



CMBEC

INTERIM REPORT **2020**

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 2020 – Unaudited

		For the six months ended 30 June	
	Note	2020 Rmb'000	2019 Rmb'000
Revenue	5	219,947	297,891
Cost of sales		(169,975)	(203,036)
Gross profit		49,972	94,855
Other income	6	1,276	1,705
Other (losses)/gains, net	6	(52)	359
Selling expenses		(6,173)	(7,371)
Administrative expenses		(24,691)	(40,647)
Reversal of loss allowance on financial asset		97	215
Operating profit		20,429	49,116
Finance income/(costs), net	7	60	(338)
Profit before income tax	8	20,489	48,778
Income tax expense	9	(5,513)	(6,479)
Profit for the period		14,976	42,299
Other comprehensive income Item that may be reclassified to profit or loss – currency translation difference		2	2
Total comprehensive income for the period		14,978	42,301
Profit for the period attributable to:			
Equity holders of the Company		15,178	42,528
Non-controlling interests		(202)	(229)
		14,976	42,299
Total comprehensive income for the period attributable to:			
Equity holders of the Company		15,180	42,530
Non-controlling interests		(202)	(229)
		14,978	42,301
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	10	Rmb0.029	Rmb0.080

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020 – Unaudited

	Note	30 June 2020 Rmb'000	31 December 2019 Rmb'000
ASSETS			
Non-current assets			
Patents	12	533	575
Property, plant and equipment	13	277,084	270,297
Right-of-use assets	13	25,519	26,174
Construction in progress	13	107,123	109,232
Deferred income tax assets		19,541	20,261
Prepayments		–	493
		429,800	427,032
Current assets			
Inventories		108,725	106,183
Trade and bills receivables	14	82,390	64,131
Other receivables, deposits and prepayments		21,258	16,300
Income tax recoverable		–	2,246
Derivative financial instruments		–	43
Pledged bank balances	15	6,764	1,588
Cash and bank balances	15	107,718	120,216
		326,855	310,707
Total assets		756,655	737,739
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	52,970	52,970
Reserves	17	594,768	608,722
		647,738	661,692
Non-controlling interests		420	622
Total equity		648,158	662,314

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

		30 June	31 December
		2020	2019
	<i>Note</i>	Rmb'000	Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income		1,206	1,452
Lease liabilities		–	309
Deferred income tax liabilities		326	571
		1,532	2,332
Current liabilities			
Trade and bills payables	18	53,513	20,139
Contracted liabilities, other payables and accruals		20,432	31,799
Income tax payable		2,712	15
Lease liabilities		653	640
Dividend payable		29,134	–
Derivative financial instruments		21	–
Bank borrowings	19	500	20,500
		106,965	73,093
Total liabilities		108,497	75,425
Total equity and liabilities		756,655	737,739

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 – Unaudited

	Attributable to equity holders of the Company				Non-controlling Interest	Total
	Share capital	Other reserves	Retained Earnings	Total		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2019	52,970	190,254	386,649	629,873	994	630,867
Profit for the period	–	–	42,528	42,528	(229)	42,299
Other comprehensive income						
– currency translation difference – Group	–	2	–	2	–	2
Final dividend for the year ended 31 December 2018	–	–	(26,485)	(26,485)	–	(26,485)
Balance at 30 June 2019	52,970	190,256	402,692	645,918	765	646,683
Balance at 1 January 2020	52,970	190,259	418,463	661,692	622	662,314
Profit for the period	–	–	15,178	15,178	(202)	14,976
Other comprehensive income						
– currency translation difference – Group	–	2	–	2	–	2
Final dividend for the year ended 31 December 2019	–	–	(29,134)	(29,134)	–	(29,134)
Balance at 30 June 2020	52,970	190,261	404,507	647,738	420	648,158

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 – Unaudited

	For the six months ended 30 June	
	2020	2019
	Rmb'000	Rmb'000
Cash flows from operating activities		
Cash generated from operations	29,273	73,519
Interest paid	(100)	(551)
Income tax paid	(95)	(9,800)
Net cash generated from operating activities	29,078	63,168
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,179)	–
Proceeds from disposal of property, plant and equipment	93	21
Additions of construction in progress	(15,652)	(12,637)
Government grants received	–	352
Increase in pledged bank balances	(5,176)	(1,238)
Decrease in short-term bank deposits with maturities of over 3 months	500	550
Interest received	38	151
Investment income received	440	–
Net cash used in investing activities	(20,936)	(12,801)
Cash flows from financing activities		
Principal elements of lease payments	(311)	–
New bank borrowings	500	500
Repayment of bank borrowings	(20,500)	(38,873)
Net cash used in financing activities	(20,311)	(38,373)
Net (decrease)/increase in cash and cash equivalents	(12,169)	11,994
Effect of foreign exchange rate changes	171	2
Cash and cash equivalents at 1 January	119,316	81,398
Cash and cash equivalents at 30 June	107,318	93,394

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 the Growth Enterprise Market 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 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 2019 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 28 August 2020. 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 2019 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.

New and amended standards

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 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

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 2019.

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 interim condensed consolidated 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 2019.

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.

	For the six months ended 30 June	
	2020	2019
	Rmb'000	Rmb'000
Mainland China	124,848	147,912
Europe	40,534	65,639
Asia Pacific	37,249	58,517
America	10,351	18,882
Others	6,965	6,941
	219,947	297,891

Europe region mainly includes the Great British, Germany, Turkey, Spain and Italy whereas Asia Pacific region mainly includes Hong Kong, Indonesia, Australia, India, Thailand and Japan.

The analysis of sales revenue by geographic segment is based on the country in which the customer is located. No analysis of contribution by geographic segment has been presented as the ratio of profit to revenue achieved for individual segment is not substantially out of line with the Group's overall ratio of profit to revenue.

As at 30 June 2020, all of the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb410,259,000 (31 December 2019: Rmb406,771,000) are located in Mainland China.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	For the six months ended 30 June	
	2020	2019
	Rmb'000	Rmb'000
Other income		
Sales of scrap materials	–	35
Government grants	214	597
Others	1,062	1,073
	1,276	1,705
Other (losses)/gains, net		
Loss on disposal of property, plant and equipment	(1,258)	(18)
Net exchange gains	1,270	681
Fair value losses on derivative financial instruments	(64)	(304)
	(52)	359

7 FINANCE INCOME/(COSTS), NET

	For the six months ended 30 June	
	2020	2019
	Rmb'000	Rmb'000
Interest for lease liabilities	(21)	–
Interest on bank borrowings	(17)	(489)
	(38)	(489)
Interest income on bank deposits	98	151
Finance income/(costs), net	60	(338)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

	For the six months ended 30 June	
	2020	2019
	Rmb'000	Rmb'000
Amortisation of patents	42	42
Amortisation of rights of use assets	655	349
Depreciation	16,267	16,825

9 INCOME TAX EXPENSE

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 New and High Technology Enterprise, is entitled to a preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a tax rate of 25%.

The amount of income tax charged to consolidated statement of comprehensive income represents:

	For the six months ended 30 June	
	2020	2019
	Rmb'000	Rmb'000
Current income tax		
– Provision for CIT	5,053	9,205
– (Over)/under-provision in prior year	(15)	118
Deferred income tax	475	(2,844)
Income tax expense	5,513	6,479

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:

	For the six months ended 30 June	
	2020	2019
	Rmb'000	Rmb'000
Profit before income tax	20,489	48,778
Calculated at the tax rates applicable to results of the respective consolidated entities	1,788	5,915
Expenses not deductible for tax purposes	1	157
Tax losses for which no deferred income tax asset was recognised	278	313
Reversal of previously recognised tax losses	3,477	–
(Over)/under-provision in prior year	(15)	118
Others	(16)	(24)
Income tax expense	5,513	6,479

10 EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2020 is based on the profit attributable to the equity holders of the Company of approximately Rmb15,178,000 (for the six months ended 30 June 2019: Rmb42,528,000) and 529,700,000 shares (for the six months ended 30 June 2019: 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 2019: Nil).

11 DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2020 (Corresponding period in 2019: Nil).

12 PATENTS

	Rmb'000
Net book value as at 1 January 2020	575
Amortisation	(42)
Net book value as at 30 June 2020	533

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 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 2020	270,297	26,174	109,232
Transfer from construction in progress	22,745	–	(22,745)
Additions	1,672	–	20,636
Disposal	(1,363)	–	–
Depreciation/amortisation charge	(16,267)	(655)	–
Net book value as at 30 June 2020	277,084	25,519	107,123

14 TRADE AND BILLS RECEIVABLES

	30 June 2020 Rmb'000	31 December 2019 Rmb'000
Trade receivables (note (a))	63,200	48,584
Bills receivables (note (b))	19,190	15,547
	82,390	64,131

- (a) The credit terms of trade receivables range from 30 days to 120 days and the aging analysis which is based on the invoice date of the trade receivables is as follows:

	30 June 2020 Rmb'000	31 December 2019 Rmb'000
0 to 3 months	58,704	44,217
4 to 6 months	5,233	5,074
Over 6 months	–	183
	63,937	49,474
Less: Provision for impairment of trade receivables	(737)	(890)
	63,200	48,584

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	30 June 2020 Rmb'000	31 December 2019 Rmb'000
Short-term bank deposits with original maturities of over 3 months	400	900
Cash and cash equivalents	107,318	119,316
Cash and bank balances	107,718	120,216
Pledged bank balances	6,764	1,588
Total	114,482	121,804
	30 June 2020 Rmb'000	31 December 2019 Rmb'000
Denominated in:		
– Rmb	85,717	77,056
– USD	28,494	44,537
– Hong Kong Dollars	271	211
	114,482	121,804

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16 SHARE CAPITAL
Registered, issued and fully paid

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 30 June 2020 and 31 December 2019	529,700,000	52,970

As at 30 June 2020 and 31 December 2019, 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 for by, and trade in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17 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 2019	102,559	87,233	461	1	386,649	576,903
Profit for the period	-	-	-	-	42,528	42,528
Other comprehensive income						
– currency translation difference – Group	-	-	-	2	-	2
Final dividend for the year ended 31 December 2018	-	-	-	-	(26,485)	(26,485)
At 30 June 2019	102,559	87,233	461	3	402,692	592,948
	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Exchange reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2020	102,559	87,233	461	6	418,463	608,722
Profit for the period	-	-	-	-	15,178	15,178
Other comprehensive income						
– currency translation difference – Group	-	-	-	2	-	2
Final dividend for the year ended 31 December 2019	-	-	-	-	(29,134)	(29,134)
At 30 June 2020	102,559	87,233	461	8	404,507	594,768

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18 TRADE AND BILLS PAYABLES

	30 June	31 December
	2020	2019
	Rmb'000	Rmb'000
Trade payables	30,968	14,845
Bills payables	22,545	5,294
	53,513	20,139

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

	30 June	31 December
	2020	2019
	Rmb'000	Rmb'000
0 to 6 months	30,712	13,642
7 to 12 months	2	822
Over 12 months	254	381
	30,968	14,845

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19 BANK BORROWINGS

All the bank borrowings are denominated in RMB.

The carrying amounts of these bank borrowings approximate their fair values.

The outstanding bank borrowings as at 30 June 2020 were unsecured and were repayable within one year.

As at 30 June 2020, the average effective interest rate of the bank borrowings was approximately 4.35% (31 December 2019: 3.9%).

20 CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, the Group did not have any material contingent liabilities.

21 COMMITMENTS

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

	30 June 2020 Rmb'000	31 December 2019 Rmb'000
Authorised but not contracted for	5,469	6,652

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 2020 was approximately Rmb219,947,000, representing a decrease of approximately 26% as compared with that of approximately Rmb297,891,000 in the corresponding period in last year; the net profit attributable to equity holders of the Company was approximately Rmb15,178,000, representing a decrease of approximately 64% over the corresponding period in last year of Rmb42,528,000.

Due to the Coronavirus epidemic in the first half of 2020, the Group's Changzhou plant temporarily suspended production, which had a certain impacts on the production capacity and the supply of some products. In addition, the Coronavirus epidemic had weakened the domestic and foreign market demands, which had affected the market prices of the Group's main products, resulting in a decline in the gross profit margin, and a significant drop in various economic indicators compared with the corresponding period in last year.

Business Review

Demand had decrease in the Group's main export regions in Europe, the United States and other places due to the continued spread of the epidemic abroad, and some customers had postponed the execution of orders. The sales of tartaric acid products which account for a large export share have dropped significantly, and the selling price has also decreased. It affected the Group's performance in revenue and gross profit in the first half of the year. In response to this, the Group's sales team actively adjusted its sales strategy, maintained old customers, opened up new users, strengthened product quality and service awareness, strengthened the sales of other products such as malic acid in the domestic market, to minimized the negative impact of the Coronavirus epidemic on the Group's sales.

At the beginning of May this year, there were some planning adjustments along the Yangtze River by the Changzhou Binjiang Development Zone where the Changzhou factory of the Group is located, that the production of chemical products within one kilometer of the Yangtze River will be restricted. The first phase of the Group's Changzhou factory is located within one kilometer along the Yangtze River and is therefore affected. Through continuous communication between the Group and the government departments, the second phase of the Changzhou factory can be fully retained. The food additive production lines, environmental pollution discharge facilities, common facilities, and research and development centers in the first phase of the plant will be moved to the second phase, and the production capacity of major products of the Group will not be affected. From a long-term consideration, the Group has begun to look for a suitable new production base, hoping to turn difficulties into opportunities through this relocation, expand production scale, realise the industrialisation of scientific research results, and create a new and more competitive industrial chain economy.

BUSINESS AND FINANCIAL REVIEW

In order to coordinate with the latest planning adjustments of the Changzhou Binjiang Development Zone, the Group suspended the maleic anhydride production line in the first phase of the Changzhou factory in June this year, and the main raw material, maleic anhydride will all be purchased from third parties since then. In recent years, the maleic anhydride has sufficient supply in the market with stable price. Outsourcing of maleic anhydride will not have a material impact on the Group's production in short term. However, the Group is no longer able to obtain the by-product steam from the production of maleic anhydride, the cost of outsourcing energy will increase, and the Group will lose its energy efficiency advantage. In this regard, the Group will pay more attention to energy conservation and emission reduction, cost reduction and efficiency enhancement in the production management. In the production process, the Group will pay attention to details control, innovation and optimization, and the rational use of the distribution of different energy levels to increase the comprehensive utilization rate of energy, to minimize the negative impact of outsourcing energy costs on economic benefits.

Safety management has always been the top priority of the Group's production management. The Group continues to implement safety standardisation management, establishes and continuously improves safety information management platforms to implement safety diagnosis. For a long time, the Group has insisted on self-inspection and self-correction during the production process, implementing rectification and reform, and continuously strengthening safety production to reduce the occurrence of safety accidents.

The Group conscientiously follows the requirements in relation to environment protection imposed by different levels of government authorities and continues to increase investment in environmental protection in common facilities, equipment and facilities, and upgrade environmental protection equipment. In the first half of this year, the construction of the emergency rainwater pond in the Group's Changzhou factory was completed and put into use successively, it met the new requirements of environmental protection improvement, and also passed the test of this year's extraordinary flood season in the middle and lower reaches of the Yangtze River. It has ensured smooth production. The Group is committed to adopting new technologies and new methods to promote the reduction on emissions of wastes, and constantly improving its self-monitoring process to ensure that the 3 major types of pollutant discharges meet the emission standards.

Research and Development

1. New Vitamin PQQ Project

In the first half of 2020, the Group had accelerated the application and approval of using new vitamin PQQ as a new feed additive, researching on the medium trail production process and promoting PQQ's application. After the new vitamin expert review meeting organised by the Ministry of Agriculture in Beijing at the end of 2019, the research and development team of the Group had seriously make rectifications based on the opinions from the expert group, and strived to obtain approval for new feed additive as soon as possible.

BUSINESS AND FINANCIAL REVIEW

2. Pharmaceutical Adjuvant Project

To extend its product chain and enhance added value of products, the Group has carried out the development project of pharmaceutical adjuvant. The product breadth has extended from food additive to pharmaceutical adjuvant. The Group expanded the range of pharmaceutical adjuvant by completing the registration of L-potassium hydrogen tartrate as a pharmaceutical adjuvant in the first half of 2020. The Group will continue to promote the research and development of pharmaceutical adjuvants, increase product categories, increase sales efforts, and achieve economic benefits.

3. Active Pharmaceutical Ingredient Project

In the first half of 2020, the Group had continued to promote cooperation projects with relevant units on the research and development of extended product APIs. The API production line is basically completed. Application can be made to the National Drug Approval Center after obtaining the approval from the Provincial Food and Drug Administration on certain additional items. The registration threshold for API is high, the certification processing time is long and it requires a longer cultivation period to complete the industrialisation and large-scale production. The API project is an update and upgrade of the Group's existing products and an effective way to improve the added value and economic benefits of the products.

Changmao Biochemical Lianyungang Company Limited Project

Lianyungang Changmao suspended production in early 2018 due to the impact of the improvement requirements in the chemical park where it is located. In March 2019, a major explosion accident occurred in Xiangshui, Yancheng, Jiangsu, made the Jiangsu Province continued to increase safety management and control requirements, and delayed the resumption of production in various chemical parks in Lianyungang.

Since its establishment, Lianyungang Changmao has strictly complied with various national laws and regulations for project design, application and plant construction. In the initial stage of investment, the Group has built a large-scale wastewater treatment system and installed a regenerative thermal oxidizer (RTO) tail gas incinerator to meet environmental pollution discharge requirements. Since the suspension of production, Lianyungang Changmao's safety work has never slackened. The safety facilities in the factory area had been continued to be upgraded in accordance with the specifications in the documents issued by the provincial and municipal government. The rectification items proposed by the relevant government departments on the factory site inspection were all already implemented. Currently, the Group is actively communicating with the local government to resume production promptly.

BUSINESS AND FINANCIAL REVIEW

Outlook and Prospects

The Group adheres to the technology innovation for its development and promotes its work based on customer needs. As a manufacturing enterprise, the Group always adheres to the principle of quality first, customer first, and relies on the advantages of the existing product chains and economic benefits to maintain its leading position in the industry. In the future, the Group will continue to reduce costs and increase efficiency, expand the scale effect, continuously improve product quality and service, and firmly establish the image of Changmao brand, and will focus on the following aspects:

1. Accelerating transformation and upgrading and deploying development strategies

Considering the long-term development and the increase of economic scale, the Group is currently looking for a new production base that can achieve the sustainable development of the enterprise, and plans to relocate the maleic anhydride or other production lines to the new production base. The construction of the new production base will continue to extend to high-end food additives, pharmaceutical adjuvant, active pharmaceutical ingredient, new types of feed additives, new materials, etc., in accordance with local government policies, combined with the advantages of Changmao's existing product chains and the industrialisation of scientific research results, to create new economic benefits.

2. Accelerating technology innovation and promoting product upgrade

Technological innovation is the driving force for long-term development of enterprise. The Group will continue to increase investment in technological innovation and consolidate its existing resources and research team. By relying on technological advancement and speeding up the development of new feed additive vitamin PQQ, pharmaceutical adjuvant, APIs and other new products, it will cultivate new products which are safe, environmentally friendly and with strong competitiveness. Moreover, it will promote the upgrading and extension of existing product chains, and to seek new profit source of the Group.

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

With the laws and regulations related to safety and environmental protection becoming stricter, the elimination process of small and medium-sized enterprises that failed to meet the standards were accelerated, leaving the industry to further concentrated on strong enterprises that complied with the relevant requirements. The Group has strictly complied with various safety and environmental regulations and this has transformed into a competitive advantage. In terms of safety, the Group will continue to strengthen safety risk controls, improve the safety of the production environment, and eliminate safety accidents in the future. In terms of environmental protection, the Group promotes clean production and implement pollution prevention measures, endeavour to become an environment-friendly enterprise which save energy and reduce emissions of wastes and create 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 dedicated to develop and maintain end-customers and quality customers. By meeting customer needs through the improvement of product quality and services, enhancing the reputation and adding value to the Changmao brand, the overall competitive advantages are enhanced. In addition, the Group will also focus on the development of the international market, and enhance the international reputation and competitiveness of Changmao through cooperation with new international customers in new products and technologies.

5. Promoting Domestic A Shares Listing Project

In consideration of the long-term development of the Group, the Board has approved the proposal to apply to the relevant securities regulatory authorities for issuance of A shares of the Company on the Shanghai Stock Exchange or the Shenzhen Stock Exchange pursuant to the Company Law of the PRC, the Securities Law of the PRC and other relevant laws, regulations and regulatory documents. The Group submitted a counselling application to the Jiangsu Securities Regulatory Bureau and was accepted on 11 March this year. The Group is currently in the listing counseling period. As at the date of this report, the Company has not determined the plan of the proposed A Share offering and has not applied to any regulatory authorities in the PRC or anywhere else for the approval of the Proposed A Share Offering.

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

REVIEW OF FINANCIAL STATEMENTS

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 in conjunction with the Directors.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020.

SEGMENTAL INFORMATION

Part of the Group's products are exported to Western Europe, Australia, the United States and Japan. In terms of percentage, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 43% (for the six months ended 30 June 2019: 50%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 57% (for the six months ended 30 June 2019: 50%) of 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 arise. 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 2020, the Group had total outstanding bank borrowings of approximately Rmb500,000 (as at 31 December 2019: Rmb20,500,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2020 were unsecured. The Company expects to renew the bank borrowings in due time if necessary. The interest rate of the outstanding bank loans is at fixed rate with an average of approximately 4.35% per annum (31 December 2019: 3.9%).

Except for the bank borrowings disclosed above, as at 30 June 2020 and 31 December 2019, the Group did not have any committed borrowing facilities.

The Group generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Group is generally placed at banks to earn interest income.

As at 30 June 2020, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb5,469,000. These capital commitments are mainly used for the improvement of production lines. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets as at 30 June 2020. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 14.3% and 10.2% as at 30 June 2020 and 31 December 2019 respectively. As at 30 June 2020, the Group's cash and cash equivalent amounted to Rmb107,318,000 (31 December 2019: Rmb119,316,000). The Directors believe that the Group is in a healthy financial position.

BUSINESS AND FINANCIAL REVIEW

EMPLOYEES

Including the Directors, as at 30 June 2020, the Group employed a total of 448 employees (30 June 2019: 460 employees). Total amount of staff costs for the six months ended 30 June 2020 was approximately Rmb25,360,000 (for the six months ended 30 June 2019: Rmb37,424,000). The decrease in staff cost was mainly due to the decrease in bonus and over-time wages to 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 extraordinary and exceptional items and 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.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 30 June 2020 and 31 December 2019.

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 2020.

CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, 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 AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2020 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 and its 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, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

	Capacity	Approximate percentage shareholding		Approximate percentage shareholding		Approximate percentage shareholding	
		Number of Domestic Shares	in the Domestic Shares (Note (k))	Number of Foreign Shares	in the Foreign Shares (Note (l))	Number of H Shares	in the H Shares (Note (m))
<i>Director</i>							
Mr. Rui Xin Sheng	Beneficial owner, interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian (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%
Prof. Ouyang Ping Kai	(Note (f))	–	–	(Note (f))	(Note (f))	–	–

DISCLOSURE OF INTERESTS

Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares	Number of H Shares	Approximate percentage shareholding in the H Shares
		(Note (k))		(Note (l))		(Note (m))
<i>Supervisor</i>						
Ms. Zhou Rui Juan	(Note (g))	-	(Note (g))	(Note (g))	-	-
Mr. Lu A Xing	(Note (h))	-	(Note (h))	(Note (h))	-	-
Mr. Zhang Jun Peng	(Note (i))	-	(Note (i))	(Note (i))	-	-
Prof. Jiang Yao Zhong	(Note (j))	-	(Note (j))	(Note (j))	-	-

Notes:

- (a) The 135,000,000 Foreign Shares are held by HK Xinsheng Ltd and the 2,500,000 Domestic Shares are held by Changzhou Xinsheng. Mr. Rui is the beneficial owner of 3,768,000 H Shares and 52,000 H Shares are held by Ms. Leng Yi Xin, spouse of Mr. Rui. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.
- (b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Ms. Leng is also the beneficial owner of 52,000 H Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is personally interested in shares of the Company and also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (a) above.

DISCLOSURE OF INTERESTS

- (c) Mr. Pan is the registered holder and beneficial owner of 2,000 Class “B” shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares and 100,000 Class “B” shares. He is also the registered holder and beneficial owner of 200,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.
- (d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class “B” shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares and 100,000 Class “B” shares.
- (e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares. Mr. Yu’s wife, Ms. Lam Mau, is also the beneficial owner of 2,620,000 H shares.
- (f) Prof. Ouyang is the registered holder and beneficial owner of 4,000 Class “B” shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares and 100,000 Class “B” shares.
- (g) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.
- (h) Mr. Lu is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.
- (i) Mr. Zhang is the registered holder and beneficial owner of 800 Class “B” shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares and 100,000 Class “B” shares. Mr. Zhang is also the registered holder and beneficial owner of 120,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.
- (j) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class “B” shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares and 100,000 Class “B” shares.
- (k) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 30 June 2020.
- (l) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2020.
- (m) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2020.

DISCLOSURE OF INTERESTS

Save as disclosed above, as at 30 June 2020, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, and (d) the Hong Kong Companies Ordinance (Cap. 622) to be notified to the Company and the Stock Exchange.

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 2020, 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%	–	–

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))
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%	–	–
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%	–	–

DISCLOSURE OF INTERESTS

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 30 June 2020.
- (f) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2020.

Save as disclosed above, as at 30 June 2020, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the period was the Company or its subsidiaries a party to any arrangement (including share option scheme) to enable the Directors or Supervisors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

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 2020.

SHARE CAPITAL STRUCTURE

As at 30 June 2020, the category of the issued shares of the Company is as follows:

	No. of Shares
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

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 held on 25 May 2020 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 2020.

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 2020.

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

GLOSSARY

2019 Financial Statements	The Group's annual financial statements for the year ended 31 December 2019
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
CIT	Company Income Tax
Director(s)	Director(s) of the Company
Domestic Shares	Domestic shares of the Company
Foreign Shares	Foreign shares of the Company
GEM	Growth Enterprise Market of the Exchange
Group	The Company and its subsidiaries
H Shares	H shares of the Company
HK Biochem Ltd	Hong Kong Bio-chemical Advanced Technology Investment Company Limited
HKFRSs	Hong Kong Financial Reporting Standards
HK Xinsheng Ltd	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 of Hong Kong Limited

GLOSSARY

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
PQQ	Pyrrroquinoline quinone
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