's product chain production, and at the same time accelerate the implementation and industrialisation process of the Group's research and development projects and technical reserves, and promote the renewal of the existing product chain upgrade.

(2) Transformation and Upgrading of Changzhou Plant

The Changzhou factory continued to undergo transformation and upgrading, and continued to promote automation and intelligent transformation work. In 2022, the new research and development building of the Changzhou factory has been capped, and facilities such as smart storage are also under construction. The Group's long-term goal is to build the Changzhou factory into a green factory and smart factory with demonstration value.

(3) Lianyungang Plant

Through the Group's adjustments to production and sales strategies, the production capacity of the Lianyungang factory in 2022 has recovered well, and has turned losses into profits.

(4) Proposed Initial Public Offering of Renminbi Ordinary Shares (A Shares) and listing on Growth Enterprise Market ("Proposed A Share Issuance")

The Company, according to the relevant requirements under the Company Law, the Securities Law, the Administrative Measures on the Registration of Initial Public Offerings of Stocks, the Rules for the Listing of Stocks on the Growth Enterprise Market of the Shenzhen Stock Exchange, relevant laws and regulations and the normative documents issued by CSRC and the Shenzhen Stock Exchange, strictly reviewed the relevant qualifications and conditions in relation to the initial public offering and listing of ordinary shares denominated in RMB on the Growth Enterprise Market of Shenzhen Stock Exchange and comprehensively considered the actual operation conditions and future development strategies of the Company. Following the said review and consideration, the Company believed that it meets the relevant requirements in relation to the initial public offering and listing of ordinary shares denominated in RMB and proposed to apply for the initial public offering and listing of ordinary shares denominated in RMB (A Shares) on the Growth Enterprise Market of the Shenzhen Stock Exchange.

The Board considers that the Proposed A Share Offering will enable the Company to access the PRC capital market by way of equity financing and improve its capital structure. The Board considers that the Proposed A Share Offering will enhance the corporate image of the Company, better facilitate the Company's capital expenditure needs, broaden the Company's fund raising channels, improve the Company's capital structure, and further strengthen the financial position of the Group and provide working capital to the Group.

For details, please refer to the announcement dated 15 March 2023 by the Company.

OUTLOOK AND PROSPECTS

With the addition of the Dalian factory, the production and management scales of the Group becomes larger, which puts forward higher requirements for the Group's development. Therefore, in the future, the Group will still ensure stable development by focusing 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, the Group will be a producer of high-end food additives, pharmaceutical adjuvant, 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 the long-term development of an enterprise. During the transformation and upgrading period, we overcame difficulties and maintained a continuous increase in investment in research and development. In the future, the Group will actively integrate existing resources and research and development teams, increase investment, attract talents, focus on tackling key problems, and rely on technological progress to accelerate research and development investment in new feed additives PQQ, APIs and pharmaceutical excipients, polybutylene succinate (biodegradable plastics) and other new products. The Group will speed up production, cultivate new products that are safe, environmentally friendly and competitive in the market, promote the updating and upgrading of existing product chains, and seek new sources of profit.

(3) *Enhancing Safety and Environmental Protection Standards and Strengthening Risk Controls*

The Group believes its long-term focus on safety and environmental protection investment will become its 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, targeting to carbon neutrality, and reducing 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 Changmo's international reputation and influence through collaborating with major international customers on new products and technologies.

There will be opportunities and challenges in the future. Based on the production of food additives, the Group will continue to 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 (2022: RMB730,034,000; 2021: RMB547,976,000) **and gross profit margin** (2022: 24.8%; 2021: 7.1%)

Revenue and gross profit margin increased compared with that for the year ended 31 December 2021 mainly because:

- (1) The extent of increase in average sales price of the products is greater than the increase in the cost of sales, leading to a considerable rise in sales revenue and overall gross profit margin.
- (2) The average price of the major raw material, maleic anhydride has decreased in 2022 compared to that in 2021.
- (3) The Group had relocated its old the maleic anhydride production line to its new production plant in Dalian City in 2021. Due to this operational adjustment, certain properties, plant and equipment can no longer be used, and hence the Group made a pre-tax provision for impairment of construction in progress and the property, plant and equipment. Approximately RMB17,552,000 impairment loss was recognised as cost of sales for the year ended 31 December 2021. No such impairment loss was recognised as cost of sales for the year ended 31 December 2022.

Selling and administrative expenses (2022: RMB96,966,000; 2021: RMB81,696,000)

Selling and administrative expenses increased mainly because of the expansion of operation of the Group. The Group's Lianyungang production plant has been re-operated in full in 2022 and its Dalian production plant also commenced operation in the last quarter of 2022. In addition, there was an increase in staff cost which was partly because of the incentive bonus in 2022. The Group has formulated a profit-based incentive bonus scheme and the amount of bonus under this scheme amounted to RMB7,110,000 for the year ended 31 December 2022 (2021: Nil).

Other gains, net (2022: RMB1,895,000; 2021: RMB124,176,000)

The Group recognised a gain of approximately RMB126,486,000 for the year ended 31 December 2021 as a result of the compensation received from the government for the demolition of certain production lines in its Changzhou production plant. The demolition has been substantially completed in 2021 and there was no such gain recognised for the year ended 31 December 2022.

Finance costs, net (2022: RMB1,729,000; 2021: RMB1,415,000)

Despite the increase in bank borrowing which is mainly used for financing the construction of the new production plant in Dalian, most of the interest expenses incurred by the Dalian production plant are capitalised.

Income tax expense (2022: RMB6,286,000; 2021: RMB26,202,000)

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 2022. 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 5 to the consolidated financial statements. As at 31 December 2021, part of deferred tax assets of Changmao Biochemical Lianyungang Company Limited ("Lianyungang Changmao"), a wholly-owned subsidiary of the Group, which was recognised for tax losses carried forward has been reversed as they were not probable to be realised. The amount reversed was RMB8,437,000 for the year ended 31 December 2021. Lianyungang Changmao has resumed production in 2021 and began to turn around in the second quarter of 2022. In addition, it was qualified as a Technology-based Small and Medium Enterprises (科技型中小企業) starting from 2022, and therefore its tax losses can be carried forward to offset taxable net profits for 10 years instead of the usual 5 years.

Profit for the year attributable to the shareholders of the Company

For the year ended 31 December 2022, the Group recorded a profit attributable to shareholders of the Company of approximately RMB81,423,000 (2021: RMB58,318,000), which was mainly due to the increase in sales revenue and gross profit margin.

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 35.1% (2021: 33.7%) of the Group's revenue while domestic sales in the PRC accounted for approximately 64.9% (2021: 66.3%) 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 2022, the Group had outstanding forward foreign exchange contracts liability with fair value amounted to RMB192,000 (2021: assets of RMB138,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had total outstanding bank borrowings of RMB289,615,000 (2021: RMB88,400,000). For details, please refer to Note 9 to the consolidated financial statements.

Except for the bank borrowings disclosed above, as at 31 December 2022 and 2021, 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 2022, the Group had capital commitments for property, plant and equipment amounting to approximately RMB96,350,000 (2021: RMB89,275,000). 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 2022. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 35.5% (2021: 27.1%) as at 31 December 2022. 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 2022, the Group's cash and cash equivalents amounted to RMB59,993,000 (2021: RMB58,178,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2022, the Group employed a total of 497 employees (2021: 422 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 2022 was approximately RMB91,520,000 (2021: RMB64,859,000). The cost of staff wages, benefits and retirement increased mainly due to the increased in number of employees, annual salary increment and the incentive bonus scheme described below. The incentive bonus for the directors and staff of the Group was RMB7,110,000 (2021: Nil) for the year ended 31 December 2022.

Under the staff incentive scheme for each of the three years ended 31 December 2025, 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 2022.

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 2022 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 2022.

DIVIDEND

The Directors recommend the payment of a final dividend of RMB0.077 (inclusive of tax) per share in cash, totalling approximately RMB40,787,000 for the year ended 31 December 2022. 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 18 July 2023 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 29 May 2023. 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 24 May 2023 to 29 May 2023 (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 23 May 2023.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 18 May 2023. 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 2022 and 2021.

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 2022.

CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, 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 2022, 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 (h))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (i))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (j))
<i>Director</i>							
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%
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%

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (h))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (i))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (j))
<i>Supervisor</i>							
Ms. Zhou Rui Juan	(Note (f))	-	-	(Note (f))	(Note (f))	-	-
Mr. Zhang Jun Peng	(Note (g))	-	-	(Note (g))	(Note (g))	-	-

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) 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.
- (g) 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.
- (h) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 31 December 2022.
- (i) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2022.
- (j) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2022.

Save as disclosed above, as at 31 December 2022, 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 2022, the followings, 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:

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 2022.
- (f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2022.

Save as disclosed above, as at 31 December 2022, 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 2022, the category of the issued shares of the Company is as follows:

	<i>No. of Shares</i>
H shares (Note (a))	183,700,000
Domestic Shares (Note (b))	2,500,000
Foreign Shares (Note (c))	<u>343,500,000</u>
	<u><u>529,700,000</u></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 2022, 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 2022 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 2022.

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 2022, the audit committee comprises three independent non-executive Directors, namely, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin and Ms. Cheng Mun Wah.

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 2022 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 28 March 2023

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, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin and Ms. Cheng Mun Wah 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	GEM operated by 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