



**CMBEC**

INTERIM REPORT **2022**

**CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED**

**常茂生物化學工程股份有限公司**

(A Joint Stock Limited Company Incorporated In The People's Republic Of China)

(Stock Code: 954)

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## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022 - Unaudited

	Note	For the six months ended 30 June	
		2022 RMB'000	2021* RMB'000
Revenue	5	382,810	246,356
Cost of sales		(291,795)	(216,601)
Gross profit		91,015	29,755
Other income	6	642	1,055
Other gains, net	7	2,036	842
Selling expenses		(3,222)	(3,427)
Administrative expenses		(41,257)	(29,296)
Reversal of loss allowance on financial asset		2	183
Operating profit/(loss)		49,216	(888)
Finance income		512	314
Finance costs		(1,576)	(562)
Finance costs, net	8	(1,064)	(248)
Profit/(loss) before income tax	9	48,152	(1,136)
Income tax (expense)/credit	10	(7,498)	1,157
Profit for the period		40,654	21
Other comprehensive income/(loss)			
Item that may be reclassified to profit or loss – currency translation difference		5	(1)
Total comprehensive income for the period		40,659	20
Profit for the period attributable to:			
Equity holders of the Company		40,880	242
Non-controlling interests		(226)	(221)
		40,654	21
Total comprehensive income for the period attributable to:			
Equity holders of the Company		40,885	241
Non-controlling interests		(226)	(221)
		40,659	20
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	11	RMB0.077	RMB0.000

\* The condensed consolidated statement of comprehensive income for the six months ended 30 June 2021 has been restated for the voluntary change in accounting policy (Note 2.2).

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2022 – Unaudited

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Patents	13	897	1,021
Property, plant and equipment	14	280,112	290,180
Right-of-use assets	14	94,874	96,215
Construction in progress	14	295,941	211,163
Deferred income tax assets		19,742	20,491
Prepayments		53,135	20,419
		<b>744,701</b>	<b>639,489</b>
<b>Current assets</b>			
Inventories		124,935	122,903
Trade and bills receivables	15	91,134	87,836
Other financial asset	16	10,000	–
Other receivables, deposits and prepayments		38,145	32,771
Income tax recoverable		8,854	–
Derivative financial instruments		–	138
Pledged bank balances	17	17,699	14,750
Cash and bank balances	17	113,945	58,628
		<b>404,712</b>	<b>317,026</b>
<b>Total assets</b>		<b>1,149,413</b>	<b>956,515</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	18	52,970	52,970
Reserves	19	685,014	644,129
		<b>737,984</b>	<b>697,099</b>
<b>Non-controlling interests</b>		<b>201</b>	<b>427</b>
<b>Total equity</b>		<b>738,185</b>	<b>697,526</b>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	<i>Note</i>	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		55	58
Lease liabilities		–	271
Deferred income tax liabilities		487	448
Bank borrowings	20	169,500	1,500
		<b>170,042</b>	2,277
<b>Current liabilities</b>			
Trade and bills payables	21	102,856	95,806
Derivative financial instruments		711	–
Contracted liabilities, other payables and accruals		62,019	67,027
Income tax payable		–	6,395
Lease liabilities		600	584
Bank borrowings	20	75,000	86,900
		<b>241,186</b>	256,712
<b>Total liabilities</b>		<b>411,228</b>	258,989
<b>Total equity and liabilities</b>		<b>1,149,413</b>	956,515

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022 - Unaudited

	Attributable to equity holders of the Company				Non-controlling interests	Total
	Share capital	Other reserves	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021	52,970	190,251	406,156	649,377	538	649,915
Profit for the period	-	-	242	242	(221)	21
Other comprehensive loss – currency translation difference – Group	-	(1)	-	(1)	-	(1)
Final dividend for the year ended 31 December 2020	-	-	(10,594)	(10,594)	-	(10,594)
Balance at 30 June 2021	52,970	190,250	395,804	639,024	317	639,341
Balance at 1 January 2022	<b>52,970</b>	<b>190,249</b>	<b>453,880</b>	<b>697,099</b>	<b>427</b>	<b>697,526</b>
Profit for the period	-	-	<b>40,880</b>	<b>40,880</b>	(226)	<b>40,654</b>
Other comprehensive income – currency translation difference – Group	-	5	-	5	-	5
Balance at 30 June 2022	<b>52,970</b>	<b>190,254</b>	<b>494,760</b>	<b>737,984</b>	<b>201</b>	<b>738,185</b>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2022 - Unaudited

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Cash flows from operating activities		
Cash generated/(used in) from operations	49,088	(7,372)
Interest paid	(5,391)	(476)
Income tax paid	(21,959)	(8,164)
Net cash generated from/(used in) operating activities	21,738	(16,012)
Cash flows from investing activities		
Prepayments for construction in progress, property, plant and equipment	(32,716)	(19,725)
Purchase of property, plant and equipment	(219)	(2,452)
Proceeds from disposal of property, plant and equipment	624	1,267
Additions of right-of-use assets - land use right	-	(75,367)
Additions of construction in progress	(86,947)	(26,487)
Payments for demolition and closure expenses, net	-	(7,676)
Increase in other financial asset	(10,000)	-
Decrease in long-term and short-term bank deposits with original maturities of over 3 months	450	650
Interest received	512	314
Investment income received	369	365
Net cash used in investing activities	(127,927)	(129,111)
Cash flows from financing activities		
Principal elements of lease payments	(283)	(305)
Proceeds from new bank borrowings	206,375	69,300
Repayment of bank borrowings	(50,288)	(500)
Net cash generated from financing activities	155,804	68,495
Net increase/(decrease) in cash and cash equivalents	49,615	(76,628)
Effect of foreign exchange rate changes	6,152	161
Cash and cash equivalents at 1 January	58,178	133,693
Cash and cash equivalents at 30 June	113,945	57,226

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

Changmao Biochemical Engineering Company Limited is a joint stock limited company incorporated in the PRC. The Company listed its H shares on GEM of the Stock Exchange on 28 June 2002 and the listing of its H shares was transferred to the Main Board of the Stock Exchange on 28 June 2013. The principal activities of Group are the production and sale of organic acid 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 condensed consolidated interim financial statements are presented in Renminbi, unless otherwise stated.

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information has been prepared in accordance with applicable disclosure provisions of Listing Rules, including compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial statements should be read in conjunction with the 2021 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 18 August 2022. This condensed consolidated interim financial information has not been audited.

The accounting policies used in preparing the condensed consolidated interim financial statements are consistent with those used in the 2021 Financial Statements. Other New HKFRSs which have become effective in this period have no material impact on the accounting policies in the Group's condensed consolidated interim financial statements for the period.

#### 2.1 New and amended standards

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 2.2 Changes in accounting policy

As stated in the 2021 Financial Statements, 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 RMB4,335,000 from “selling expenses” into “costs of sales” in 2021 condensed consolidated interim financial statements disclosed.

### 3 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2021.

### 4 FINANCIAL RISK MANAGEMENT

The Group’s activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2021.

There have been no changes in the risk management policies since year end.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5 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 sale of organic acid 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.

	<b>For the six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Mainland China	<b>249,051</b>	158,221
Asia Pacific	<b>65,407</b>	41,371
Europe	<b>37,626</b>	28,235
America	<b>22,308</b>	13,960
Others	<b>8,418</b>	4,569
	<b>382,810</b>	246,356

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 sales revenue by geographic location is based on the country area in which the customer is located.

As at 30 June 2022, all of the Group's non-current assets (other than the deferred income tax assets) amounted to RMB724,959,000 (31 December 2021: RMB618,998,000) are located in Mainland China.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**6 OTHER INCOME**

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Sales of scrap materials	45	–
Government grants	126	139
Others	471	916
	<b>642</b>	<b>1,055</b>

**7 OTHER GAINS, NET**

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Fair value (losses)/gains on financial assets at fair value through profit or loss	(480)	312
(Loss)/gain on disposal of property, plant and equipment	(1,509)	1,193
Net exchange gains/(losses)	4,025	(663)
	<b>2,036</b>	<b>842</b>

**8 FINANCE COSTS, NET**

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	5,580	558
Interest capitalised	(4,022)	–
	<b>1,558</b>	<b>558</b>
Interest for lease liabilities	18	4
	<b>1,576</b>	<b>562</b>
Interest income on bank deposits	(512)	(314)
	<b>1,064</b>	<b>248</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**9 PROFIT/(LOSS) BEFORE INCOME TAX**

Profit/(loss) before income tax is stated after charging the following:

	<b>For the six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Amortisation of patents	124	66
Amortisation of right-of-use assets	1,341	1,001
Depreciation	14,345	13,110
	<b>14,345</b>	<b>13,110</b>

**10 INCOME TAX EXPENSE/(CREDIT)**

PRC 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 a preferential CIT 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:

	<b>For the six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Current income tax		
– Provision for CIT	8,286	1,836
– Under-provision in prior year	–	5
Deferred income tax	(788)	(2,998)
	<b>7,498</b>	<b>(1,157)</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 results of the consolidated entities as follows:

	<b>For the six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Profit/(loss) before income tax	<b>48,152</b>	(1,136)
Calculated at the tax rates applicable to results of the respective consolidated entities	<b>6,858</b>	(1,470)
Tax losses for which no deferred income tax asset was recognised	<b>655</b>	319
Under-provision in prior year	–	5
Others	<b>(15)</b>	(11)
Income tax expense/(credit)	<b>7,498</b>	(1,157)

### 11 EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2022 is based on the profit attributable to the equity holders of the Company of approximately RMB40,880,000 (for the six months ended 30 June 2021: RMB242,000) and 529,700,000 shares (for the six months ended 30 June 2021: 529,700,000 shares) weighted average number of shares in issue during the period.

The Company has no dilutive potential shares in issue during the period (Corresponding period in 2021: Nil).

### 12 DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 (Corresponding period in 2021: Nil).

### 13 PATENTS

	RMB'000
Net book value as at 1 January 2022	1,021
Amortisation	(124)
Net book value as at 30 June 2022	897

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 14 CAPITAL EXPENDITURE

	Property, plant and equipment RMB'000	Right-of-use assets RMB'000	Construction in progress RMB'000
Net book value as at 1 January 2022	290,180	96,215	211,163
Transfer from construction in progress	6,191	–	(6,191)
Additions	219	–	90,969
Disposal	(2,133)	–	–
Depreciation/amortisation charge	(14,345)	(1,341)	–
Net book value as at 30 June 2022	280,112	94,874	295,941

## 15 TRADE AND BILLS RECEIVABLES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Trade receivables (note (a))	66,632	56,263
Bills receivables (note (b))	24,502	31,573
	91,134	87,836

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

	30 June 2022 RMB'000	31 December 2021 RMB'000
0 to 3 months	67,047	56,278
4 to 6 months	280	678
Over 6 months	73	74
	67,400	57,030
Less: Provision for impairment of trade receivables	(768)	(767)
	66,632	56,263

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**16 OTHER FINANCIAL ASSET**

The Group's unlisted investment on the wealth management product issued by a financial institution with low-risk non-guaranteed principal amount plus variable returns was accounted for as other financial asset measured at fair value through profit or loss.

**17 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES**

	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
Short-term bank deposits with original maturities of over 3 months	–	450
Cash and cash equivalents	<b>113,945</b>	58,178
Cash and bank balances	<b>113,945</b>	58,628
Pledged bank balances	<b>17,699</b>	14,750
<b>Total</b>	<b>131,644</b>	73,378
	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
Denominated in:		
– RMB	<b>107,735</b>	60,106
– USD	<b>23,300</b>	13,030
– Hong Kong Dollars	<b>609</b>	242
	<b>131,644</b>	73,378

The conversion of Renminbi denominated balances into foreign currencies and the remittance of these funds out of the Mainland China is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

**18 SHARE CAPITAL**

**Registered, issued and fully paid**

	<b>Share capital</b>	
	<b>Number of shares at RMB0.10 each</b>	<b>Nominal value RMB'000</b>
At 30 June 2022 and 31 December 2021	529,700,000	52,970

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2022 and 31 December 2021, the share capital of the Company composed of 2.5 million Domestic Shares, 343.5 million Foreign Shares and 183.7 million H shares. The H Shares rank pari passu with the Domestic Shares and Foreign Shares in all aspects and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed by legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

### 19 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 2021	102,559	87,233	461	(2)	406,156	596,407
Profit for the period	-	-	-	-	242	242
Other comprehensive loss						
– currency translation difference						
– Group	-	-	-	(1)	-	(1)
Final dividend for the year ended 31 December 2020	-	-	-	-	(10,594)	(10,594)
At 30 June 2021	102,559	87,233	461	(3)	395,804	586,054
	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 2022	102,559	87,233	461	(4)	453,880	644,129
Profit for the period	-	-	-	-	40,880	40,880
Other comprehensive income						
– currency translation difference						
– Group	-	-	-	5	-	5
At 30 June 2022	102,559	87,233	461	1	494,760	685,014

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20 BANK BORROWINGS

	30 June 2022			31 December 2021		
	Current RMB'000	Non- current RMB'000	Total RMB'000	Current RMB'000	Non- current RMB'000	Total RMB'000
Secured bank borrowings	25,500	169,500	195,000	8,500	1,500	10,000
Unsecured bank borrowings	49,500	–	49,500	78,400	–	78,400
	<b>75,000</b>	<b>169,500</b>	<b>244,500</b>	86,900	1,500	88,400

As at 30 June 2022, the Group's bank borrowings are repayable as follows:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Within 1 year	75,000	86,900
Between 1 and 2 years	35,500	1,500
Between 2 and 5 years	126,500	–
Over 5 years	7,500	–
	<b>244,500</b>	88,400

The secured bank borrowings are secured by the Group's land use rights at Dalian with a net book value of RMB73,483,000 as at 30 June 2022 (31 December 2021: RMB74,237,000) and guaranteed by the Company.

All the bank borrowings are denominated in RMB. The carrying amounts of these bank borrowings approximate their fair values.

As at 30 June 2022, the effective interest rate of the secured bank borrowings was 4.7% (31 December 2021: 4.7%) and the effective interest rate of the unsecured bank borrowings was 4.1% (31 December 2021: 4.4%).

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**21 TRADE AND BILLS PAYABLES**

	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
Trade payables	<b>41,763</b>	52,212
Bills payables	<b>61,093</b>	43,594
	<b>102,856</b>	95,806

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

	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
0 to 6 months	<b>39,692</b>	51,304
7 to 12 months	<b>1,271</b>	373
Over 12 months	<b>800</b>	535
	<b>41,763</b>	52,212

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

**22 CONTINGENT LIABILITIES**

As at 30 June 2022 and 31 December 2021, the Group did not have any material contingent liabilities.

**23 COMMITMENTS**

Capital commitment for property, plant and equipment of the Group are as follows:

	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
Contracted but not provided for	<b>108,031</b>	89,275

## **BUSINESS AND FINANCIAL REVIEW**

### **BUSINESS REVIEW AND OUTLOOK**

#### **Results for the Half Year**

The Group's sales revenue for the six months ended 30 June 2022 was approximately RMB382,810,000, which represented an increase of approximately 55% as compared with that of RMB246,356,000 in the corresponding period in last year; the net profit attributable to equity holders of the Company was approximately RMB40,880,000, which represented a significant increase compared with that of RMB242,000 in the corresponding period in last year.

The impact of the epidemic on the food and beverage industry was not as big as that on other retail consumer market. Food additives, which are the main products of the Group, had gained strong consumption. In the first half of 2022, benefited from the increase in demand due to the emphasis of quality improvement by downstream customers and the smooth recovery of the Group's production capacity after the completion of the demolition, the Group's product sales increased significantly. At the same time, the Lianyungang plant gradually released production capacity after completion of the product structure adjustment and has turnaround for the first time in the second quarter of 2022. Due to good market demand and stable product prices, the profit growth rate in the first half of the year was relatively high.

#### **Business Review**

In the first half of 2022, the Group's production and sales were booming, and operating profit increased significantly. The management and sales teams of the Group adjusted their strategies to dig deep into domestic demand while stabilising overseas orders, and grasped the opportunities of the new strategy of simultaneously tapping into both the domestic and international markets.

The safety and environmental protection management department of the Group continues to promote the improvement of safety and environmental protection in all production bases, integrate the culture of safe production into each post and each work link. At the same time, through continuous investment in environmental protection, the effect of environmental pollution control and the working conditions of employees will be improved, and the competitiveness of products will also be enhanced.

## ***BUSINESS AND FINANCIAL REVIEW***

### **Research and Development**

In 2022, the Group's research projects progressed steadily with continuing increased investment in research and development. In the first half of the year, numbers of independent and outsourced research and development projects were carried out as planned, including new product research and development and production process improvement of existing products.

The pharmaceutical business department focused on the preparations for the malic acid active pharmaceutical ingredients ("API") project, and has completed the second round of submission of supplementary materials required by the National Center for Drug Evaluation (CDE), and the CDE related evaluation is under professional review. The API project is an update and upgrade of the Company's existing products and is an effective way to increase the added value and economic benefits of the products. The certification threshold for API is high and the process time is long, and therefore a long incubation period is required to achieve industrialisation and large scale production.

In 2021, the Group obtained the new feed additive certificate of pyrroloquinoline quinone disodium salt (PQQ. Na<sub>2</sub>) issued by the Ministry of Agriculture, and continued to promote the application and promotion of new feed additives. In the first half of this year, the Food Safety Standards and Monitoring and Evaluation Department of the National Health and Health Commission issued the Announcement on 32 kinds of "Three New Foods" including Guanshan Cherry Blossoms (No. 1, 2022), officially certified pyrroloquinoline quinone (PQQ) as a new food raw material and broadened the future application of this product.

## BUSINESS AND FINANCIAL REVIEW

### MAJOR PROJECTS

#### 1. Construction project of the Dalian plant

Changmao (Dalian) New Material Company Limited is the new focus of the Group's development in the next few years. Changxingdao, Dalian City has a good investment environment where import and export are convenient and is one of the seven major petrochemical industrial bases in the PRC. Compared with Changzhou, there are more advantages in the production of maleic anhydride and related products in Dalian City. The construction of the new base in Changxingdao, Dalian City aims to expand the production scale of maleic anhydride of the Group, and to produce new products to further enhance the Group's production advantages. At the same time, it accelerates the industrialisation process of the Group's research and development projects and promotes the upgrading of the existing product chain.

In the first half of 2022, the first phase of the construction project in the Dalian base has basically completed. The Group also dispatched key personnel to Dalian to support the construction and made final preparations for the first phase of the project to be put into operation. At the same time, the Group has also accelerated the progress of the second phase of the new material project, striving to launch a series of new material products such as succinic acid, succinic anhydride and other new special acid anhydride derivatives and form a product chain to improve the overall competitiveness as soon as possible.

#### 2. Transformation and upgrade of the Changzhou plant

In the first half of 2022, the improvement and upgrade of the Changzhou plant progressed smoothly, and the production capacity recovered well. The Changzhou plant will continue to carry out intelligent transformation of various production lines, build new research and development office buildings, automated warehouses, etc., and do a good job in "intelligent and digital transformation" to seize the opportunity of digital transformation, further improve production efficiency, and empower the factory to develop better.

#### 3. Resumption of production in the Lianyungang plant

In the first half of 2022, the Group adjusted its production and sales strategy based on the conditions of the Lianyungang plant and the market situation, so that the Lianyungang plant successfully achieved a profit in the second quarter. The loss in the first half of the year was significantly narrowed compared with the same period last year, and the plant aims to achieve profitability in 2022.

## BUSINESS AND FINANCIAL REVIEW

### OUTLOOK AND PROSPECTS

In the future, the Group will adhere to the technology innovation for its development and promote its work according to customer needs. The Group will always focus on economic benefits and rely on the supporting advantages of the product chain to maintain its leading position in the industry. The Group will continue to reduce costs and increase efficiency and expand the scale effect, continuously to improve product quality and service, and firmly establish the image of Changmao brand, and will focus on the following aspects:

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

The Group will fully support the construction of the production base in Changxingdao, Dalian City. The Dalian factory has a good foundation with new equipment, production in large scale, and conforms to policy trends, and is supported by the local government. In the future, Dalian plant will be the main production base of the Group's chemical products, combining the advantages of existing product chain and the industrialisation process of scientific research results. The Group will continue to expand its product range to new materials, APIs and new feed additives, etc. to create new economic benefits.

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

The Group insists that technological innovation is the driving force for long-term development of an enterprise. During the transformation and upgrading period, we overcame difficulties and still continued to increase investment in technological innovation. In the future, the Group will actively integrate existing resources and the research and development team, increase investment, attract talents, focus on tackling key problems. By relying on technological advancement and speeding up the research and development, it will cultivate new products which are safe, environmentally friendly and with strong competitiveness. Moreover, it will optimise its product structure, promote the upgrading and extension of existing product chains, and to seek new profit source.

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

While the laws and regulations related to safety and environmental protection becoming stricter, the elimination process of small and medium-sized enterprises that failed to meet those standards were accelerated, leaving the industry to further concentration on strong enterprises that complied with the relevant requirements. The Group has strictly complied with various safety and environmental regulations and transformed it into a competitive advantage. In terms of safety, the Group will continue to strengthen safety controls, pay attention to safety risks, improve the safety of the production environment, reduce and eliminate safety accidents. In terms of environmental protection, the Group will continue to promote clean production and implement pollution prevention to fulfill its social responsibility. The Group endeavors to become an environment-friendly enterprise which saves energy, is carbon neutral, and reduces emissions of wastes which helps to reduce the impact of policy risks on production and operation, and be a resource-saving and environment-friendly enterprise to pave the way for the Group's sustainable development.

## BUSINESS AND FINANCIAL REVIEW

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

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

### 5. Strengthening capital operation, promoting A shares listing

In consideration of the long-term development of the Group, the Board has approved the proposal to apply to the relevant security regulatory authorities for issuance of A shares of the Company on the Shanghai Stock Exchange or the Shenzhen Stock Exchange pursuant to the Company Law of the PRC, the Securities Law of the PRC and other relevant laws, regulations and regulatory documents. The Group is currently in the listing counseling period. As of the date of this report, the Company has not determined the plan of the proposed A Share offering and has not applied to any regulatory authorities in the PRC or anywhere else for the approval of the proposed A Share Offering.

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

## REVIEW OF FINANCIAL STATEMENTS

The audit committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2022 in conjunction with the Directors.

## DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022.

## SEGMENTAL INFORMATION

Part of the Group's products are exported to Asia Pacific, Europe and America. In terms of percentage, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 35% (for the six months ended 30 June 2021: 36%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 65% (for the six months ended 30 June 2021: 64%) of the Group's sales revenue.

## **BUSINESS AND FINANCIAL REVIEW**

### **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 were 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 various currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the period, the Group used certain forward contracts to hedge its foreign currency exposure in USD.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2022, the Group had total outstanding bank borrowings of RMB244,500,000 (31 December 2021: RMB88,400,000), details of which are set out in Note 20 to the condensed consolidated interim financial statements.

The Company has entered into a loan agreement of RMB200 million with a state-owned commercial bank in 2021. The total outstanding amount of the loan as at 30 June 2022 was RMB195 million. The purpose of the loan is for the construction of the Group's new factory in Dalian.

Except for the bank borrowings disclosed above, as at 30 June 2022 and 31 December 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 invest in low-risk wealth management products offered by state-owned commercial banks to earn investment income.

As at 30 June 2022, the Group had capital commitments for property, plant and equipment amounting to approximately RMB108,031,000. These capital commitments are mainly used for the construction of the new production plant in Dalian City, the PRC. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The secured bank borrowings are secured by the Group's land use rights at Dalian with a net book value of RMB73,483,000 as at 30 June 2022 (31 December 2021: RMB74,237,000) and guaranteed by the Company. Save for that, the Group did not have any charge on its assets as at 30 June 2022. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 35.8% and 27.1% as at 30 June 2022 and 31 December 2021 respectively. As at 30 June 2022, the Group's cash and cash equivalents amounted to approximately RMB113,945,000 (31 December 2021: RMB58,178,000).

The increase in bank borrowings was due to the funding requirements in the construction of the new factory in Dalian City, the PRC. The Directors believe that the Group is in a healthy financial position.

## **BUSINESS AND FINANCIAL REVIEW**

### **EMPLOYEES**

Including the Directors, as at 30 June 2022, the Group employed a total of 479 employees (30 June 2021: 424 employees). Total amount of staff costs for the six months ended 30 June 2022 was approximately RMB42,387,000 (for the six months ended 30 June 2021: RMB30,330,000). The increase in staff cost was mainly due to the increase in number of staff, salary increment and increase in bonus of the employees. Employees are remunerated in accordance with the nature of the job and also on individual merit. The Company also formulated a staff incentive scheme under which for the year ending 31 December 2022, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before payment of the bonuses referred to below) amount to not less than RMB40 million (the "Target Profit"):

- (a) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;
- (b) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to the general manager and all the Directors (other than Mr. Rui Xin Sheng and the independent non-executive Directors) for the time being of the Company as a bonus for the relevant year; and
- (c) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the Directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

The above profit-based incentive bonus for the 6 months ended 30 June 2022 amounted to approximately RMB 4 million (31 December 2021: Nil).

### **SIGNIFICANT INVESTMENTS**

Save for the other financial asset of RMB10 million as at 30 June 2022 (31 December 2021: Nil), there are no significant investments held by the Group as at 30 June 2022 and 31 December 2021.

The Group is constructing a new plant in Dalian City. Details of capital commitments are set out in Note 23 to the condensed consolidated interim financial statements. Save for that, the Group has no plans for material investments or capital assets.

### **CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD**

There was no material acquisitions and disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2022.

### **CONTINGENT LIABILITIES**

As at 30 June 2022 and 31 December 2021, the Group did not have any material contingent liabilities.

## DISCLOSURE OF INTERESTS

**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 30 June 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 ("Mr. Rui")	Beneficial owner, interest of spouse and interest of controlled corporation (Note (a))	2,500,000	100%	135,000,000	39.30%	3,820,000	2.08%
Ms. Leng Yi Xin ("Ms. Leng")	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%
<i>Supervisor</i>							
Ms. Zhou Rui Juan	(Note (f))	-	-	(Note (f))	(Note (f))	-	-
Mr. Zhang Jun Peng	(Note (g))	-	-	(Note (g))	(Note (g))	-	-

## DISCLOSURE OF INTERESTS

### 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, a Director and spouse of Mr. Rui, is the beneficial owner of 52,000 H Share. Ms. Leng 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 (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 Chun 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 Xian Biao 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. He 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 Xiao Ping 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 Xiao Ping’s spouse, Ms. Lam Mau, is also the beneficial owner of 2,620,000 H shares.
- (f) Ms. Zhou Rui Juan 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.

## DISCLOSURE OF INTERESTS

- (g) Mr. Zhang Jun Peng 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. He 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 30 June 2022.
- (i) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2022.
- (j) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2022.

Save as disclosed above, as at 30 June 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.

## DISCLOSURE OF INTERESTS

### 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 30 June 2022, 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 (Note (a))	1.43%
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%	–	–

## DISCLOSURE OF INTERESTS

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))
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.

## DISCLOSURE OF INTERESTS

- (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 30 June 2022.
- (f) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2022.

Save as disclosed above, as at 30 June 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.

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

At no time during the period was the Company, of its subsidiaries or its other associated corporation a party to any arrangement (including share option scheme) to enable the Directors, Supervisors and chief executives 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 or underlying shares in or debentures of the Company or its specific undertaking or other associated corporation.

## OTHER INFORMATION

### 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 six months ended 30 June 2022.

### SHARE CAPITAL STRUCTURE

As at 30 June 2022, the category of the issued shares of the Company is as follows:

	<b>No. of Shares</b>
H shares ( <i>Note (a)</i> )	183,700,000
Domestic Shares ( <i>Note (b)</i> )	2,500,000
Foreign Shares ( <i>Note (c)</i> )	343,500,000
	<hr/>
	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 the Main Board of the Stock Exchange.
- (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 of the Company were listed on the GEM on 28 June 2002. The listing of the H Shares of the Company was subsequently transferred from GEM to the Main Board of the Stock Exchange on 28 June 2013.

## OTHER INFORMATION

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.

## OTHER INFORMATION

### **COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES**

Reference is made to the announcements of the Company dated 21 April 2022, 25 May 2022 and 17 June 2022 (the "Announcements") in relation to, among others, the changes in independent non-executive Directors with effect from 18 June 2022. Following the changes of independent non-executive Directors stated in the Announcements, the number of independent non-executive Directors has fallen below the minimum number required under Rules 3.10 and 3.21 of the Listing Rules from 18 June 2022. In addition, the Company has failed to meet the requirements set out in rule 3.21 of the Listing Rules since the chairman of the Audit Committee has been vacant from 18 June 2022 and there is no member of the Audit Committee who has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Board had appointed Ms. Cheng Mun Wah as an independent non-executive Director and the chairman of the Audit Committee with effect from 1 July 2022 and the Company has complied with the above relevant requirements under the Listing Rules since 1 July 2022.

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 other Directors were unable to attend the annual general meeting of the Company that was held on 25 May 2022 as they were unable to travel to the Hong Kong due to the outbreak of the COVID-19 pandemic.

Save for the above, the Company has 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 during the six months ended 30 June 2022.

## OTHER INFORMATION

### 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. The Company was not aware of any non-compliance with the Model Code for the six months ended 30 June 2022.

By order of the Board

**Rui Xin Sheng**

*Chairman*

The PRC, 18 August 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, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin and Ms. Cheng Mun Wah are the independent non-executive Directors.*

## GLOSSARY

2021 Financial Statements	The Group's annual financial statements for the year ended 31 December 2021
Board	Board of Directors of the Company
CG Code	Code provisions of 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	PRC 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 of the Stock Exchange
Group	The Company and its subsidiaries
H Shares	H shares of the Company
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
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

\* For identification purpose only

## GLOSSARY

New HKFRSs	New standards, amendments and interpretations of Hong Kong Financial Reporting Standards
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