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常茂生物化學工程股份有限公司

Changmao Biochemical Engineering Company Limited*

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

(Stock Code: 954)

PROFIT ALERT

This announcement is made by Changmao Biochemical Engineering Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the profit warning announcement of the Company dated 3 August 2021 (the “**Profit Warning Announcement**”) and the announcements of the Company dated 24 June 2020, 28 September 2020, 2 December 2020, 9 April 2021 and 26 April 2021 in relation to the relocation of production lines and possible construction of new production plant (the “**Relocation Announcements**”). Unless otherwise defined, capitalised terms used herein shall have the same meaning as those defined in the Profit Warning Announcement and the Relocation Announcements.

The board of directors of the Company (the “**Board**”) wishes to inform the shareholders of the Company and potential investors that having assessed the currently available information, the Group is likely to record a consolidated net profit attributable to the equity holders of the Company for the year ended 31 December 2021 (“**FY2021**”) of an amount ranging between RMB50 million to RMB60 million, as compared to the consolidated net profit attributable to the equity holders of the Company of approximately RMB16.8 million for the year ended 31 December 2020. However, excluding the Demolition Gain (as defined below), the Group is likely to record a consolidated net loss attributable to the equity holders of the Company for FY2021 of an amount ranging from RMB48 million to RMB58 million

**For identification purpose*

The Board believes that the Group's financial performance for FY2021 has been affected by the following factors:

- (1) As mentioned in the Relocation Announcements, 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 completed the demolition in 2021. The total pre-tax compensation consideration less the carry value of the concerned property, plant and equipment, land use rights and the related expense (the “**Demolition Gain**”) was recognised as other gains for FY2021 with a range from RMB124 million to RMB129 million (2020: Nil).
- (2) 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, Changmao Biochemical Lianyungang Company Limited (“**Lianyungang Changmao**”) to the upcoming new production plant in Dalian City. Due to this operational adjustment, certain properties, plant and equipment can no longer be used and certain deferred income tax assets in relation to tax losses carried forward will not be able to be realised. After further assessment, taking into account the trial run result of product production in Lianyungang Changmao and the utilisation of the relocated assets in 2021, the Group has further made a pre-tax provision for impairment of construction in progress and the property, plant and equipment of an amount ranging from RMB27 million to RMB32 million (2020: RMB12.9 million).

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(3) Gross margin of the Group for FY2021 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.

The Group is constructing a new production plant in Changxingdao, Dalian City, Liaoning Province, the PRC and relocating 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 expects that the production of maleic anhydride of the Group will return to normal after the Dalian production plant is put into operation.

As the Company is still in the process of finalising the results of the Group for FY2021, the information contained in this announcement is a preliminary assessment by the Board with reference to the management accounts of the Group and the information currently available to the Company. Such information has not been audited or reviewed by the Company's auditor and/or the audit committee. Further details of the Group's performance will be disclosed when the Group's results for FY2021 are announced, which will be on 25 March 2022.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

**For identification purpose*

By order of the Board
Changmao Biochemical Engineering Company Limited*
Rui Xin Sheng
Chairman

The PRC, 15 March 2022

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

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