CMBEC

ANNUAL 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)

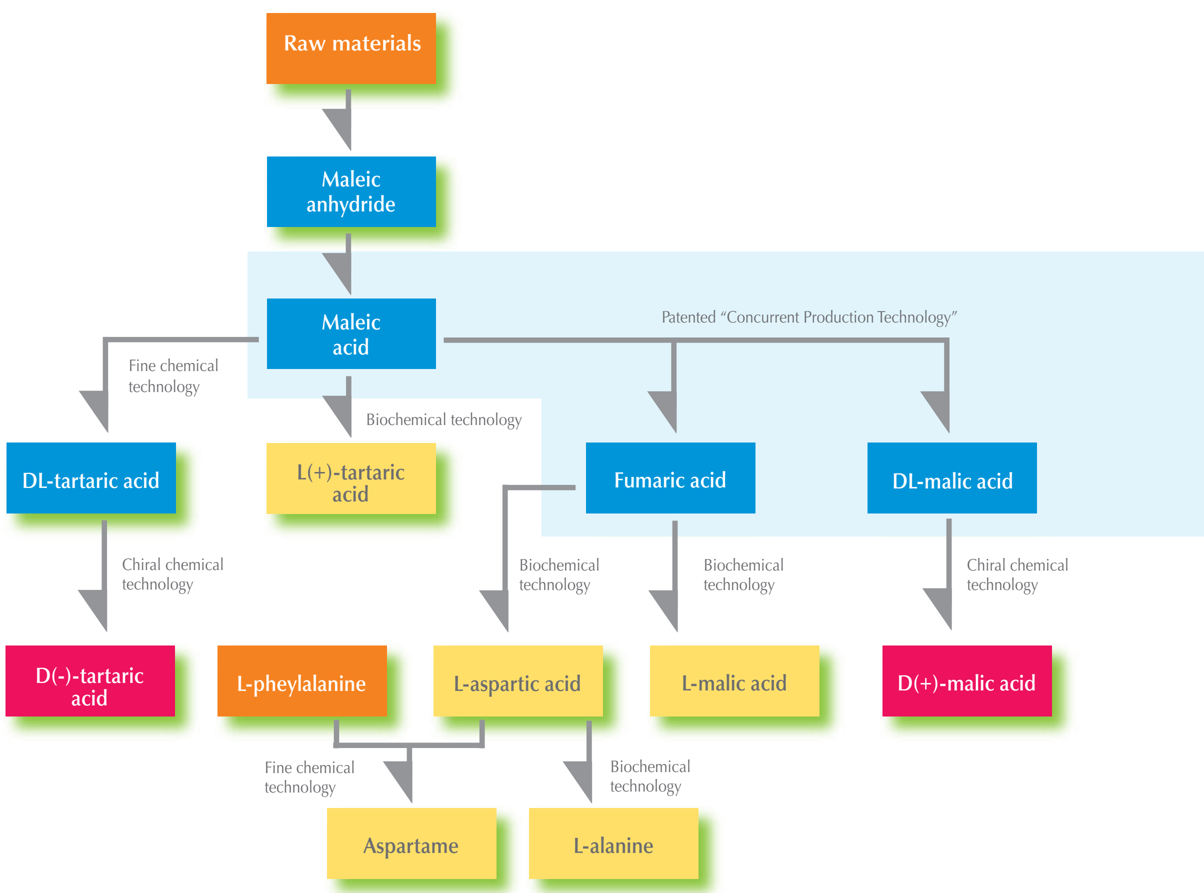
CONTENTS

CORPORATE PROFILE

Established in 1992, Changmao Biochemical Engineering Company Limited is a leading organic acid producer in the PRC. Changmao produces organic acids products for sales to food additive, chemical and pharmaceutical industries. Changmao's products conform to the highest international standards and are sold domestically and exported to overseas such as Europe, Asia Pacific and America.

The core products of the Group are organic acids and their derivatives with four carbons in their structures including fumaric acid, maleic acid, L-malic acid, D-malic acid, DL-malic acid, L(+)-tartaric acid, D(-)-tartaric acid, DL-tartaric acid, L-aspartic acid and aspartame. These products are mainly used as food additives or medical inter-mediaries. The Group's major products are produced along vertical production chains. The major advantage of the production chains is that each of the products in the production chains is also a finished product for sales to customers.

PRODUCTION FLOWCHART OF CHANGMAO'S PRODUCTS

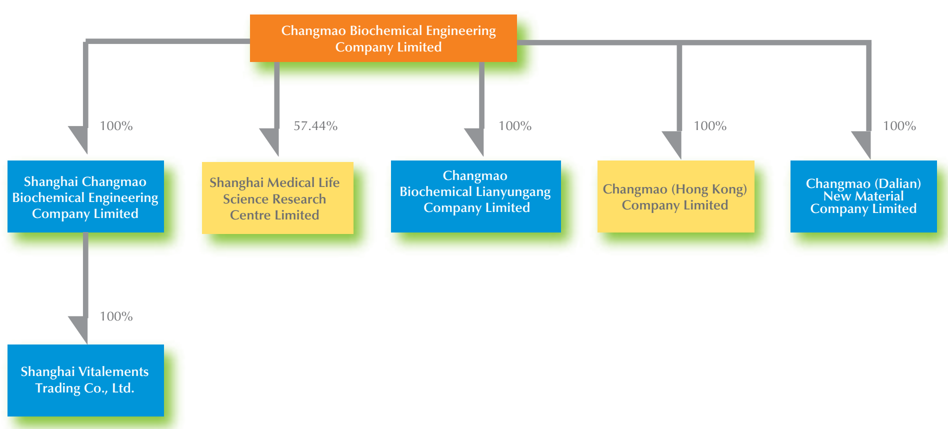


CORPORATE PROFILE

The Group persists in pursuing advanced technologies as its production direction and focuses in investment in new technology research and development which combines the production process with theoretical concepts. The Group received numerous awards in relation to production technologies including First Prize in Technological Achievement (技術發明一等獎) and Second Prize in Scientific Improvement (科技進步二等獎) in The Petroleum Chemical Industry in China (中國石油化工行業). The Group attained the ISO9001 Quality System Standards, Environmental Management System ISO14000 and FSSC22000 Food Safety System Certification. Its core product, L(+)-tartaric acid obtained the Food and Drug Administration (FDA) certificate. The Group's logo was also recognised as a Famous Trademark in the PRC (中國馳名商標).

The Group's major competitive edge is its delicate and advanced production system. Changmao successfully applied the theoretical concepts of enzyme technology and chirotechnology in its highly efficient and cost effective production process. The Group has two research and development centres, Chirotechnology Centre which is based in Changzhou, and the Shanghai Medical Life Science Research Centre Limited to research on new products and new production technologies. The Group will continue the production of food additives as its core business and develop new nutraceutical products to extend its production chain. The Group believes its strong capability in research and development would enable the Group to continue to grow.

GROUP STRUCTURE



CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Rui Xin Sheng *(Chairman)*
Mr. Pan Chun *(Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS
Mr. Zeng Xian Biao
Mr. Yu Xiao Ping
Ms. Leng Yi Xin
Mr. Wang Jian Ping

INDEPENDENT NON-EXECUTIVE DIRECTORS
Prof. Ouyang Ping Kai
Ms. Wei Xin
Ms. Au Fung Lan

SUPERVISOR NOMINATED BY SHAREHOLDERS
Ms. Zhou Rui Juan

SUPERVISOR NOMINATED BY EMPLOYEES
Mr. Zhang Jun Peng

INDEPENDENT SUPERVISOR NOMINATED BY SHAREHOLDERS
Mr. Zhou Zhi Wei

COMPANY SECRETARY
Ms. Wan, Pui Ling Alice (CPA)

AUTHORISED REPRESENTATIVES
Mr. Rui Xin Sheng
Ms. Wan, Pui Ling Alice (CPA)

COMPLIANCE OFFICER
Mr. Rui Xin Sheng

AUDIT COMMITTEE
Prof. Ouyang Ping Kai
Ms. Wei Xin*
Ms. Au Fung Lan

REMUNERATION COMMITTEE
Mr. Rui Xin Sheng*
Prof. Ouyang Ping Kai
Ms. Wei Xin
Ms. Au Fung Lan

NOMINATION COMMITTEE
Mr. Rui Xin Sheng
Prof. Ouyang Ping Kai*
Ms. Wei Xin
Ms. Au Fung Lan

LEGAL ADDRESS
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New North Zone
Changzhou City
Jiangsu Province, 213034
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 54, 5/F, New Henry House
10 Ice House Street
Central
Hong Kong

PRINCIPAL BANKERS
Bank of China
Changzhou Branch, the PRC
Industrial and Commercial Bank of China
Changzhou Branch, the PRC

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants and Registered PIE Auditor

COMPANY'S WEBSITE ADDRESS
www.cmbec.com.hk

STOCK CODE
954

* *chairman of the relevant committee*

CHAIRMAN'S STATEMENT

To the shareholders,

Results for the Year

The Group's sales revenue for the year ended 31 December 2020 was approximately RMB444,106,000, which represented a decrease of approximately 10% as compared with that of RMB494,580,000 in last year; the net profit attributable to equity holders of the Company was approximately RMB16,827,000. This was a decrease of approximately 71% over that of RMB58,299,000 in last year.

In 2020, the COVID-19 pandemic burst out on a global scale and continued to ferment, which had a negative impact on the Group's export sales and new business development to varying degrees and caused the decline in sales. The government of Changzhou Binjiang Development Zone has made new planning adjustments to enterprises that located within one kilometer along the Yangtze River. Maleic anhydride, the source of the Group's product chain, is also on the affected list. After production of maleic anhydride has been ceased, the Group has to purchase raw materials for all major products from third parties. In the second half of 2020, the price of maleic anhydride continued to rise, resulting in a substantial increase in the Group's production costs. In addition, the Group is no longer able to benefit from recycling the steam generated during the maleic anhydride production process which further increased the production cost and had a negative impact on the Group's annual performance. The Company's wholly-owned subsidiary, Changmao Biochemical Lianyungang Company Limited, was not able to resume production in 2020. Lianyungang Changmao's continuous operating losses and impairment of non-financial assets due to the relocation of chemical production facilities also severely affected the performance of the Group in 2020.

Business Review

Starting from 2020, the outbreak of COVID-19 pandemic became severe, and the prevention and control level of the epidemic in the PRC has been continuously improved. The impose of short-term production suspension measures by the government greatly affected the Group's production and sales. Due to the implementation of the Yangtze River Protection Policy, the Group has signed a closure and relocation agreement with the government representative of the Changzhou Binjiang District in September 2020. According to the requirements of the agreement, all the plants and production equipment on the land of the Changzhou Plant 1 were dismantled. Since maleic anhydride can no longer be produced in Changzhou, the Group planed to relocate the related equipment to the upcoming new production plant in Dalian. In addition, the food additive production lines, the research and development centre and office building of the Changzhou Plant 1 will be moved to the Changzhou Plant 2. The total amount of government compensation to the Group for the closure and relocation of the Changzhou Plant 1 is approximately RMB205,266,000. As at 31 December 2020, the Group has received approximately RMB88,261,000 compensation and recorded it as a government compensation in relation to relocation in other payables. The relocation of the Group's main food additives production lines has been substantially completed in early 2021, and its future production capacity will not be affected.

CHAIRMAN'S STATEMENT

Due to the planning adjustment and relocation of enterprises within one kilometer along the Yangtze River, the production of maleic anhydride, the source of the Group's product chain, has been ceased in June 2020 and the Group has to purchase raw materials of all major products from third parties. In the second half of 2020, the price of maleic anhydride continued to rise, resulting in a substantial increase in the Group's production costs. After the production of maleic anhydride has been ceased, the Group is no longer able to benefit from recycling the steam generated during the maleic anhydride production process which further increased the production costs. In this regard, the Group imposed detailed controls through innovation and optimization in the production process, and rationally used different energy levels to improve the comprehensive utilisation of energy, strengthen energy saving and reduced emission to reduce costs and increase efficiency, and minimize the negative impact on economic benefits.

In terms of sales, due to the continued outbreak of the epidemic abroad, there was a decline in demand in the Group's main export regions, such as Europe and the United States. The sales volume and prices of tartaric acid, which accounted for a relatively large portion of the Group's export, had dropped significantly. At the same time, the COVID-19 pandemic has caused a huge impact on the global transportation. Shipping companies have been forced to reduce space or cancel routes, resulting in a substantial increase in shipping costs for exports to the United States, Europe and Australia. The shipping costs were three to four times higher than that in previous years. Sales expenses increased substantially due to the increase in freight charges on the CIF sales orders. The Group's performance in 2020 has experienced a significant decline as a result of these factors.

Changmao Biochemical Lianyungang Company Limited, the wholly-owned subsidiary of the Group, was not able to resume production since the suspension in early 2018. After reviewing the business development plan of Lianyungang Changmao and in accordance with the policies of the local government, the management of the Group decided to relocate the maleic anhydride production lines and convert it from a chemical enterprise into a light industrial enterprise. The management conducted an impairment assessment on the production facilities to be dismantled and relocated. The impairment loss of non-financial assets of Lianyungang Changmao in 2020 was RMB12,869,000, which caused a significant negative impact on the Group's net profit in 2020.

Safety management has always been the top priority of the Group's production management. The Group continued to implement safety management standardisation, established and continued to improve the safety production information management platform and focused on the implementation of safety diagnostics. For a long time, the Group insisted on self-improvement during the production process, implemented rectification, strengthened safety precautions and reduced accidents.

CHAIRMAN'S STATEMENT

In terms of environmental protection, the Group conscientiously followed the requirements imposed by the government at all levels, upgraded environmental protection equipment and facilities, and improved the on-site production environment. In 2020, the Group installed electronic monitoring systems on the environmental protection production facilities and pollution control facilities in each production line to monitor the normal operation of environmental protection facilities. The Group will continue to increase investment in environmental protection, adopt new technologies and new methods to promote the emission reduction of pollutants, and continuously improve its self-monitoring system to ensure the 3 major types of pollutant discharge standards is meet.

RESEARCH AND DEVELOPMENT

1. **New Vitamin PQQ Project**

   In 2020, the Group accelerated the application for approval of using the new vitamin PQQ as a new feed additive, carried out the medium trail production research and promoted PQQ's application. Following the meeting with the Ministry of Agriculture in Beijing at the end of 2019, the Group submitted the supplementary materials based on the opinions of the expert group. At the end of November 2020, the Group participated in the second review meeting with the Ministry of Agriculture with a satisfactory result. The research and development team of the Group will continue to actively promote the approval of new vitamin PQQ as a new feed additive and strive to obtain the approval as soon as possible.

2. **Pharmaceutical Adjuvant Project**

   To extend its production chain and enhance added value of products, the Group carried out the development project of pharmaceutical adjuvant to extend the product breadth from food additives to pharmaceutical adjuvants. In 2020, the Group expanded the types of pharmaceutical adjuvants by completed the application of L-potassium hydrogen tartrate and L-tartaric acid as pharmaceutical adjuvants. 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 2020, the Group actively promoted collaboration projects with relevant entities on the development of active pharmaceutical ingredients as an extension of the Group's product chains. At present, the active pharmaceutical ingredient production line has been completed. Application for approval will be made to the National Drug Approval Center after the approval has been obtained from the Provincial Food and Drug Administration. The certification threshold for active pharmaceutical ingredients is high and the process time is long, therefore a long incubation period is required to achieve industrialization and large-scale production. The active pharmaceutical ingredient project is an update and upgrade of the Group's existing products, and is an effective way to increase the added value and economic benefits of the products.

CHAIRMAN'S STATEMENT

MAJOR PROJECTS

1. **Construction Project of Changmao Biochemical Lianyungang Company Limited**

   Since its establishment, Lianyungang Changmao has strictly complied with various national laws and regulations for project design, approval application and plant construction. Since the suspension of production in early 2018, Lianyungang Changmao has never slackened its safety and environmental protection work. It has continuously upgraded the safety facilities and wastewater treatment system in the plant according to the specifications and requirements of the provincial and municipal governments at all levels. The rectifications proposed by the relevant government departments during the site inspection have all been put in place.

   At present, the Group is actively communicating with the local government for production resumption and decide to relocate the maleic anhydride production line and convert the Lianyungang plant from a chemical enterprise into a light industrial enterprise. It has started to relocate maleic anhydride and other chemical production lines to the upcoming new production plant in Dalian. Only light industrial production lines for food additives will be retained in the Lianyungang plant. Lianyungang Changmao is actively cooperating with the government in the inspection and the approving process, and strives to resume production in July 2021.

2. **Construction Project of Changmao (Dalian) New Material Company Limited**

   After the on-site inspections and having comprehensive assessments for half year, the new investment of the Group finally landed on Changxingdao, Dalian City, Liaoning Province. On 2 December 2020, the Group signed an investment agreement with the Dalian Changxingdao Economic Zone Management Committee, and plans to set up a wholly-owned subsidiary, Changmao (Dalian) New Material Company Limited in Changxingdao, Dalian City which will bid for a parcel of land located at Changxingdao for industrial use through the "bid, auction and listing" procedures. The new subsidiary will mainly engage in the development and production of maleic anhydride and its derivatives. The Group plans to transfer some of the maleic anhydride equipment and facilities dismantled from the Lianyungang plant and the Changzhou plant to the upcoming new production plant in Changxingdao, Dalian City, for the construction of a new maleic anhydride production line. The Changxingdao investment project also received strong support from the local management committee, which promised to provide the Group with support for project application approval and various infrastructure construction. The members of the Dalian project team have been stationed in Changxingdao and have started preparations for the establishment of the new company, the design of a new plant, and the start of construction.

CHAIRMAN'S STATEMENT

Changmao (Dalian) New Material Company Limited is the new focus of the Group's development and construction in the next few years. Changxingdao of Dalian City has a good investment environment 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 products in Dalian. The construction of the new plant in Changxingdao, Dalian City aims to improve the Group's product chain, further enhance the Group's advantages in large-scale production, accelerate the industrialisation process of the Group's research and development projects, and promote the upgrading of the existing product chain.

OUTLOOK AND PROSPECTS

The Group adheres to the technology innovation for its development and promotes its work according to customer needs. The Group always adheres to the principle of quality first, customer first, even in the new situation. The Group always focus on economic benefits both internally and externally, and promote the Group's own development to maintain its leading position in the industry. In the future, 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 base**

   After considering the long-term development direction and increasing the economic scale to realise the sustainable development of the enterprise, the Group plans to relocate the production line of maleic anhydride and some other products to the new upcoming production plant in Changxingdao, Dalian City. The Changxingdao manufacturing plant will be constructed according to the supporting policies of the local government. Combining the advantages of existing product chain of Changmao and the industrialisation process of scientific research results, the Group will continue to extend its product range to high-end food additives, pharmaceutical adjuvant, active pharmaceutical ingredients, new feed additives and new materials, etc. to create new economic benefits.

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

   Technological innovation is the driving force for long-term development of enterprises. 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 vitamin PQQ, pharmaceutical adjuvant, active pharmaceutical ingredients and other new products, 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.

CHAIRMAN'S STATEMENT

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 those 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 it into a competitive advantage. In terms of safety, the Group will continue to strengthen safety control, pay attention to safety risks, improve the safety of the production environment, and eliminate safety accidents in the future. In terms of environmental protection, the Group will continue to promote clean production and implement pollution prevention, endeavor to become an environment-friendly enterprise which save energy and reduce emissions of wastes which helps to reduce the impact of policy risks on production and operation, and create a resource-saving and environment-friendly enterprise to pave the way for the Group's sustainable development.

4. **Focusing on market expansion and develop markets of high-end customers**
The Group's sales team is customer-oriented and is dedicated to develop and maintain end-customers and superior customers. 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 competitiveness of Changmao through cooperation 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 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. On 11 March 2020, the Group submitted a counseling application to the Jiangsu Securities Regulatory Bureau and was accepted. 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.

CHAIRMAN'S STATEMENT

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.

The Group's long-term and stable development relies on the strong support from all shareholders. I would like to express my most sincere gratitude to the investors on behalf of the Board.

Rui Xin Sheng
Chairman

The PRC, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF KEY PERFORMANCE INDICATORS

Revenue (2020: RMB444,106,000; 2019: RMB494,580,000) **and gross profit margin** (2020: 23.2%; 2019: 27.3%)

Revenue and gross profit margin decreased mainly because (i) there was a weakened demand from the customers and the decrease in average selling prices of the Group's products as a result of the outbreak of the COVID-19 pandemic in early 2020; and (ii) the Company has to close and relocate certain production lines in its Changzhou production plant in the affected area to cope with the changes in government policies. The Group ceased the production of maleic anhydride in June 2020. Before that, the Group produced part of the maleic anhydride used as raw materials for other products in the Changzhou Plant 1. After production of maleic anhydride has been ceased, the Group has to purchase all the maleic anhydride from third parties. Starting in the fourth quarter of 2020, the price of maleic anhydride has increased significantly; in addition, the Group is no longer able to benefit from recycling the steam generated during the maleic anhydride production process. These factors had increased the production costs of the Group.

The Group plans to construct a new production plant in Changxingdao, Dalian City, Liaoning Province, the PRC and relocate the maleic anhydride production lines of the Changzhou production plant and Lianyungang production plant to the new production plant in Changxingdao, Dalian City. The Company has entered into an investment agreement with 大連長興島經濟區管理委員會 (Dalian Changxingdao Economic Zone Management Committee*) ("**Changxingdao Committee**") on 2 December 2020 and agreed to construct a manufacturing plant for the production of products including maleic anhydride, etc. in Changxingdao, Dalian City, and to bid a parcel of land at Changxingdao, Dalian City through the "bid, auction and listing" procedures; and the Changxingdao Committee agreed to provide infrastructure construction subsidies to the Company in relation to the construction of the manufacturing plant. The Board expected that the production of maleic anhydride of the Group will return to normal after the Dalian production plant is put into operation.

Selling and administrative expenses (2020: RMB84,820,000; 2019: RMB75,025,000)

Selling and administrative expenses increased as compared to that of last year was mainly because a provision for impairment of the non-financial assets of Lianyungang production plant of RMB 12,869,000 has been made (2019: Nil). In order to comply with the government policies of Lianyungang and the long-term development plan of the Group, the Group will relocate the maleic anhydride production line in Lianyungang to the upcoming new factory in Dalian. Due to this operational adjustment, certain construction in progress and properties, plant and equipment can no longer be used, therefore the Group needs to make a provision for impairment in this regard.

Excluding the above impairment loss, the decrease in sales and administrative expenses compared to that of last year was mainly due to a provision for profit-based bonuses of approximately RMB3,146,000 for the year ended 31 December 2019. Due to the decrease in net profit, no profit-related bonus was provided for the year ended 31 December 2020.

Other losses, net (2020: RMB4,075,000; 2019: RMB1,066,000)

The other losses, net for the year ended 31 December 2020 increased as compared to that of last year was mainly because of the decline in the average U.S. dollar exchange rate resulted in an exchange loss of RMB3,663,000 (2019: exchange gain of RMB1,035,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Finance income/(costs), net (2020: net income of RMB153,000; 2019: net costs of RMB257,000)
The decrease in average bank loans compared to that of last year has reduced the interest expenses and resulted in a net finance income.

Income tax expense (2020: RMB409,000; 2019: RMB4,626,000)
The Company, being qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15% for the year ended 31 December 2020. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. Tax credit resulted for the year ended 31 December 2020 mainly because of the recognition of deferred tax assets on tax loss of a subsidiary. For details of the difference on the tax on the Group's profit before income tax and the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, please refer to Note 9 to the consolidated financial statements. As at 31 December 2020, part of Lianyungang Changmao's deferred tax assets recognised for tax losses carried forward has been reversed as they were not probable to be realised. The amount reversed was RMB3,477,000 (2019: RMB320,000).

Profit for the year attributable to the equity holders of the Company
For the year ended 31 December 2020, the Group recorded a profit attributable to equity holders of the Company of approximately RMB16,827,000 (2019: RMB58,299,000), which was significantly reduced compared with that of last year. The decrease in net profit was mainly due to the decrease in revenue and gross profit margin and the Group has to make a provision for the impairment of the construction in progress and property, machinery and equipment of the Lianyungang production plant.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENTAL INFORMATION

Some of the Group's products are exported to Europe, Asia Pacific and America. As expressed as a percentage of revenue, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 36% (2019: 47%) of the Group's revenue while domestic sales in the PRC accounted for approximately 64% (2019: 53%) of the Group's revenue.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. The Group used forward foreign exchange contracts to partially hedge the USD exposures during the year. As at 31 December 2020, the Group had outstanding forward foreign exchange contracts with fair value amounted to RMB123,000 (2019: RMB43,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had total outstanding bank borrowings of RMB500,000 (2019: RMB20,500,000). The outstanding bank borrowing as at 31 December 2020 was unsecured and was repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The average effective interest rate of all the outstanding bank loans as at 31 December 2020 was approximately 4.4% (2019: 3.9%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2020 and 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 or invested in wealth management products of low risks with banks.

As at 31 December 2020, the Group had capital commitments for property, plant and equipment amounting to approximately RMB6,547,000 (2019: RMB6,652,000). These capital commitments are mainly used for the modification of production lines. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2020. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 23.3% (2019: 10.2%) as at 31 December 2020. The increase in liabilities-to-assets ratio is mainly due to the proceed received from the government compensation in relation to relocation. As at 31 December 2020, the Group's cash and cash equivalents amounted to RMB133,693,000 (2019: RMB119,316,000). The Directors believe that the Group is in a healthy financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2020, the Group employed a total of 431 employees (2019: 461 employees). Employees are remunerated in accordance with the nature of the job and also on individual merit. Total amount of staff costs for the year ended 31 December 2020 was approximately RMB55,946,000 (2019: RMB65,477,000). The incentive bonus for the directors and staff of the Group was RMB Nil (2019: RMB3,146,000) for the year ended 31 December 2020. The cost of staff wages, benefits and retirement decrease mainly because the average number of employees was lower than that of last year.

Under the staff incentive scheme for each of the three years ended 31 December 2022, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before payment of the bonuses referred to below) amount to not less than RMB40 million (the "Target Profit"):

(a) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;

(b) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable to the general manager and all the Directors (other than Mr. Rui Xin Sheng and the independent non-executive Directors) for the time being of the Company as a bonus for the relevant year; and

(c) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the Directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

SIGNIFICANT INVESTMENTS

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

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

There are no material acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2020.

CONTINGENT LIABILITIES

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

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Rui Xin Sheng (芮新生), aged 64, is the chairman of the Board, an executive Director and the compliance officer of the Company. He is a researcher and a senior engineer of the Company. He was one of the founders of the Company in December 1992. He is also the director of Shanghai Life Sci, director and authorised representative of Shanghai Changmao and the director of Changmao (Hong Kong) Company Limited. Mr. Rui graduated from Jiangsu Institute of Technology (江蘇化工學院) with a bachelor degree in organic synthesis in 1982. He obtained an executive master of business administration in the Nanjing University (南京大學) in 2005. He is the vice chairman of the Committee of Biochemical Engineering of the Chemical Industry and Engineering Society of China (中國化工學會生物化工專業委員會), the deputy managing director of the Association of Biochemistry of China (中國生物化工協會), the deputy managing director of Jiangsu Commission of Biotechnology (江蘇省生物技術協會) and a part-time professor at the Nanjing University of Technology (南京工業大學). Owing to his significant achievement in the field of biochemistry, Mr. Rui received numerous awards including the First Class Award of Scientific Development and Technology Improvement in Changzhou (常州市技術改造一等獎) and the Second Prize of Changzhou City Scientific and Technological Achievement (常州市科技進步二等獎) in 1997. The Concurrent Production Technology invented by Mr. Rui, Ms. Leng Yi Xin and Mr. Jiang Jun Jie obtained patent in the PRC in 1998. Other awards obtained by Mr. Rui include the Fourth Annual Excellent Scientists of Changzhou City (常州市第四屆傑出科技人員) in 1999, DuPont Innovation Award and Youth Expert with Excellent Contribution in Jiangsu Province (江蘇省有突出貢獻的中青年專家) in 2000, the First Class Award of State Technological Achievement (國家科技進步一等獎) in 2001, Innovative Entrepreneur of Jiangsu Province (江蘇省創新創業人才獎), the Second Class Award of Petrol Chemical Industry Technological Achievement in the PRC (中國石油化學工業行業科技進步二等獎) in 2003 and the First Class Award of Jiangsu Province Technological Achievement (江蘇省科學技術進步一等獎) in 2005. He is currently a director of Shuguang Factory. Mr. Rui is the spouse of Ms. Leng Yi Xin (a non-executive Director).

Mr. Pan Chun (潘春), aged 51, is an executive Director and the general manager (chief executive officer) of the Company. He is also the director and authorised representative of Lianyungang Changmao and Changmao (Dalian) New Material Company Limited. He obtained a bachelor degree in industrial analysis from the department of applied chemistry of the Nanjing University of Technology (南京工業大學) in 1993. Mr. Pan is recognised as a senior engineer by the Jiangsu Provincial Personnel Department (江蘇省人事廳). Mr. Pan is responsible for the management of production, safety, environment protection, equipment management, purchasing and domestic sales of the Company. Mr. Pan received the First Class Award of Changzhou Technological Achievement (常州市技術改造一等獎) in 1997. Mr. Pan received the First Class Award of Technological Invention (技術發明一等獎) from China Petroleum and Chemical Industry Association (中國石油和化學工業協會) in 2003, May 1st Labour Medal of Changzhou City (常州市五一勞動獎章) in 2011 and Model Worker of China Light Industry (中國輕工行業勞動模範) in 2012. Mr. Pan joined the Company in August 1993.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Non-executive Directors

Mr. Zeng Xian Biao (曾憲彪), aged 78, is a non-executive Director. Mr. Zeng graduated from Nanjing Petrochemistry School (南京石油工業學校) in 1961. He has extensive experience engaging in research, development and production management in the field of chemistry. Mr. Zeng received various awards including the Golden Prize of Technological Improvement-Maleic Anhydride 2000t/a (順酐2000t/a技改省金牛獎) from the State Economic Commission (國家經濟委員會), Maleic Anhydride 3000t/a Technology Improvement (3000t/a順酐重點技改先進個人), Municipal Contribution Award for the Ninth Five-year Period and the Millennium (市九五跨世紀奉獻獎) and the Second Annual State Award for Technological Development (省第二次合理化建議科技成果獎). Mr. Zeng joined the Company in December 1992.

Mr. Yu Xiao Ping (虞小平), aged 65, is a non-executive Director. Mr. Yu graduated from East China Normal University (華東師範大學) with a bachelor degree in English in 1977. He holds directorships in various pharmaceutical and investment companies in the PRC. Besides his experience in trading of pharmaceutical products, he has experience in promoting and facilitating the inspection and approval from the U.S. Food and Drug Administration for various PRC pharmaceutical products, of which he became the executive agent for these pharmaceutical products and has established a trading business in the United States of America. Mr. Yu joined the Company in December 1992.

Ms. Leng Yi Xin (冷一欣), aged 59, is a non-executive Director. She is also the director of Shanghai Life Sci and general manager of Shanghai Changmao. She graduated from the Jiangsu Institute of Technology (江蘇化工學院) with a bachelor degree in organic synthesis in 1982 and subsequently obtained a master degree in chemical engineering from Nanjing University of Technology (南京工業大學) in 1996 and obtained a doctorate in bio-chemical engineering from Nanjing University of Technology in 2005. She is also a professor of the department of chemical engineering of the School of Petrochemical Engineering in Changzhou University (常州大學石油化工學院). Ms. Leng has participated in various research projects and published more than 50 theses. As mentioned above, Ms. Leng is one of the inventors of the Concurrent Production Technology. She obtained the Second Class Award of Technological Invention (技術發明二等獎) from China Petroleum and Chemical Industry Association (中國石油和化學工業協會) in 2004. She also obtained the First Class Award of Jiangsu Province Technological Achievement (江蘇省科學技術進步一等獎) in 2005 and the Third Class Award of Jiangsu Province Technological Achievement (江蘇省科學技術進步三等獎) in 2010. She is the spouse of Mr. Rui (the chairman of the Board and an executive Director). She joined the Company in June 2001.

Mr. Wang Jian Ping (王建平), aged 59, is a non-executive Director. He graduated from Shanghai Jiao Tong University (上海交通大學) with a bachelor of engineering degree in 1983 and subsequently obtained a master of engineering degree from Shanghai Jiao Tong University (上海交通大學) in 1986. Mr. Wang is currently a general manager of Shanghai Technology Entrepreneur Investment Company Limited (上海科技創業投資股份有限公司). Mr. Wang has been a director of the 704 Research Centre of the Seventh Institute of the China Shipping Company (中國船舶總公司七院704研究所) and a visiting scholar of the department of energy in the University of Leeds. Mr. Wang was first appointed as a non-executive Director in June 2007.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Independent non-executive Directors

Prof. Ouyang Ping Kai (歐陽平凱), aged 75, is an independent non-executive Director. He graduated from Tsinghua University (清華大學) with a bachelor degree in 1968 and subsequently obtained a master degree in chemistry research from the same university in 1981. From 1985 to 1987, he was a visiting scholar of the University of Waterloo, Ontario, Canada. Prof. Ouyang is an academician of the Chinese Academy of Engineering (中國工程院). He was the President of Nanjing University of Technology (南京工業大學) and instructed dozens of master and doctorate students. He also holds memberships and positions in various science and academic institutions. Prof. Ouyang obtained various awards including the First Prize of the State Technological Achievement (國家科技進一等獎) in 2001, the Technology Achievement Award from the Ho Leung Ho Lee Foundation, Dupont Innovation Award and several other awards of national level. Prof. Ouyang published more than 180 theses and two publications. Prof. Ouyang was first appointed as an independent non-executive Director in June 2001.

Ms. Wei Xin (衛新), aged 53, is an independent non-executive Director. Ms. Wei is a certified public accountant in the PRC. She graduated from Soochow University (蘇州大學) in accountancy in 1989. She has over fifteen years of experience in auditing and accounting. Ms. Wei is currently the partner of a certified public accounting firm in the PRC. Ms. Wei was first appointed as an independent non-executive Director in September 2004.

Ms. Au Fung Lan (歐鳳蘭), aged 46, is an independent non-executive Director. Ms. Au has over 12 years of experience in investment banking in Hong Kong. Ms. Au holds a bachelor degree of commerce from the University of Toronto in 1997. Ms. Au is currently the executive director of an investment bank in Hong Kong. Ms. Au was first appointed as an independent non-executive Director in June 2013.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Supervisors nominated by Shareholders

Ms. Zhou Rui Juan (周瑞娟), aged 66, is a Supervisor and the chairman of the supervisory committee of the Company. She is also the supervisor of Shanghai Changmao. She graduated from Changzhou Light Industrial School (常州輕工學校) majoring in corporate management in 1988. Ms. Zhou passed the State Examination for Assistant Accountant in 1997. She was a financial accountant, the vice manager of the labour department and the director of the administrative department of the Company. Ms. Zhou was recognised as an activist of the labour union (工會積極分子) and an advanced worker (先進生產者) of the Company. She joined the Company in January 1993.

Supervisor nominated by employees

Mr. Zhang Jun Peng (張俊朋), aged 47, is a Supervisor and the chief officer of the concurrent production line of the Company and an engineer. He graduated from Jiangsu Institute of Petrochemical Technology (江蘇石油化工學院) in 1997 with a bachelor degree in chemical engineering. He was engaged in the continuous improvement and innovation of four-carbon series organic acid and obtained the Second Class Award of Process Innovation & Technological Invention (創新工藝技術發明二等獎) from China Petroleum and Chemical Industry Association (中國石油和化學工業協會) in 2004. Mr. Zhang was involved in various projects of the Company in respect of the improvement of production technology and is experienced in the production management of the Company. The concurrent production line led by Mr. Zhang won the championship of "the Cup of Safety and Health" ("安康杯"競賽優勝班組) in China in 2012 from the All-China Federation of Trade Unions (中華全國總工會) and the State Administration of Work Safety of the PRC (國家安全生產監督管理總局). He joined the Company in August 1997.

Independent Supervisors nominated by Shareholders

Mr. Zhou Zhi Wei (周志偉), aged 66, is an independent Supervisor. He was formerly the Deputy Director and Chief Engineer of Wuxi Building Materials Science Research Institute (無錫市建築材料科學研究所). He graduated from the current Department of Chemistry, Changzhou University with a Bachelor's degree in 1982. He was an engineer, senior engineer, deputy director, and chief engineer respectively at the Wuxi Building Materials Science Research Institute from 1982 to 1996. He served as Deputy General Manager in Wuxi Dayu Coating New Technology Development Co., Ltd. (大愚塗層新技術開發有限公司) from 1996 to 2012. Mr. Zhou was first appointed as an independent Supervisor in June 2020.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Pan Chun (潘春), whose personal particulars are set out under the paragraph headed "Directors" in this section.

Mr. Wan Yi Dong (萬屹東), aged 47, is the deputy general manager of the Company. Mr. Wan is a senior engineer certified by Human Resources and Social Security Department of Jiangsu Province (江蘇省人力資源和社會保障廳(省人社廳)認定的高級工程師). He graduated from Zhejiang University in 1996 with a bachelor degree in biochemistry. In 2004, he obtained a master degree in business administration from Nanjing University of Science and Technology. He joined the Company in August 1996. He was engaged in the technology advancement of bio-enzyme and immobilised enzyme technology and has been involved in various projects of the Company in respect of improvement in production technology and new technology on new products. Mr. Wan has published various professional articles in professional chemical magazines. He obtained various awards including the 常州市科技進步一等獎 (The First Class Award of Changzhou City Technological Achievement) in 2001 and 中國石油和化學工業協會科技進步二等獎 (The Second Class Award of Petrol Chemical Industry Technological Achievement in the PRC) in 2003. Mr. Wan joined the Company in August 1996.

Ms. Zhang Qin Ying (張琴英), aged 52, is the deputy general manager and financial controller of the Company. She is also the supervisor of Lianyungang Changmao. She is a senior economist. She studied in Finance School of Changzhou (常州財經學校), specializing in financial management in 1999. She has also studied in The Chinese Communist Party School of Jiangsu Province in 2007, specializing in economic management. She has years of strong management experience in finance and labour union. She also serves as the chairman of the Union of Chemical Industry of Changzhou (常州市化工行業工會) and vice-chairman of the Union of Chemical and Light Industry in Changzhou (化輕產業工會). Ms. Zhang joined the Company in September 1993.

Ms. Wan, Pui Ling Alice (温珮玲)(CPA), aged 49, is the regional financial controller and company secretary of the Company. She has over twenty years of experience in accounting and financial management in Hong Kong and the PRC. Ms. Wan holds a bachelor degree in business administration and a master of science degree in finance from the Chinese University of Hong Kong, and is an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Wan joined the Company in June 2001.

Mr. Huang Huai Zhi (黃淮幟), aged 35, is the secretary of the Board and the head of the legal department of the Company. Mr. Huang graduated from East China University of Political Science and Law in 2008, graduated from Duke University in 2015, and worked in Jingtian & Gongcheng Attorneys At Law (競天公誠律師事務所) from 2008 to 2013. From 2017 to 2017, he served as the president of Shenzhen Qianhai Tongde Financial Services Co., Ltd (深圳前海同德金融服務有限公司). Mr. Huang joined the company in October 2017.

Save as disclosed above, each of the Directors or Supervisors does not have any relationship with any directors, supervisors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company (within the meaning of the Listing Rules).

CORPORATE GOVERNANCE REPORT

The Company is committed to the maintaining of a high standard of corporate governance. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value.

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 of the CG code.

Throughout the year ended 31 December 2020, the Company complied the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 14 to the Listing Rules, with the exception of Code Provisions A.6.7 (directors attending general meetings).

Code provision A.6.7 of CG Code stipulates that non-executive Directors and independent non-executive Directors should attend general meetings. Except for Ms. Au Fung Lan, all the other Directors were unable to attend the annual general meeting held on 25 May 2020 and the extraordinary general meeting held on 30 June 2020, due to the outbreak of the COVID-19 pandemic.

The Company's corporate governance structure includes the Board and the supervisory committee. The Company has also established three committees under the Board, namely the Remuneration Committee, the Audit Committee and the Nomination Committee. The corporate governance practices adopted by the Company are as follows:

THE BOARD

The major responsibilities of the Board include the formation of the Group's overall strategies, setting business plans and the supervision of the performance of the management. The Board acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Board is also responsible for preparing a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory requirements.

As at 31 December 2020, the Board comprises two executive Directors, namely, Mr. Rui Xin Sheng (Chairman) and Mr. Pan Chun (General Manager), four non-executive Directors, namely, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Ms. Leng Yi Xin and Mr. Wang Jian Ping and three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Ms. Wei Xin and Ms. Au Fung Lan.

The roles of the chairman and chief executive (i.e. general manager) of the Company are separate and exercised by different individuals.

CORPORATE GOVERNANCE REPORT

The Board meets regularly, and had met four times for the year ended 31 December 2020. Attendance of individual members of the Board meeting for the year ended 31 December 2020 is as follows:

	Name of Director	Attended/Eligible to attend
Executive Directors	Rui Xin Sheng *(Chairman)*	4/4
	Pan Chun *(General Manager)*	4/4
Non-executive Directors	Zeng Xian Biao	4/4
	Yu Xiao Ping	4/4
	Leng Yi Xin	4/4
	Wang Jian Ping	4/4
Independent Non-executive Directors	Ouyang Ping Kai	4/4
	Wei Xin	4/4
	Au Fung Lan	4/4

Save that Ms. Leng Yi Xin is the wife of Mr. Rui Xin Sheng, each of the Directors is independent of other Directors.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors.

The Company had also made specific enquiry of all Directors in relation to the compliance of the Model Code. Save for the above, the Company was not aware of any non-compliance with the Model Code for the year ended 31 December 2020.

Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers the independent non-executive Directors remained independent.

CORPORATE GOVERNANCE REPORT

Continuous Professional Development

Directors' training is an ongoing process. During the year, Directors received regular updates and presentations on changes and developments to the Group's business and to environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with his or her annual training record.

The Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

	Directors	Types of training
Executive Directors	Rui Xin Sheng	A, B
	Pan Chun	A, B
Non-executive Directors	Zeng Xian Biao	A, B
	Yu Xiao Ping	A, B
	Leng Yi Xin	A, B
	Wang Jian Ping	A, B
Independent non-executive Directors	Ouyang Ping Kai	A, B
	Wei Xin	A, B
	Au Fung Lan	A, B

A: attending seminars provided by external parties
B: reading materials in relation to regulatory update

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee was established to ensure there are formal and transparent procedures for developing and overseeing the Company's policies on the remuneration of its directors and senior management. As at 31 December 2020, the Remuneration Committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Ms. Wei Xin and Ms. Au Fung Lan and an executive Director, Mr. Rui Xin Sheng (chairman of the committee). The Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee held one meeting in 2020 to assess the performance of the executive Directors and review the policy for the remuneration of the Directors and how the Group complied with the staff incentive bonus scheme as stated below. The meeting attendance rate of individual members for the year ended 31 December 2020 was as follows:

Name of committee member	Attended/Eligible to attend
Rui Xin Sheng	1/1
Ouyang Ping Kai	1/1
Wei Xin	1/1
Au Fung Lan	1/1

The remunerations of Directors and senior management are based on the skill, knowledge and involvement in the Company's affair of each Director or senior management and are also determined with reference to the performance and profitability of the Group. The Company has formulated a staff incentive bonus scheme. Details of which is set out in the paragraph headed "Employees" under the section headed "Management Discussion and Analysis".

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. As at 31 December 2020, the Audit Committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Ms. Wei Xin (chairman of the committee) and Ms. Au Fung Lan.

CORPORATE GOVERNANCE REPORT

The primary duties of the Audit Committee are to review and to provide supervision over the financial reporting process and internal control system of the Group, to review the Group's financial information and to review the audit plan, audit findings and independence of the auditors of the Company. The Audit Committee held five meetings for the year ended 31 December 2020, two of which were with the attendance of the external auditor. The meeting attendance rate of individual members for the year ended 31 December 2020 was as follows:

Name of committee member	Attended/Eligible to attend
Ouyang Ping Kai	5/5
Wei Xin	5/5
Au Fung Lan	5/5

Duties performed by the Audit Committee for the year were as follows:

1. made recommendations to the Board on the re-appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;

2. reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, discussed with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. reviewed the Group's financial information, monitored the integrity of the Group's financial statements and the annual report and accounts and half-year report and reviewed significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee had focused particularly on:

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit (if any);

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards;

   (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting; and

   (vii) consider any significant or unusual items that are, or may need to be, reflected in the report and accounts;

4. reviewed the Group's financial controls and internal controls, among others, by discussing the internal control system with the management to ensure that the management has performed its duty to have an effective internal control system; reviewed the Group's financial and accounting policies and practices; and reported to the Board on the matters in the CG Code.

Nomination Committee

The Nomination Committee was established to formulate and implement the nomination policy and Board Diversity Policy, nominate candidates of Directors for election by shareholders and to assess the independence of independent non-executive Directors. As at 31 December 2020, the Nomination Committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai (chairman of the committee), Ms. Wei Xin and Ms. Au Fung Lan and an executive Director, Mr. Rui Xin Sheng.

The Nomination Committee held one meeting in 2020 to review the structure, size and composition of the Board and to assess the independence of independent non-executive Directors. The meeting attendance rate of individual members for the year ended 31 December 2020 was as follows:

Name of committee member	Attended/Eligible to attend
Rui Xin Sheng	1/1
Ouyang Ping Kai	1/1
Wei Xin	1/1
Au Fung Lan	1/1

POLICY FOR NOMINATION OF DIRECTORS

Procedures for Nomination and Appointments of Directors

Appointments of Directors, being individuals who are suitably qualified and expected to make positive contributions to the performance of the Board, are first considered by the Nomination Committee and then by the Board. Thereafter, all Directors are subject to election by shareholders at the shareholders' general meeting. A Director may serve consecutive terms if re-elected upon the expiration of the terms.

Each of Mr. Rui Xin Sheng and Mr. Pan Chun has entered into a service agreement with the Company. All the other Directors have not entered into any service agreement with the Company. The terms of each Director is not more than three years and will be expired on 17 June 2022.

CORPORATE GOVERNANCE REPORT

Nomination of Candidates for Re-election of Directors

The current term of the all the Directors is from 18 June 2019 to 17 June 2022. The election process was as follows:

On 8 March 2019, the Nomination Committee, having reviewed the Board's composition, nominated all the existing Directors (except for Prof. Yang Sheng Li who decided not to stand for re-election) to the Board for it to recommend to Shareholders for re-election at the AGM held on 10 May 2019. The nominations were made in accordance with the Nomination Policy and the objective criteria (including without but not limited to skills, regional and industry experience, background, race, gender and length of service), with due regard for the benefits of diversity, as set out under the Board Diversity Policy. The Nomination Committee had also taken into account the Board performance evaluation for the past three years, confirmed that all the existing Directors continue to contribute effectively and are committed to their roles. Although Prof. Ouyang Ping Kai and Ms. Wei Xin have served as independent non-executive Directors for more than 9 years, they meet the independence factors set out in Rule 3.13 of the Listing Rules and are not involved in the daily management of the Company, nor in any relationships or circumstances which would interfere with the exercise of their independent judgment. In addition, they continue to demonstrate the attributes of independent non-executive directors and there is no evidence that their tenure have had any impact on their independence. Taking into account of the above, the Nomination Committee is of the opinion that Prof. Ouyang Ping Kai and Ms. Wei Xin remain independent notwithstanding the length of their service and it believes that their valuable knowledge and experience in the Group's business and their general business acumen continue to generate significant contribution to the Company. Accordingly, the Nomination Committee, in accordance with the Nomination Policy and Board Diversity Policy, nominated all the existing Directors to stand for election by Shareholders at the Annual General Meeting held on 10 May 2019. On 12 March 2019, the said nominations were accepted by the Board with each candidate abstaining from voting on the proposition of himself for election by Shareholders. All the candidates for re-election of Directors do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation).

Board Diversity Policy

The Group has adopted a board diversity policy (the "Board Diversity Policy"). A summary, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

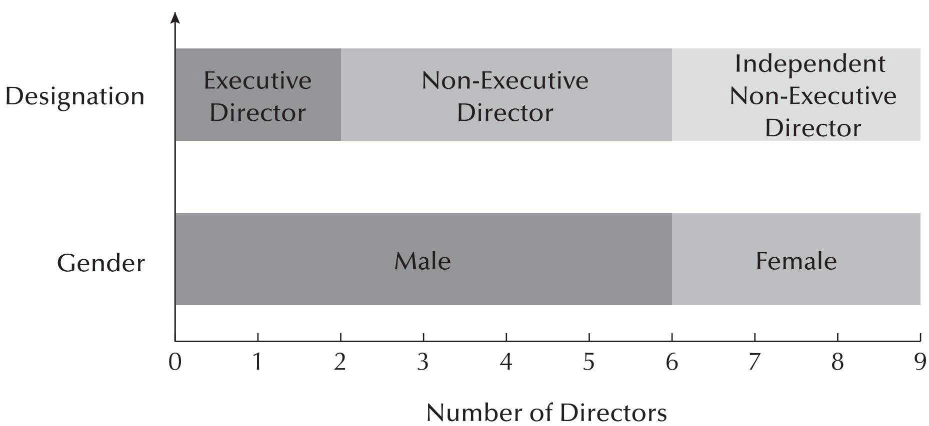
Summary of the Board Diversity Policy and Measurable Objectives

The Company recognises and embraces the benefits of diversity in the Board. The Company believes that a diversity of perspectives can be achieved through consideration of a number of factors, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. In performing its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time. The Company endeavours to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Implementation and Monitoring

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually. As at the date of this report, the Board's composition under major diversified perspectives was summarized as follows:

Board Diversity



THE SUPERVISORY COMMITTEE

The supervisory committee is accountable to the general meeting. The primary responsibilities of the supervisory committee include the monitoring of whether the Directors and senior management have, in the performance of their duties, acted in contravention of any laws, administrative regulations, the Articles of Association of the Company or the resolutions passed at general meetings; and the reviewing of the Company's financial information. Supervisors can attend the Board meetings.

The supervisory committee comprises a supervisor nominated by shareholders, Ms. Zhou Rui Juan, a supervisor nominated by employees, Mr. Zhang Jun Peng and an independent supervisor nominated by shareholders, Mr. Zhou Zhi Wei. Mr. Zhang Jun Peng has entered into a service agreement with the Company. Ms. Zhou Rui Juan and Mr. Zhou Zhi Wei have not entered into any service agreement with the Company. The terms of each supervisor is not more than three years and will be expired on 17 June 2022.

The supervisory committee held two meetings for the year ended 31 December 2020 with attendance rate of 100%.

COMPANY SECRETARY

The Company Secretary, Ms. Wan, Pui Ling Alice, is responsible for facilitating the Board process, as well as communications among Board members, with shareholders and management. She reports to the Board Chairman and the general manager of the Company. The Company Secretary's biography is set out in the "Profiles of Directors, Supervisors and Senior Management" section of this Annual Report. During 2020, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2020, which give a true and fair view of the state of affairs of the Group at that date and of the Group's profit and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 62 to 67.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE REPORT

The successful management of risks is essential for the long-term growth and sustainability of the Group's business. The Board is responsible for setting strategies, business objectives and risk appetite as well as ensuring a review of effectiveness of the risk management and internal control systems, and oversees management in the design, implementation and monitoring of the risk management and internal control systems. In 2020, the management have provided a confirmation to the Board on the effectiveness of such systems. The Board also reviewed the Group's risk management and internal control systems, which the Board considers to be adequate and effective in 2020. The level of resources, staff qualifications and experience, training programs and budget of the Company's internal audit and accounting and financial reporting functions were assessed and considered adequate.

A risk management committee has been established to ensure that significant risks are identified; assessed by considering the impacts and likelihoods of their occurrence; and effectively managed by identifying suitable controls and countermeasures, and assessing the cost effectiveness of the mitigating actions proposed. With the assistance of the this committee, the Board continuously monitors the company's risk management framework, reviews the Group's significant risks and emerging risks, and conducts an annual review of the effectiveness of the risk management system. The Board determines the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The process involves the maintenance of risk register setting out the particulars of material risks together with the control measures as reported by significant departments of the Group. It ensures that significant risks are considered by the Board in determining their risk appetite.

A risk management policy has been adopted to serve as a guideline for risk management and internal control systems.

Internal audit

Internal control system shall allow monitoring of the Company's overall financial position; safeguard its assets against major losses and misappropriation; provide reasonable assurance against material fraud and errors; and efficiently monitor and correct non-compliances.

During the year, the Company had transactions derived from bank borrowing occurred with a related party. Please refer to Note 33(b) of the consolidated financial statements. The Company obtained confirmation letters from the relevant banks stating that these loans did not constitute violations of any regulations. As of the date of this report, all of these loans have been repaid. The Group will continue to improve its internal control system to ensure its effective implementation.

CORPORATE GOVERNANCE REPORT

The Company has set up an internal audit department in 2020 to perform ongoing internal audits to evaluate the proper functioning of the internal control systems of the Group. The Audit Committee, after reviewing and considering the management findings from the internal control review, then reported to the Board of the Company and confirmed to the Board that the internal control systems are effective and adequate.

Inside Information Policy

The Board approved and adopted an Inside Information Policy which contains the guidelines to the Directors, officers and all relevant employees (likely possessing the unpublished inside information) of the Group to ensure that the inside information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations. Such procedures include, among others, notification of regular blackout period and securities dealing restrictions to relevant Directors and employees, identification of project by code name and dissemination of information to stated purpose and on a need-to-know basis have been implemented by the Group to guard against possible mishandling of inside information within the Group.

AUDITOR'S REMUNERATION

PricewaterhouseCoopers have been re-appointed as the Company's international external auditor by the shareholders at the 2020 annual general meeting. They are primarily responsible for providing audit services in connection with the Company's annual financial statements.

During the year, the remuneration to the external auditor in RMB equivalent is as follow:

	2020 RMB'000	2019 RMB'000
Auditors' remuneration – Audit Service	1,367	1,321

DIVIDEND POLICY

The Company's policy is to provide dividends to shareholders which is linked to the underlying performance of business. The Board considers that it would be prudent and appropriate to target a pay-out ratio of 30% to 70% per cent of the Group's consolidated net profit attributable to the equity holders of the Company. The actual dividend pay-out ratio, however, may cause some deviation from the target, depending on the cash flows and future funding requirements of the Company.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Article 61 of the Articles and Associations of the Company, shareholder(s) holding 10% or more of the Company's issued capital that carry voting rights request(s) in writing for the convening of an extraordinary general meeting, the Board shall convene an extraordinary general meeting within 2 months.

Procedures for putting forward proposals at shareholders' meeting

Pursuant to Article 63 of the Articles and Associations of the Company, when the Company convenes a shareholders' annual general meeting, shareholder(s) holding 3% or more of the total shares carrying voting rights of the Company are entitled to propose new matters in writing to be considered, and the Company shall include in the agenda of that meeting those matters contained in the proposal which are within the scope of the duties of the general meeting provided that the proposal is delivered to the Company within 10 working days prior to the date of the AGM.

Procedures for nominating a new Director

Pursuant to Article 97 of the Articles and Associations of the Company, a notice of the intention to propose a person for election as Director and the written notice by such candidate of his/her willingness to accept the nomination shall be given to the Company no less than seven days. The minimum seven-day period of lodgement by the shareholders of notice to nominate a Director shall commence no earlier than the date after the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.

Communications with Shareholders

The Board always welcome Shareholders' and other stakeholder's questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post. The address is Room 54, 5th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong.

Articles of Association

During the year, the Company has revised the Articles of Association to the Company once, which was approved by the Shareholders at the extraordinary general meeting on 30 June 2020. For details, please refer to the circular dated 12 June 2020 issued by the Company.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 30 March 2021

ENVIRONMENTAL AND SOCIAL REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Board is well aware of the importance of environmental protection on the Group's sustainability and stable development, and at the same time strives to improve product quality while achieving the best balance between cost control and environmental protection. The Group has established an environmental management system based on the actual situation and its factory in Changzhou obtained ISO14000 certification. The Group aims to be a resource-saving and environment-friendly enterprise with low energy and resources consumption and low level of discharge on wastages. The Group promotes clean production, prevents pollution and reduces the risk of environmental accidents. The Group's environment protection department dedicates to strengthen its environmental protection, actively implements environmental policies, vigorously carries out environmental management, and takes energy-saving measures to achieve reduction on pollution. At the same time, the Group also has a full-time environmental protection workshop to treat the wastewater of each production line in a centralised manner and discharges it into the sewage treatment company of the industrial area. In addition, the environmental protection department conducts centralised management and treatment of solid waste and hazardous waste in the production lines, and the production tail gas is collected and put into spray adsorption tower or regenerative thermal oxidizer for incineration treatment. Therefore, the Group's business activities have no significant impact on the environment and natural resources.

The Group understands that a global transition to a low-carbon economy is necessary to tackle climate change and create a more sustainable future. In order to cope with the challenges posed by climate change and enhancing its internal driving force for sustainable development, the Group regards energy conservation, emission reduction, low-carbon development and environmental protection as long-term development strategies, and actively promotes and continues to explore and innovate. In order to cope with climate change, the government's requirements for environmental protection and emission indicators have continued to stricken. In 2020, the Group increased investment in environmental protection, coordinated and organised various departments to actively implement various upgrading and rectification work, and the production site environment was significantly improved. In 2020, the investment in environmental protection exceeded RMB25 million, which was mainly used for the renovation and upgrading of the three-waste treatment and pollution treatment facilities.

All of the Group's production is conducted in Mainland China. The Group is required to comply with the environmental protection laws and regulations promulgated by the national and local governments of the PRC. Some of these regulations govern the level of fees payable to government entities providing environmental protection services and the prescribed standards relating to the discharge of solid wastes, effluent and gases. The Group's production technology enables the Group to effectively control the pollution caused by the production process. The Group has installed waste disposal facilities to reduce waste discharge. The Group did not aware of any material violations of the laws and regulations on environmental protection in 2020.

In 2020, the Group only produced in the Changzhou production plant. Therefore, the following discussion and information on the environment only include information of the Group's production plant in Changzhou. The Group has used a new method to produce maleic anhydride since 2018, which has greatly reduced greenhouse gas emissions.

ENVIRONMENTAL AND SOCIAL REPORT

I. Emissions

As the Group is mainly engaged in production, the following discussion on emissions is mainly related to the emissions from production.

(1) Greenhouse gases emission

The Group has carbon dioxide emissions. There are no requirements under the PRC rules and regulations to measure these greenhouse gases. In order to reduce costs and emissions, the Group started in 2018 using butane to replace benzene as a raw material for production. Using of butane to produce maleic anhydride reduces carbon dioxide emissions. It is cleaner and more environmentally friendly and in line with the international trend of food additive production.

The Group's indirect greenhouse emissions are mainly from electricity and steam consumption. In order to reduce steam consumption, the Group recycles the steam output from the maleic anhydride production line. This not only can reduce greenhouse gas emissions, but also reduce production costs. In order to reduce emissions, the Group is committed to ensure the efficient operation of the equipment and the implementation of cleaner production. Hazardous and non-hazardous wastes are mainly disposed of by qualified waste disposal companies for incineration or recycling.

In response to the changes in government policies, the Group ceased production of maleic anhydride in June 2020. Before that, the Group produced part of maleic anhydride as raw materials for other products in the Changzhou Plant 1. After the production of maleic anhydride ceased, the Group was no longer able to recycle the steam generated from the production process of maleic anhydride, therefore, increased the amount of steam purchased from outsiders, which caused an increase in indirect greenhouse emissions.

ENVIRONMENTAL AND SOCIAL REPORT

(2) *Waste*

The non-hazardous wastes are mainly handed over to other enterprises for comprehensive utilisation. Hazardous wastes are mainly handed over to waste disposal companies for subsequent treatment.

The Group employs independent environmental monitoring companies to measure sewage water quality and noise emissions annually for its plants. The emissions in 2020 are within the limits set by the national standards.

Key Performance Indicators

	2020	2019
Amount of waste water in total (in tonnes)	384,199	393,492
Amount of waste water – Per unit of output (in tonnes/tonne)	12.99	13.84
Exhaust gas in total (in tonnes)	3.90	8.24
Exhaust gas – Per unit of output (in tonnes/tonne)	0.000	0.000
Greenhouse gas emissions in total (in tonnes) (Note)	75,808	71,565
Greenhouse gas emissions in total – Per unit of output (in tonnes/tonne) (Note)	2.56	2.52
Hazardous waste produced in total (in tonnes)	658	1,111
Hazardous waste produced – Per unit of output (in tonnes/tonne)	0.02	0.04
Non-hazardous waste produced in total (in tonnes)	1,496	1,724
Non-hazardous waste produced – Per unit of output (in tonnes/tonne)	0.05	0.06

Note:

The Group converted its greenhouse gas emissions according to GBT32151.10-2015, "Requirements for the Greenhouse Gas Emissions Accounting and Reporting – Part 10: Chemical Production Enterprises (溫室氣體排放核算與報告要求－第10部分：化工生產企業)". It is the sum of direct and indirect greenhouse gas emissions from the Changzhou plant and Lianyungang plant.

The Group's direct greenhouse gas emissions related to n-butane, the raw material of Changzhou plant and Lianyungang plant. The amount of greenhouse gas converted the steam sold by the Group has been deducted from the total direct greenhouse gas emissions. When calculating the amount of direct greenhouse gas converted from steam, the emission factor for heat consumption is calculated based on the "2010 Shanghai Energy Balance Sheet and the GHG inventory compilation data (上海市2010年能源平衡表和温室氣體清單編製數據)".

The Group's indirect greenhouse gas emissions related to the emissions from purchase of electricity and heat by the two plants. The calculation of electricity emission factors used from electricity purchased is based on the latest data released by National Development and Reform Commission which the factor of East China Regional Power Grid (EFgrid, BM, y(tCO_2/MWh)) adopted in the calculation is 0.4923 (2019: 0.4923). The calculation of the heat-generating emissions factors of the thermal consumption purchased is based on the "2010 Shanghai Energy Balance Sheet and the GHG inventory compilation data" and the value taken is 0.11t CO_2/GJ.

II. Use of Resources

The Group is committed to reducing energy consumption. In the production process, the Group needs to use energy, including water, electricity and steam.

(1) Water

The Changzhou plant of the Group is accredited as a water-saving enterprise in Changzhou City. The Group adopted the municipal policies and plans to use water efficiently and save water usage. The Group clearly understood these directions and adopted effective measures. The effect is obvious in recent years with gradual reduction in water consumption per unit of product. The Group improved the production equipment, used water-saving technology to achieve the rational use of water resources, the Group has effectively controlled the discharge of recycled water, backwashed water for centralised reuse to achieve water-saving effect.

The Changzhou plant of the Group has passed the assessment and obtained "Water Balance Test Certificate (水量平衡測試合格證)" which indicated that the Group's water consumption level is reasonable. The Group uses water from local water companies and there is no any issue in sourcing water.

ENVIRONMENTAL AND SOCIAL REPORT

(2) *Electricity*

The Group has effectively used of power resources. The power supply bureau adopts the policy of "top, peak, valley and flat" charging policy, that is, different charges in different periods. Unit charges is the highest in the 'top period', and lowest at the 'valley period'. The Group actively cooperated with the relevant policies to raise the proportion of electricity consumption in the 'valley and flat period' to reduce the production costs.

(3) *Steam*

There are two sources of steam, one is purchase from third parties and the other is recovery and recycling of steam generated during the production process. Recycling of steam helps to reduce energy consumption and production costs. In terms of reducing energy consumption, the Group uses recycled steam to drive turbine to drive ventilator in production, reducing costs and increasing efficiency while achieving energy conservation and environmental protection. The maleic anhydride production line designed by the Group can generate steam during the production process. It is more than enough to recycle for its own use, there will be excess steam for selling to the nearby factory. It helps both to reduce steam emissions, and will also bring economic benefits to the Group.

In response to the changes in government policies, the Group ceased production of maleic anhydride in June 2020. Starting from the second half of 2020, the Group was no longer be able to recycle the steam generated from the production of maleic anhydride, and therefore increased the amount of steam purchased from outsiders. The Group expects that after the new plant in Dalian is put into operation, the Group will produce maleic anhydride again and use self-produced steam to re-input into production.

ENVIRONMENTAL AND SOCIAL REPORT

(4) *Packaging materials*

There are different types of packaging materials. Packaging materials only accounted for a very small portion production costs. In 2020, packaging materials only accounted for less than 4% of the cost of production.

Key Performance Indicators

	2020	2019
Electricity consumption in total (in kwh)	32.2 million	33.1 million
Electricity consumption – Per unit of output (in kwh/tonne)	1,089	1,165
Steam consumption in total (sourcing from outside) (in tonnes)	177,605	124,865
Steam consumption (sourcing from outside) – Per unit of output (in tonnes/tonne)	6.00	4.39
Water consumption in total (in tonnes)	312,462	447,927
Water consumption – Per unit of output (in tonnes/tonne)	10.56	15.76

ENVIRONMENTAL AND SOCIAL REPORT

SOCIAL

(I) Employment and Labour Practices

The Group's principle is people-oriented. It continuously improves the working environment and remuneration and to provide a broad developmental platform for the employees to display their individual talents. It has resolutely implemented the relevant national and local government laws and regulations in relation to employment. The Group has established a fine social accountability system, covering all aspects of employment regulations and social welfare. The Group provides its staff with a safe working environment by implementing the safety standard management and has accredited as the national "Second Grade Enterprise of Work Safety Standardisation" (安全生產標準化二級企業).

The Group attaches great importance to staff training. The Group provides trainings to staff which are relevant to their duties, including management, regulatory update, environment protection, food safety, team building, etc. The Group also encourages the employees to attend different kinds of colleges and universities courses and trainings to strengthen their academic qualifications which are related to their work duties by providing subsidies to them.

For safety training, management personnel involved in the production have to participate in safety training and pass the assessment by Changzhou production safety publicity and education centres. The Group's safety director and safety department organise trainings on relevant laws and regulations, safety knowledge, and enterprise management system for the person in charge of safety and head of different production lines each month. The safety department also organises training for staff working in the production lines on safety production and technology operation, techniques on operation of new equipment before commencement of new projects and production with new production technologies.

In addition, pay raise and benefits for employees every year are based on their performance. The Group organised different social activities every year, so that the employees in various positions of different departments of the Group can increase communication and strengthen interaction.

The Group strictly complies with the State Council's regulation on "Provisions on the Prohibition of Using Child Labour" on executing the employment standards, and has established recruitment procedures and measures to ensure that child labour is not employed. The vast majority of the Group's employees are Chinese. The Group is not aware of any violation of employment and labour laws and regulations nor any violation of child labour provisions in 2020.

ENVIRONMENTAL AND SOCIAL REPORT

The followings are key performance indicators in relation to the Group's employment and labour practices:

Key performance indicators

	2020	2019	2018
Employment			
Number of employees (by gender)			
Male	288	313	326
Female	143	148	153
Number of employees (by employment type)			
Management	75	71	68
Production	268	307	320
Sales	24	26	26
Research and development	64	57	65
Number of employees (by age group)			
30 or under	85	121	161
31-50	306	296	282
Over 50	40	44	36
Employee turnover rate (by gender)			
Male	18%	18%	38%
Female	8%	8%	17%
Employee turnover rate (by age group)			
30 or under	24%	27%	57%
31-50	12%	9%	16%
Over 50	12%	10%	8%

ENVIRONMENTAL AND SOCIAL REPORT

Key performance indicators (Continued)

	2020	2019	2018
Health and safety indicators			
Number of work-related fatalities (rate)	1(0.2%)	Nil	Nil
Lost days due to work injury (rate)	225 days (0.03%)	220 days (0.02%)	45 days (0.00%)
Training			
Training expenses	RMB172,000	RMB350,000	RMB186,000
Percentage of employees trained (by gender)			
Male	98%	99%	99%
Female	94%	93%	94%
Percentage of employees trained (by employment type)			
Senior management	90%	94%	89%
Middle management	92%	92%	94%
General staff	98%	98%	99%
Percentage of employees trained (Overall)	97%	97%	98%
Average training hours completed per employee (by gender)			
Male	68	70	70
Female	69	70	69
Average training hours completed per employee (by employment type)			
Senior management	40	39	37
Middle management	73	82	71
General staff	69	70	71
Average training hours completed per employee (Overall)	68	67	70

(II) Operating Practices

(1) Supply Chain Management

The Group has more than 100 qualified suppliers. To become qualified suppliers, their samples have to pass the examination, the trial production by the Group and suppliers' assessments. The Group uses as many suppliers as possible that focus on environmental protection. Performance of all suppliers for the previous year would be evaluated at the beginning of each year and they can continue as the Group's suppliers after passing the evaluation. The evaluation content includes service, price, quality and safety and environment. Evaluation of new suppliers and subcontractors includes their commitment to social responsibility and performance. The Group has a procurement management systems and has developed a series of procurement control procedures for strict selection of suppliers and control the procurement process. Procurement staff regularly visits suppliers to maintain close contacts and good cooperation relations with them, at the same time, the Group will also pay attention to the environmental factors of the suppliers. The vast majority of the Group's suppliers are located in mainland China.

(2) Product Liability

After over 20 years of accumulation, the Group's customers are all over the world. The Group has always focused on maintaining customer relationships. In recent years, the Group has continued to strengthen direct sales to end-users with a closer and long-term customer relation. The Group strictly controls its product safety and quality to maintain quality leadership and ensure customer satisfaction. The Group has met the highest standards in the food safety systems FSSC22000 and quality management system ISO9001. The Group conducts customer satisfaction survey each year to obtain customers' feedback and understand their requirements, as well as serve as an objective assessment to the Group. Reports show that the Group's customers were satisfied in 2020.

The Group has standard procedures to handle customer complaints. There was no material complaints in 2020. The Group has been focusing on product quality, and continuously improving the process to ensure product quality and strengthen brand management to meet potential complaints and ensure proper quality delivery.

The Group has a trademark management system and business ethics code control procedures, and strictly complies with the laws and regulations for protection of intellectual properties.

ENVIRONMENTAL AND SOCIAL REPORT

The Group has inspection and test control procedures to test the semi-finished products or finished products item by item. Standard procedures are in place to deal with each qualified or non-qualified products. There is a "certificate of analysis" for each finished product to facilitate product traceability. In case a product recall is triggered, the Group initiates a recall procedure, analyses the extent of the food hazard and classifies it, re-examines the products if necessary and makes a recall if needed based on the results of the analysis or examination. The Group would also record the number of products recalled to ensure that unsafe batch of products are fully and promptly recalled and are appropriately processed in accordance with the procedures for handling recalled products. In 2020, the Group has not recalled any sold or shipped products due to safety and health reasons.

The Group also endeavors to ensure the proper use of customer information. The Group has complied with the relevant national laws and regulations and the Group's internal business ethics control procedures when collecting, processing and using such information in the course of business.

(3) Anti-corruption

The Group has anti-corruption control procedures issued to all employees, and has mechanisms for employees to report problems found. The Group has management system and measures on fund management to prevent money laundering. The Group conducts an internal audit of social responsibilities every year to examine whether there are any bribery, extortion or fraud.

There was no significant risk associated with bribery identified in 2020. There was no concluded legal cases regarding corrupt practices brought against the Group or its employees. There were no confirmed incidents of contract termination or non-renewal of contract with business partners due to embezzlement during the year. During the year, the Group did not receive any reports in relation to corruption.

(III) Society

In terms of participating in social investment, the Group has made a RMB140,000 (2019: RMB190,000) donation in cash to the Changzhou Charity Association in 2020. It also donated 5,000 anti-epidemic mask to the Chunjiang Town Government in March 2020.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are the production and sale of organic acids products. The activities of the subsidiaries are set out in Note 17 to the consolidated financial statements.

An analysis of the Group's revenue for the year by geographic segments is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 68.

No interim dividend was declared during the year (2019: Nil). The Directors recommend the payment of a final dividend of RMB0.020 (2019: 0.055) (inclusive of tax) per share for the year ended 31 December 2020 totalling approximately RMB10,594,000 (2019: RMB29,134,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB140,000 (2019: RMB190,000).

SHARE ISSUED IN THE YEAR

Details of the shares issued by the Company in the year ended 31 December 2020 are set out in Note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the distributable reserves of the Company were approximately RMB491,263,000 (2019: RMB470,558,000) as reported in the statutory financial statements prepared in accordance with the PRC Generally Accepted Accounting Principles.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company or the laws of the PRC, being the jurisdiction in which the Company was established, which provides the existing shareholders with pre-emptive rights to purchase new shares in any new issue of the Company according to their respective proportion of shareholding.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five years is set out on page 136 of the annual report.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2020.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

Executive Directors
Mr. Rui Xin Sheng *(Chairman)*
Mr. Pan Chun

Non-executive Directors
Mr. Zeng Xian Biao
Mr. Yu Xiao Ping
Ms. Leng Yi Xin
Mr. Wang Jian Ping

Independent non-executive Directors
Prof. Ouyang Ping Kai
Ms. Wei Xin
Ms. Au Fung Lan

Supervisors nominated by shareholders
Ms. Zhou Rui Juan
Mr. Lu A Xing *(resigned on 30 June 2020)*

Supervisor nominated by employees
Mr. Zhang Jun Peng

Independent Supervisors nominated by shareholders
Mr. Zhou Zhi Wei *(appointed on 1 June 2020)*
Prof. Jiang Yao Zhong *(resigned on 30 June 2020)*
Mr. Geng Gang *(resigned on 1 June 2020)*

DIRECTORS AND SUPERVISORS (Continued)

The terms of each of the Directors and Supervisors will be expired on 17 June 2022. In accordance with Article 97, 116 and 117 of the Company's Articles of Association, Directors and Supervisors nominated by shareholders shall be elected at the shareholders' general meeting for a term of three years. Supervisor who is a representative of employees shall be elected by the employees of the Company for a term of three years. A Director or Supervisor may serve consecutive terms if re-elected upon the expiration of the terms.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of Mr. Rui Xin Sheng, Mr. Pan Chun and Mr. Zhang Jun Peng has entered into a service agreement with the Company. All the other Directors and Supervisors have not entered into any service agreement with the Company.

Save as above, no Director or Supervisor who is proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director, a Supervisor and a connected party of a Director or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATIONS

As at 31 December 2020, the interests (including interests in shares and short positions) of the Directors, 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:

Director	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (i))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (j))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (k))
Mr. Rui Xin Sheng	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	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%

REPORT OF THE DIRECTORS

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 (Continued)

Long positions in shares: (Continued)

Director	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (i))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (j))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (k))
Prof. Ouyang Ping Kai	(Note (f))	–	–	(Note (f))	(Note (f))	–	–
Supervisor							
Ms. Zhou Rui Juan	(Note (g))	–	–	(Note (g))	(Note (g))	–	–
Mr. Zhang Jun Peng	(Note (h))	–	–	(Note (h))	(Note (h))	–	–

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. Ms. Leng Yi Xin, spouse of Mr. Rui, is the beneficial owner of 52,000 H Shares. 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. 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.

REPORT OF THE DIRECTORS

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 (Continued)

(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 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.

(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.

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 (Continued)

(h) 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.

(i) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 31 December 2020.

(j) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2020.

(k) The percentage is calculated based on the 183,700,000 H Foreign Shares in issue as at 31 December 2020.

Save as disclosed above, as at 31 December 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.

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

At no time during the year 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.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31 December 2020, 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%	–	–

REPORT OF THE DIRECTORS

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 (Continued)

Long positions in shares: (Continued)

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))
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%	–	–
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.

REPORT OF THE DIRECTORS

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 (Continued)

Long positions in shares: (Continued)

Notes: (Continued)

(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 as at 31 December 2020.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2020.

Save as disclosed above, as at 31 December 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 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.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

EMOLUMENT POLICY

Employees are remunerated in accordance with the nature of the job and also on individual merit.

The emoluments of the Directors and Supervisors are determined by the Remuneration Committee, with reference to their respective contribution of time, effort and expertise on the Company's matters.

The Company has adopted a staff incentive bonus scheme, please refer to the paragraph headed "Employees" under the section headed "Management Discussion and Analysis" for details.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

	2020	2019
– the largest supplier	24%	23%
– five largest suppliers combined	59%	50%

Sales

	2020	2019
– the largest customer	4%	6%
– five largest customers combined	17%	22%

At no time during the year have the Directors, Supervisors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2020, the category of the issued shares of the Company is as follows:

	No. of Shares
H Shares (Note (a))	183,700,000
Domestic Shares (Note (b))	2,500,000
Foreign Shares (Note (c))	343,500,000
	529,700,000

Notes:

(a) Overseas listed foreign shares in the capital of the Company, with a RMB-denominated par value of RMB0.10 each, which were credited as fully paid up in a currency other than RMB and are traded in Hong Kong dollars and listed on the Main Board.

(b) Ordinary shares in the capital of the Company, with a RMB-denominated par value of RMB0.10 each, which were credited as fully paid up in RMB and issued to the promoters of the Company.

(c) Ordinary shares in the capital of the Company, with a RMB-denominated par value of RMB0.10 each, which were credited as fully paid up in a currency other than RMB and issued to the promoters of the Company.

The H Shares were listed on GEM on 28 June 2002 and the listing of which was transferred from GEM to the Main Board on 28 June 2013.

Although the 到境外上市公司章程必備條款 (the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of “domestic shares”, “foreign shares” and “overseas listed foreign shares” (which definitions have been adopted in the Articles of Association of the Company), the rights attached to Foreign Shares (which are subject to certain restrictions on transfer and may become H Shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission and the Stock Exchange) have not yet been expressly dealt with under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Foreign Shares do not contravene any PRC laws or regulations.

SHARE CAPITAL STRUCTURE (Continued)

At present, there are no applicable PRC laws and regulations governing the rights attached to the Foreign Shares. Jingtian & Gongcheng, the legal adviser to the Company as to PRC Law, have advised the Company that until new laws or regulations are introduced in this respect, holders of Foreign Shares shall have the same rights and obligations as those of the holders of Domestic Shares (in particular, in respect of the right to attend and vote in the general meetings and class meetings and to receive notice of such meetings in the same manner applicable to holders of Domestic Shares), except that holders of Foreign Shares shall enjoy the following rights:

(a) to receive dividends declared by the Company in foreign currencies;

(b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;

(c) disputes between holders of Domestic Shares and Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Foreign Shares and overseas listed foreign shares; and

(d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in Notes 2.22(a) and 12 to the consolidated financial statements.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

(a) Business performance and future development

Discussion on the business performance and future development of the Group is set out in the session headed "Chairman's Statement" in this Annual Report.

Analysis of the key performance indicators of the Group is set out in the session headed "Management Discussion and Analysis" in this Annual Report.

These discussions form part of the "Report of the Directors".

(b) Environmental policies and performance

Discussions on the environment policies and performance of the Group are set out in the "Environmental and Social Report" in this Annual Report. These discussions form part of the "Report of the Directors".

(c) Laws and regulations that have a significant impact on the Company

The Group is mainly engaged in the production of organic acids products, which are used as food additives, pharmaceutical adjuvant and active pharmaceutical ingredient, etc. Accordingly, the Group is required to comply with relevant laws and regulations on environmental protection. It is also required to comply with the Law of Work Safety, Food Safety Law, Labour Contract Law and Company Law, etc. in the PRC. The H shares of the Company are listed on the Main Board, therefore the Company also needs to comply with the Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinance.

The Group did not aware of any material non-compliance with applicable laws and regulations that have a significant impact on the Group for the year ended 31 December 2020.

(d) Key relationships

Discussions on the relationships with employees, customers and suppliers of the Group are set out in the "Environmental and Social Report" in this Annual Report. These discussions form part of the "Report of the Directors".

BUSINESS REVIEW (Continued)

(e) Principal risks and uncertainties

Certain significant risks have been identified through the process of risk identification and assessment. A summary on such significant risks of the Group together with the relevant internal control measures or mitigation in place is listed below:

1. *Research and development*

   The Group has two research centres. The Group will invest in research and development to improve existing production technologies and develop new production technologies each year. The Group's future prospects will be dependent upon the successful development and commercialisation of products currently under development. Successful development is, however, uncertain. There is also no assurance that a product can receive market acceptance and is competitive in the market. The Group will take into account the prospect of new markets, sales prices and costs of new products before making decision to invest in research and development to control the relevant risks.

2. *Tax relief*

   The Group's net profit mainly comes from the company's production base in Changzhou. The Company, qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15%. If the Company is fail to renew such qualification, there will be a material impact on the Group's profit. The Company continues to actively co-ordinated different departments on monitoring the compliance of requirements on New and High Technology Enterprise qualification and strives to continue to enjoy the relevant tax relief.

3. *Volatility of prices for raw materials*

   The Group's main raw material is butane and maleic anhydride, mainly purchased from Chinese suppliers. The price for butane and maleic anhydride are affected by various factors and the Group does not and will not control over those factors. Those factors include the prices of crude oil, global and regional supply and demand for butane, domestic and foreign government regulations, weather conditions and global economic conditions. Any increase in the price of raw materials which cannot be passed on to the Group's customers may adversely affect the Group's business and results of operations.

4. *Competition*

   The Group's products are exported overseas and also sold in domestic market. Whether in foreign or domestic market, food additives industry is intensively competitive. Any increase in the level of competition could result in price reduction and erode the Group's market share and gross profit margin. The Group continuously monitors and analyses the competitive situation and market information and makes early estimate to adverse movements and takes corresponding measures. The Group has also taken measures to strengthen the brand, to promote business growth and consolidate the brand's market position. In addition, the Group continues to make improvement on production technologies to reduce production costs and improve product quality so that its products will be more competitive.

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Continued)

(e) Principal risks and uncertainties (Continued)

5. *Environmental legislation requirements*

   The Group's production activities generate waste liquids, gases and solids. The Group has installed waste disposal facilities to reduce waste discharge and reduce the pollution to the environment. However, the relevant government authorities may issue and implement much stricter environmental protection laws and regulations, adopt much stricter environment protection standards. Under such situations, the Group may increase expenses in relation to the environment protection accordingly.

6. *Currency risks*

   At present, the PRC implements an administered floating exchange rate regime based on market supply and demand which is regulated with reference to a basket of currencies in terms of the exchange rate of Renminbi. The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 30 March 2021

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2020, the supervisory committee of Changmao Biochemical Engineering Company Limited (the "Supervisory Committee"), exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of trustworthiness, honestly carried out the duties of supervisors and worked cautiously and diligently, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company for their accountability to the shareholders.

During the year, the major work performed by the Supervisory Committee included the attendance of the Board meetings; reviewing the report of the Directors and the reserve appropriation proposal prepared to be submitted by the Board for the shareholders' approval at the forthcoming annual general meeting; strictly and effectively monitored that whether the policies and decisions made by the management of the Company had conformed with the state laws and regulations of the PRC and the Articles of Association of the Company or safeguarded the interest of the shareholders. The Supervisory Committee has also reviewed the performance of the Directors, general manager and senior management in the daily operation by various means; seriously examined the Company's financial affairs and its connected transactions.

After the examination, the Supervisory Committee concluded that:

1. the report of the Directors and the reserve appropriation proposal prepared to be submitted by the Board for the shareholders' approval at the forthcoming annual general meeting are in accordance with the relevant laws and regulations and the Articles of Association of the Company;

2. the Directors, general manager and other senior management of the Company have strictly followed the principles of trustworthiness, worked diligently and responsibly, and discharged their duties for the best interest of the Company. The Supervisory Committee has not discovered that any Directors, general manager and other senior management of the Company have abused their powers, damaged the interest of the Company or the benefits of the shareholders and employees nor contravened any laws and regulations or the Articles of Association of the Company;

REPORT OF THE SUPERVISORY COMMITTEE

3. the consolidated financial statements of the Group for the year ended 31 December 2020, which have been audited by PricewaterhouseCoopers, reflected truly and fairly the operating results and financial position of the Company and its subsidiaries. The connected transactions were in compliance with the Listing Rules and were fair and reasonable and had not infringed upon the interest of the Company and the shareholders.

The Supervisory Committee takes this opportunity to thank the shareholders, Directors and all the employees of the Company for their supports in the past year!

By order of the Supervisory Committee

Zhou Rui Juan
Chairman of the Supervisory Committee

The PRC, 30 March 2021

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Changmao Biochemical Engineering Company Limited
(a joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Changmao Biochemical Engineering Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 135, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to impairment of non-financial assets of production plants in Lianyungang.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of non-financial assets of production plants in Lianyungang Refer to Notes 2.8, 4(a), 15 and 16 to the consolidated financial statements. As at 31 December 2020, the Group has certain non-financial assets, including property, plant and equipment, land use rights and construction in progress in Lianyungang for production ("Lianyungang Changmao") amounting to approximately RMB147 million. As detailed in Note 4(a), management considered impairment indicators on the non-financial assets and has performed an impairment assessment on these assets as at 31 December 2020. As a result, the Group recorded a total impairment provision charge of RMB13 million against these non-financial assets to the consolidated income statement of the Group for the year then ended.	Our audit procedures in relation to management's assessment on impairment of non-financial assets of Lianyungang Changmao included: We obtained an understanding of management's internal control and assessment process of the provisions for impairment of non-financial assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Management, with assistance from an independent valuer, estimated the recoverable amount of an asset or cash generating unit ("CGU") based on the higher of its fair value less costs of disposal ("FVLCOD") and value in use ("VIU"). Significant judgements, including market data used in FVLCOD, gross margin and discount rate used in VIU calculation, were applied by management. We focused on auditing the provisions for impairment of the above non-financial assets of Lianyungang Changmao because the estimation of recoverable amount is subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of non-financial assets is considered significant due to significant judgements and estimates involved in determination of recoverable amount.	We evaluated the independent valuer's competence, capabilities and objectivity; We challenged the appropriateness of management's grouping of assets with the relevant CGU. We involved our in-house valuation experts to assess appropriateness of the valuation methodologies. We involved our in-house valuation experts to assess the discount rate by performing a corroborative analysis using the weighted average cost of capital ("WACC") method. We tested the gross margin used in the cash flow forecasts against the business plans. We tested the selling price to third-party evidence and market data to corroborate with management's information on a sample basis. Based on the procedures described above, we found the methodology used, and key assumptions and estimates applied by management in the impairment assessment of non-financial assets of Lianyungang Changmao are supportable by available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Kin Bong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
Revenue	5	444,106	494,580
Cost of sales	7	(341,065)	(359,425)
Gross profit		103,041	135,155
Other income	6	2,733	3,402
Other losses, net	6	(4,075)	(1,066)
Selling expenses	7	(13,932)	(14,064)
Administrative expenses	7	(70,888)	(60,961)
Reversal of loss allowance on financial assets	7	120	344
Operating profit		16,999	62,810
Finance income		215	264
Finance costs		(62)	(521)
Finance income/(costs), net	8	153	(257)
Profit before income tax		17,152	62,553
Income tax expense	9	(409)	(4,626)
Profit for the year		16,743	57,927
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		(8)	5
Total comprehensive income for the year		16,735	57,932
Profit for the year attributable to:			
Equity holders of the Company		16,827	58,299
Non-controlling interests		(84)	(372)
		16,743	57,927
Total comprehensive income for the year attributable to:			
Equity holders of the Company		16,819	58,304
Non-controlling interests		(84)	(372)
		16,735	57,932
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	10	RMB0.032	RMB0.110

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Patents	14	1,039	575
Property, plant and equipment	15	235,920	270,297
Right-of-use assets	15	24,863	26,174
Construction in progress	16	140,538	109,232
Deferred income tax assets	30	25,974	20,261
Prepayments	21	9,777	493
		438,111	427,032
Current assets			
Inventories	19	125,540	106,183
Trade and bills receivables	20	69,535	64,131
Other receivables, deposits and prepayments	21	24,355	16,300
Income tax recoverable		1,980	2,246
Derivative financial instruments	23	123	43
Pledged bank balances	24	15,212	1,588
Cash and bank balances	24	134,343	120,216
		371,088	310,707
Assets classified as held for sale	22	38,130	–
		409,218	310,707
Total assets		847,329	737,739
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	52,970	52,970
Reserves	26	596,407	608,722
		649,377	661,692
Non-controlling interests		538	622
Total equity		649,915	662,314

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	28	712	1,452
Lease liabilities	15	–	309
Deferred income tax liabilities	30	368	571
		1,080	2,332
Current liabilities			
Trade and bills payables	27	78,707	20,139
Contract liabilities, other payables and accruals	28	116,822	31,799
Income tax payable		–	15
Lease liabilities	15	305	640
Bank borrowings	29	500	20,500
		196,334	73,093
Total liabilities		197,414	75,425
Total equity and liabilities		847,329	737,739

The financial statements on pages 68 to 135 were approved by the Board of Directors on 30 March 2021 and were signed on its behalf.

Rui Xin Sheng
Director

Pan Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

		Attributable to equity holders of the Company					
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2019		52,970	190,254	386,649	629,873	994	630,867
Profit for the year		–	–	58,299	58,299	(372)	57,927
Other comprehensive income – currency translation difference – Group		–	5	–	5	–	5
Final dividend for the year ended 31 December 2018	11	–	–	(26,485)	(26,485)	–	(26,485)
Balance at 31 December 2019		52,970	190,259	418,463	661,692	622	662,314
Balance at 1 January 2020		52,970	190,259	418,463	661,692	622	662,314
Profit for the year		–	–	16,827	16,827	(84)	16,743
Other comprehensive income – currency translation difference – Group		–	(8)	–	(8)	–	(8)
Final dividend for the year ended 31 December 2019	11	–	–	(29,134)	(29,134)	–	(29,134)
Balance at 31 December 2020		52,970	190,251	406,156	649,377	538	649,915

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	65,043	134,576
Interest paid		(64)	(592)
Income tax paid		(6,074)	(15,657)
Net cash generated from operating activities		58,905	118,327
Cash flows from investing activities			
Purchase of patents		(556)	–
Prepayments for construction in progress and property, plant and equipment		(7,205)	(493)
Purchase of property, plant and equipment		(3,703)	(968)
Proceeds from disposal of property, plant and equipment		103	86
Additions of construction in progress		(68,205)	(39,805)
Proceeds from government compensation in relation to relocation		88,261	–
Payment for relocation expenses		(2,676)	–
Decrease in pledged bank balances		–	1,186
Decrease in long-term and short-term bank deposits with maturities of over 3 months		250	2,800
Interest received		215	264
Investment income received		664	1,144
Net cash generated from/(used in) investing activities		7,148	(35,786)
Cash flows from financing activities			
Principal elements of lease payments	31(b)	(622)	(299)
Proceeds from new bank borrowings	31(b)	500	20,500
Repayment of bank borrowings	31(b)	(20,500)	(38,873)
Dividends paid	31(b)	(29,134)	(26,485)
Net cash used in financing activities		(49,756)	(45,157)
Net increase in cash and cash equivalents		16,297	37,384
Effect of foreign exchange rate changes		(1,920)	534
Cash and cash equivalents at 1 January		119,316	81,398
Cash and cash equivalents at 31 December	24	133,693	119,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

These consolidated financial statements are presented in Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of Changmao Biochemical Engineering Company Limited and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of Changmao Biochemical Engineering Company Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The financial statements have been prepared on a historical cost basis, except for derivative financial instruments which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements is disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) *New and amended standards, improvements and interpretation adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- *Definition of Material – amendments to HKAS 1 and HKAS 8*
- *Definition of a Business – amendments to HKFRS 3*
- *Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7*
- *Revised Conceptual Framework for Financial Reporting*

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

(b) *New and amended standards and revised framework not yet adopted*

The following new standards, amendments, interpretation to standards and accounting guideline have been published that are not mandatory for the year ended 31 December 2020 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Noncurrent	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements	Annual Improvements to HKFRS Standards 2018-2020 Cycle	1 January 2022

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

(a) *Consolidation*

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2020.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(b) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Costs include direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other losses, net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Patents

Patents are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Patents are amortised using the straight-line method over their estimated useful lives range from 10 to 19 years.

Where an indication of impairment exists, the carrying amounts of the patents are assessed and written down immediately to their recoverable amounts.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs less accumulated impairment losses to their estimated residual values over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	5-10 years
Equipment and motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses, net" in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Construction in progress

Construction in progress is stated at cost, which comprises construction costs, purchase costs, interest and other direct costs incurred in connection with the construction of buildings, plant and machinery for own use, less accumulated impairment losses, if any.

No depreciation is provided for in respect of construction in progress until the construction and installation is completed and ready for their intended use, upon which they will be transferred to appropriate categories of property, plant and equipment.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's FVLCOD and VIU. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.9 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Non-current assets held for sale (Continued)

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale classified as held for sale are presented separately from the other assets in the balance sheet.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other losses, net".

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the statement of profit or loss in which it arises.

Losses allowance of financial assets are presented as separate line item in the consolidated statement of comprehensive income.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditures. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. They are generally due for settlement within 30-120 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 20 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank deposits with original maturities of more than three months are excluded from cash and cash equivalents.

2.16 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

The Group's forward foreign exchange contracts is recognised as derivatives financial instruments that do not qualify for hedge accounting, and changes in the fair value of these derivative instruments are recognised immediately in the consolidated statement of comprehensive income within "other losses, net".

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade and other payables

Trade payables are obligations to pay for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within the normal operating cycle of the business. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax (Continued)

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.22 Employees benefits

(a) Pension obligations

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments in Mainland China for its PRC based employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Group. Contributions to these plans are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employees benefits (Continued)

(a) Pension obligations (Continued)

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,500 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

(b) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.23 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition

The Group manufactures and sells a range of organic acids products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sale of goods is based on the price specified in the sales contracts. No element of financing is deemed present as the sales are made within the credit terms, which is consistent with market practice.

Receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Deposit collected from the customers before product delivery is recognised as contract liabilities.

2.25 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.26 Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset when the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.27 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The incremental borrowing rate applied was HKD Prime Rate.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise low-value lease of warehouse.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance.

(a) *Foreign exchange risk*

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 currency exposures, primarily with respect to United States Dollars ("USD").

Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposures should the need arises. During the year, the Group used forward contracts to hedge, but do not qualify for hedge accounting, its foreign currency exposure in USD.

At 31 December 2020, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would have been approximately RMB1,948,000 (2019: RMB3,207,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, other payables, bank deposits and bank borrowings.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

(i) Risk Management

The Group's credit risk arises from pledged bank balances and cash and bank balances, trade and bills receivables, derivative financial instruments and other receivables and deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets which are stated as follows:

	2020 RMB'000	2019 RMB'000
Trade, bills and other receivables and deposits excluding prepayments, deferred expenses in relation to relocation and value-added tax receivables (Note 18)	73,598	68,594
Derivative financial instruments (Note 18)	123	43
Pledged bank balances and cash and bank balances (Note 24)	149,555	121,804
Maximum exposure to credit risk	223,276	190,441

The credit period of the majority of the Group's trade receivables is due within 30 to 120 days and largely comprises amounts receivable from corporate customers.

In respect of trade receivables, the Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers, taking into account its financial position, past experience and other factors. The Directors consider the Group does not have a significant concentration of credit risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

The Group has four types of financial assets that are subject to HKFRS 9's expected credit loss model:

- trade and bills receivables;
- other receivables and deposits, excluding prepayments, deferred expenses in relation to relocation and value-added tax receivables;
- derivative financial instruments;
- pledged bank balances and cash and bank balances.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped with similar risk characteristics and collectively or individually assessing them for likelihood of recovery.

The Group categorises its trade receivables, except those individually assessed, based on geographical location and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Given the track record of regular repayment of trade receivables under the collective assessment, the directors are of the opinion that the risk of default by these customers is not significant, taking into account forward-looking information on macroeconomic factors. Therefore, expected credit loss rate of these trade receivables is assessed to be insignificant.

For trade receivables relating to accounts which are long overdue with known insolvencies or non-response to collection activities, they are assessed individually for loss allowance. Accordingly, a specific loss allowance of RMB739,000 (2019: RMB890,000) (Note 20(a)) were made as at 31 December 2020.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Bills receivables, derivative financial instrument and cash at bank

As at 31 December 2020, substantially all of the Group's bank balances are deposited in major financial institutions located in the PRC. Management does not expect any losses from non-performance by these banks. Bills receivables and derivative financial instruments are mostly settled by state owned banks or other reputable banks and therefore the management considers that they will not expose the Group to any significant credit risk. The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past, therefore, the identified credit loss allowance was also immaterial (2019: same).

Other receivables and deposits

Loss allowance on other receivables and deposits from third parties are measured as either 12-months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

If a significant increase in credit risk of a receivable has occurred since initial recognition, then loss allowance is measured as lifetime expected credit losses. The loss allowance for other receivables and deposits have increased by RMB119,000 (2019: increased by RMB25,000) during the year ended 31 December 2020.

(c) Liquidity risk

The Group's primary cash requirements have been for construction of and upgrades on property, plant and equipment, repayment on related borrowings and payment for research and development expenses. The Group finances its working capital requirements through funds generated from operations and short-term bank borrowings.

Due to the dynamic nature of the underlying businesses, the Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate lines of funding to meet its liquidity requirements in the short and long term.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interests payments computed using contractual rates, or if floating, based on the current rates at the year end date):

	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At 31 December 2020			
Trade and bills payables	78,707	–	78,707
Other payables	25,070	–	25,070
Lease liabilities	309	–	309
Bank borrowings	528	–	528
Total	104,614	–	104,614
At 31 December 2019			
Trade and bills payables	20,139	–	20,139
Other payables	22,374	–	22,374
Lease liabilities	658	329	987
Bank borrowings	20,511	–	20,511
Total	63,682	329	64,011

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and bank balances, details of which are disclosed in Note 24. The Group's exposure to changes in interest rates is mainly attributable to its short-term bank borrowings. Management intends to draw short-term bank loans so as to increase flexibility in financing.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk (Continued)

Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. The Group will review whether bank loans bearing fixed or floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2020, if the interest rates on borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately RMB1,000 (2019: RMB17,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase shares from shareholders or sell assets to reduce debt.

The Group monitors capital on the basis of the liabilities-to-assets ratio. This ratio is calculated as total liabilities divided by total assets. The Group aims to maintain the ratio at a reasonable level.

The liabilities-to-assets ratio at 31 December 2020 and 2019 was as follows:

	2020	2019
Total liabilities (RMB'000)	197,414	75,425
Total assets (RMB'000)	847,329	737,739
Liabilities-to-assets ratio	23.3%	10.2%

The increase in liabilities-to-assets ratio is mainly due to the proceed received from the government compensation in relation to relocation (Note 28).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Fair value hierarchy

	31 December 2020 RMB'000	31 December 2019 RMB'000
Level 2		
Foreign exchange forward contracts assets	123	43

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Majority of the carrying amount of the Group's financial assets, including cash and bank balances, pledged bank balances, trade and bills receivables, other receivables and deposits, and financial liabilities, including trade and bills payables, contract liabilities, other payables, lease liabilities and short-term bank borrowings, approximate their fair values due to their short maturities.

3.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2020 and 2019.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Impairment of property, plant and equipment and intangible assets

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on higher of FVLCOD or VIU calculations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of FVLCOD and VIU which is the net present value of future cash flows estimated based upon the continued use of the asset in the business; (iii) the appropriate key assumptions to be applied in the impairment test included market data used in FVLCOD, gross margin and discount rate for preparing cash flow forecast used in VIU calculation. Changing the assumptions selected by management, could affect the recoverable amounts used in the impairment test and as a result affect the Group's financial position and results of operations.

As at 31 December 2020, the Group has certain non-financial assets, including property, plant and equipment, land use rights and construction in progress related to the production plants in Lianyungang Changmao amounting to approximately RMB147 million. The production plants in Lianyungang commenced operations since early 2016 and have been operating at loss since its commencement of operations.

In early 2018, Jiangsu Provincial authority has requested all the enterprises in Lianyungang Industrial Park ("Industrial Park") to suspend production due to certain enterprises in the Industrial Park continued to experience safety and environmental accidents. The production of Lianyungang Changmao was then suspended, as Lianyungang Changmao is located in Industrial Park. However, Lianyungang Changmao has strictly complied with various laws and regulations and carried out plant construction and project approval work in accordance with national regulations since its incorporation. In 2020, management reviewed its business plan and approved to dismantle part of the assets in order to apply for commencing production with the remaining production facilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment of property, plant and equipment and intangible assets (Continued)

Management considered the operating losses, the temporary suspension of the production and dismantlement plan of certain assets as impairment indicators on the non-financial assets and has performed an impairment assessment on these assets as at 31 December 2020. Based on the results of the assessment, impairment provision for Lianyungang Changmao was recognised amounting to RMB13 million to reduce the aggregate carrying values to RMB134 million as at 31 December 2020. Detail disclosure of the valuation of Lianyungang Changmao is made in Note 15.

(b) Net realisable value of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Provisions are made for inventories where events or changes in circumstances indicate that the balances may not be realised. The identification of obsolescence requires the use of judgement and estimates. Where the estimate is different from the original amount, such difference will impact the carrying value of inventories and net realisable value for the periods in which such estimate is changed. In addition, management has assessed the realisability of the inventories and considers that the provision for inventories impairment is adequate and reasonable in the current year.

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment, with reference to the estimated periods that the Group intends to derive future economic benefits from use of these assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charges where useful lives or residual values are different from previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Trade and other receivables

The loss allowances for trade and other receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Income taxes and deferred tax

The Group is subject to income taxes in Mainland China. Judgement is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

(f) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset when the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Significant judgement is required in determining the capitalisation of development costs. Development costs that are recognised as assets are amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred.

(g) Derecognition of financial assets and liabilities

Bills receivables are derecognised when the rights to receive cash flows from such bills receivables have matured or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred bills receivables, the Group shall continue to recognise the transferred bills receivables in its entirety and shall continue to recognise the corresponding financial liability to be settled until the transferred bills receivables matured. Significant judgement is required in determining whether the bills receivables will be honoured by the financial institution upon its maturity.

NOTES TO THE 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 sales of organic acids products. Resources of the Group are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, and the executive directors consider the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirement of HKFRS 8.

	2020 RMB'000	2019 RMB'000
Revenue from sales of goods, recognised at a point in time	444,106	494,580

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

	2020 RMB'000	2019 RMB'000
Mainland China	284,951	263,554
Europe	66,537	101,066
Asia Pacific	64,287	81,087
America	16,134	36,748
Others	12,197	12,125
	444,106	494,580

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

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

5 REVENUE AND SEGMENT INFORMATION (Continued)

As at 31 December 2020, all the Group's non-current assets (other than the deferred income tax assets) amounted to RMB412,137,000 (2019: RMB406,771,000) are located in Mainland China.

Included in the revenue from sales of goods, approximately RMB18,447,000 (2019: RMB29,933,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 4% (2019: 6%) of the total revenue of the Group. There are no single customers contributing over 10% of the Group's total revenue.

Assets and liabilities related to contract with customers

The Group has not recognised any contract assets related to contract with customers as at 31 December 2020.

(i) *Significant changes in contract liabilities*

Contract liabilities have been decreased by RMB295,000 due to a decrease in overall contract activities.

(ii) *Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

Revenue recognised that was included in the balance of contract liabilities at the beginning of the period.

	2020 RMB'000	2019 RMB'000
Sales of products	2,165	2,935

6 OTHER INCOME AND OTHER LOSSES, NET

	2020 RMB'000	2019 RMB'000
Other income		
Government grants	1,962	1,632
Others	771	1,770
	2,733	3,402

	2020 RMB'000	2019 RMB'000
Other losses, net		
Fair value gains on financial assets at FVPL	1,142	43
Net exchange (losses)/gains	(3,663)	1,035
Loss on disposal of property, plant and equipment	(1,291)	(2,144)
Others	(263)	–
	(4,075)	(1,066)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2020 RMB'000	2019 RMB'000
Cost of inventories sold	181,112	191,650
Staff costs (including emoluments of Directors and Supervisors) (Note 12)	55,946	65,477
Utilities	53,163	43,502
Depreciation of property, plant and equipment (Note 15)	31,380	34,279
Transportation costs	17,434	17,272
Impairment loss on non-financial assets (Note 15)	12,869	–
Research and development costs	11,591	10,302
Maintenance costs	11,589	11,815
Auditors' remuneration – audit services	1,367	1,321
Depreciation of right-of-use assets (Note 15)	1,311	995
Amortisation of patents (Note 14)	92	85
Reversal of loss allowance on financial assets	(120)	(344)
(Reversal of)/provision for inventories to net realisable value (Note 19)	(175)	698
Other expenses	48,206	57,054
	425,765	434,106

Included in research and development costs are mainly expenditures incurred for the formulation, design, evaluation and application of various forms of organic acids products for commercial use. Management assessed that those internal projects are in the research and initial development stage, and did not recognise any of those expenditure as an asset.

8 FINANCE INCOME/(COSTS), NET

	2020 RMB'000	2019 RMB'000
Interest for lease liabilities (Note 15)	(34)	(30)
Interest on bank borrowings	(28)	(491)
	(62)	(521)
Interest income on bank deposits	215	264
Finance income/(costs), net	153	(257)

9 INCOME TAX EXPENSE

PRC Corporate Income Tax ("CIT") is provided for on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being qualified as a 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 standard tax rate of 25%.

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

	2020 RMB'000	2019 RMB'000
Current income tax		
– Provision for CIT	6,407	11,387
– Over-provision in prior year	(82)	(526)
Deferred income tax (Note 30)	(5,916)	(6,235)
	409	4,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities as follows:

	2020 RMB'000	2019 RMB'000
Profit before income tax	17,152	62,553
Calculated at the tax rates applicable to results of the respective consolidated entities	(1,349)	6,285
Expenses not deductible for tax purposes	547	533
Tax losses for which no deferred income tax asset was recognised	360	683
Timing differences for which no deferred income tax asset was recognised	(83)	(120)
Reversal of previously recognised tax losses	3,477	320
Tax incentives for research and development expenses*	(2,417)	(2,373)
Over-provision in prior year	(82)	(526)
Others	(44)	(176)
Income tax expense	409	4,626

* According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% (2019: 175%) of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed in ascertaining the assessable profits for the years ended 31 December 2020 and 2019.

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2020 is based on the profit attributable to the equity holders of the Company of RMB16,827,000 (2019: RMB58,299,000) and 529,700,000 (2019: 529,700,000) weighted average number of shares in issue during the year.

The Company had no dilutive potential shares in issue during the year (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 DIVIDENDS

No interim dividend was declared during the year (2019: Nil). The dividend paid in 2020 and 2019 were RMB29,134,000 (RMB0.055 per share) and RMB26,485,000 (RMB0.050 per share) respectively. A final dividend in respect of the year ended 31 December 2020 of RMB0.020 per share, totalling RMB10,594,000 is to be proposed at the Annual General Meeting on 18 May 2021. These financial statements do not reflect this dividend payable.

12 STAFF COSTS

Staff costs including Directors' and Supervisors' remuneration are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, wages and related welfare	49,633	48,650
Social security costs (Note a)	5,817	10,820
Contribution to defined contribution retirement schemes (Note b)	496	6,007
	55,946	65,477

Notes:

(a) According to policies issued by the Ministry of Human Resources and Social Security and local municipal departments, affected by Coronavirus Disease 2019 (COVID-19), social security relief policies have been successively implemented by local authorities. As such, the social insurance expenses for the period from February to December 2020 have been reduced or exempted accordingly.

(b) The Group is required to participate in defined contribution retirement schemes organised by the relevant local government authorities for its PRC based employees. Contributions to the retirement schemes are payable at a rate of 16% in January 2020 and exempted from February to December 2020 (2019: 16%) of the total salaries and allowances of the PRC based employees, subject to a ceiling, and the Group has no further retirement benefit obligations to all its existing and future retired PRC based employees.

13 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the Supervisors of the Company for the year ended 31 December 2020 is set out as follows:

	Fees	Salaries	Discretionary Bonus	Housing Allowance	Estimated money value of other benefit	Retirement benefits contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ms. Zhou Rui Juan	15	5	–	–	–	–	20
Mr. Zhou Zhi Wei (Note (i)	9	–	–	–	–	–	9
Mr. Lu A Xing (Note (ii))	3	86	–	–	–	2	91
Mr. Zhang Jun Peng	6	251	–	–	–	1	258
Prof. Jiang Yao Zhong (Note (iii))	8	–	–	–	–	–	8
Mr. Geng Gang (Note (iv)	6	–	–	–	–	–	6

The remuneration of each of the Supervisors of the Company for the year ended 31 December 2019 is set out as follows:

	Fees	Salaries	Discretionary Bonus	Housing Allowance	Estimated money value of other benefit	Retirement benefits contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ms. Zhou Rui Juan	15	24	–	–	–	–	39
Mr. Lu A Xing	6	391	–	–	–	38	435
Mr. Zhang Jun Peng	6	229	–	–	–	20	255
Prof. Jiang Yao Zhong	15	–	–	–	–	–	15
Mr. Geng Gang	15	–	–	–	–	–	15

None of the supervisors received or will receive any retirement benefits or termination benefits during the financial year (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(a) (Continued)

Note:

(i) Mr. Zhou Zhi Wei was appointed as the supervisor on 1 June 2020.

(ii) Mr. Lu A Xing resigned as the supervisor on 30 June 2020.

(iii) Prof. Jiang Yao Zhong resigned as the supervisor on 30 June 2020.

(iv) Mr. Geng Gang resigned as the supervisor on 1 June 2020.

(b) Five highest paid individuals

Among the five highest paid individuals, two (2019: two) of them are Directors of the Company and the details of their remuneration are disclosed in Note 35(a). The emoluments of the remaining three highest paid individual are as follows:

	2020 RMB'000	2019 RMB'000
Basic salaries, allowances and benefits in kind	1,465	1,610
Discretionary bonus	–	262
Retirement benefit contributions	31	72
	1,496	1,944

The emoluments fell within the following bands:

	Number of individuals 2020	2019
Emolument bands (in Hong Kong dollars)		
Nil to HK$1,000,000	3	2
HK$1,000,001 to HK$1,500,000	0	1

(c) Senior management remuneration by band

Save as disclosed in Note 13(b) above, all senior management's (who are not Directors nor Supervisors) emolument fall within the band of HK$0 – HK$1,000,000 (2019: same).

14 PATENTS

	2020 RMB'000	2019 RMB'000
Net book amount, at 1 January	575	660
Additions	556	–
Amortisation charge (Note 7)	(92)	(85)
Net book amount, at 31 December	1,039	575

	2020 RMB'000	2019 RMB'000
At cost	12,156	11,600
Accumulated amortisation	(11,117)	(11,025)
Net book amount, at 31 December	1,039	575

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Buildings RMB'000	Plant and machinery RMB'000	Equipment and motor vehicles RMB'000	Total RMB'000
At 1 January 2019				
Cost	178,032	439,112	40,248	657,392
Accumulated depreciation	(74,068)	(258,854)	(31,933)	(364,855)
Net book amount	103,964	180,258	8,315	292,537
Year ended 31 December 2019				
Opening net book amount	103,964	180,258	8,315	292,537
Additions	–	121	847	968
Transfer from construction in progress (Note 16)	210	13,091	–	13,301
Disposals	(602)	(1,553)	(75)	(2,230)
Depreciation (Note 7)	(8,253)	(24,131)	(1,895)	(34,279)
Closing net book amount	95,319	167,786	7,192	270,297
At 31 December 2019				
Cost	176,977	446,749	40,028	663,754
Accumulated depreciation	(81,658)	(278,963)	(32,836)	(393,457)
Net book amount	95,319	167,786	7,192	270,297
Year ended 31 December 2020				
Opening net book amount	95,319	167,786	7,192	270,297
Additions	–	51	3,652	3,703
Transfer from construction in progress (Note 16)	7,432	34,960	–	42,392
Assets classified as held for sale	(2,192)	(35,357)	(582)	(38,131)
Other disposals	(141)	(1,195)	(58)	(1,394)
Depreciation (Note 7)	(8,001)	(21,647)	(1,732)	(31,380)
Impairment loss (Note a)	(3,201)	(6,366)	–	(9,567)
Closing net book amount	89,216	138,232	8,472	235,920
At 31 December 2020				
Cost	174,810	403,120	41,508	619,438
Accumulated depreciation and impairment	(85,594)	(264,888)	(33,036)	(383,518)
Net book amount	89,216	138,232	8,472	235,920

Depreciation expense of RMB26,115,000 (2019: RMB28,486,000) and RMB5,265,000(2019: RMB5,793,000) were charged in "cost of sales" and "administrative expenses" respectively for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

(a) Provision for impairment

According to the accounting policies stated in Note 2(8) and critical accounting estimates and judgements stated in Note 4(a), the Group performed impairment testing on property, plant and equipment, land use rights and construction in progress with impairment indicators, and recorded impairment charge of RMB9,567,000 and RMB3,302,000 on property, plant and equipment and construction in progress, respectively, for the year ended 31 December 2020.

Management engaged an independent valuer to assess the recoverable value of these assets, which is the higher of FVLCOD and VIU. FVLCOD is based on management estimates having regard to estimated the selling price to third-party provided by the external valuer. FVLCOD is a level 3 fair value measurement. VIU is determined using cash flow projections based on financial forecast covering a ten-year period prepared by management. A ten-year forecast is considered appropriate for chemical products industry, in order to take into account the expected industry operating cycle. The key assumptions include gross margin and discount rates applied to future cash flows. The pre-tax discount rate used in the 2020 impairment review was 16.6% (2019: 17.2%).

(b) Lease

This note provides information for leases where the Group is a lessee.

The Group's right-of-use assets and lease liabilities mainly arise from lease of four land use rights located in Mainland China with typically lease terms of 50 years and an office premises. The lease agreements do not impose any covenants, but leased assets were not used as security for borrowing purposes.

15 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

(b) Lease (Continued)

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	2020 RMB'000	2019 RMB'000
Right-of-use assets		
Land use rights	24,557	25,255
Office premises	306	919
	24,863	26,174
Lease liabilities		
Current	305	640
Non-current	–	309
	305	949

There is no addition to the right-of-use assets during the 2020 financial year (2019: RMB1,226,000).

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Note	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets	7	1,311	995
Interest expense (included in finance cost)	8	34	30
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)		–	257

The total cash outflow for leases in 2020 was RMB656,000 (2019: RMB586,000).

16 CONSTRUCTION IN PROGRESS

	2020 RMB'000	2019 RMB'000
At 1 January	109,232	87,531
Additions	77,000	35,002
Transfer to property, plant and equipment	(42,392)	(13,301)
Impairment (Note 15(a))	(3,302)	–
At 31 December	140,538	109,232

During the year ended 31 December 2020, no borrowing costs were capitalised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2020 are as follows:

Name	Place of establishment, operations and kind of legal entity	Particulars of registered and paid up capital	Interest directly held	Interest indirectly held	Principal activities
上海常茂生物化學工程有限公司 (Shanghai Changmao Biochemical Engineering Company Limited)	PRC, limited liability company	RMB20,000,000	100%	–	Trading of organic acids products and property holding
上海醫學生命科學研究中心有限公司 (Shanghai Medical Life Science Research Centre Limited) (Note a)	PRC, limited liability company	RMB15,384,600	57.44%	–	Research and development of medicine and nutraceutical products
常茂生物連雲港有限公司 (Changmao Biochemical Lianyungang Company Limited)	PRC, limited liability company	RMB50,000,000	100%	–	Sales and production of food additives
Changmao (Hong Kong) Company Limited	Hong Kong, limited company	HKD1	100%	–	Trading of organic acids products
維萌(上海)商貿有限公司 (Shanghai Vitalements Trading Co., Ltd.)	PRC, limited liability company	Registered capital: RMB1,000,000 Paid up capital: RMB2,000	–	100%	General trading
常茂(大連)新材料有限公司 (Changmao (Da Lian) New Material Company Limited)	PRC, limited liability company	Registered capital: RMB100,000,000 Paid up capital: Nil	100%	–	Manufacturing and sales of organic acid products

Note a: No summarised financial information of Shanghai Medical Life Science Research Centre Limited is presented as the non-controlling interest is not material to the Group.

18 FINANCIAL INSTRUMENTS BY CATEGORY

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade and bills receivables	69,535	64,131
Other receivables and deposits excluding prepayments, deferred expenses and value-added tax receivables	4,063	4,463
Pledged bank balances	15,212	1,588
Cash and bank balances	134,343	120,216
Financial assets at fair value through profit or loss		
Derivative financial instruments	123	43
Total	223,276	190,441

	2020 RMB'000	2019 RMB'000
Financial liabilities		
Financial liabilities at amortised cost		
Bank borrowings	500	20,500
Trade and bills payables	78,707	20,139
Other payables excluding government compensation in relation to relocation, accruals and contract liabilities	25,070	22,374
Financial liabilities at fair value through profit or loss		
Lease liabilities	305	949
Total	104,582	63,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	38,197	40,141
Work-in-progress	2,433	7,675
Finished goods – at cost	84,910	58,367
	125,540	106,183

As at 31 December 2020, provision for impairment of inventories amounting to RMB1,844,000 (2019: RMB2,019,000).

The cost of inventories recognised as expense and include in "cost of sales" amounted to 181,112,000 (2019: 191,650,000) which included reversal of provision for inventories to net realisable value of RMB175,000 (2019: provision for inventories to net realisable value of RMB698,000).

20 TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	52,389	48,584
Bills receivables	17,146	15,547
	69,535	64,131

20 TRADE AND BILLS RECEIVABLES (Continued)

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

	2020 RMB'000	2019 RMB'000
0 to 3 months	50,309	44,217
4 to 6 months	2,706	5,074
Over 6 months	113	183
	53,128	49,474
Less: Loss allowance (Note 3.1)	(739)	(890)
	52,389	48,584

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

(c) Loss allowance of trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the allowance.

Information about the impairment of trade receivables and the Group's exposure to foreign exchange risk and credit risk can be found in Note 3.1.

20 TRADE AND BILLS RECEIVABLES (Continued)

(c) Loss allowance of trade receivables (Continued)

The closing loss allowances for all trade receivables reconcile to the opening loss allowances are as follows:

	RMB'000
Loss allowance as at 1 January 2019	1,359
Trade receivables written off during the year as uncollectible	(100)
Reversal of loss allowance for trade receivables	(369)
Loss allowance as at 31 December 2019	890
Reversal of loss allowance for trade receivables	(151)
Loss allowance as at 31 December 2020	739

Any loss allowance of trade receivables is separately presented in the consolidated statement of comprehensive income. The amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(d) The carrying amounts of trade and bills receivables approximate their fair values and are denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
RMB	44,440	32,661
USD	25,095	31,470
	69,535	64,131

(e) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

21 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other receivables, deposits and prepayments

	2020 RMB'000	2019 RMB'000
Prepayments and deposits	15,723	6,155
Value-added tax receivables	11,641	8,234
Other receivables	4,063	2,404
Deferred expenses in relation to relocation	2,705	–
	34,132	16,793
Less: Non-current portion		
Prepayments for property, plants and equipment	(9,777)	(493)
Current portion	24,355	16,300

22 ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale

	2020 RMB'000	2019 RMB'000
Property, plant and equipment	38,130	–

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

The concerned property, plant and equipment were classified to assets held for sale and measured at the lower of their carrying amount and fair value less costs to sell at the time of the reclassification. Since the compensation consideration has exceeded the carrying amount of assets classified as held for sale, the Group did not recognise any impairment loss.

23 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2020, derivative financial instruments represented foreign exchange forward contracts that were not qualified for hedge accounting under the requirement of HKAS 39. These contracts were used to sell USD for RMB.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2020 were approximately RMB9,530,000 (2019: RMB17,343,000). These foreign exchange forward contracts held for trading were expected to be settled within 12 months.

24 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	2020 RMB'000	2019 RMB'000
Short-term bank deposits with original maturities of over 3 months	650	900
Cash and cash equivalents	133,693	119,316
Cash and bank balances	134,343	120,216
Pledged bank balances	15,212	1,588
Total	149,555	121,804

	2020 RMB'000	2019 RMB'000
Denominated in:		
– RMB	127,421	77,056
– USD	21,807	44,537
– HKD	327	211
	149,555	121,804

The effective interest rate on long-term bank deposits and short-term bank deposits with original maturities of over 3 months are ranged from 1.35% to 1.55% (2019: 1.35% to 1.75%) per annum. These deposits have remaining maturities ranged from 2 months to 5 months (2019: 1 month to 8 months) as at 31 December 2020.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

24 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES (Continued)

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.

Bank balances of RMB15,212,000 (2019: RMB1,588,000) have been pledged to a bank to secure the Group's bills financing facilities as at 31 December 2020.

25 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at RMB0.10 each	Nominal Value RMB'000
At 31 December 2020 and 2019	529,700,000	52,970

As at 31 December 2020 and 2019, the share capital of the Company comprised 2.5 million domestic shares, 343.5 million promoter foreign shares and 183.7 million H shares. The H shares rank pari passu with the domestic shares and promoter 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.

26 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 year	–	–	–	–	58,299	58,299
Other comprehensive income – currency translation difference – Group	–	–	–	5	–	5
Final dividend for the year ended 31 December 2018	–	–	–	–	(26,485)	(26,485)
At 31 December 2019	102,559	87,233	461	6	418,463	608,722

	Share premium RMB'000	Statutory common reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2020	102,559	87,233	461	6	418,463	608,722
Profit for the year	–	–	–	–	16,827	16,827
Other comprehensive income – currency translation difference – Group	–	–	–	(8)	–	(8)
Final dividend for the year ended 31 December 2019	–	–	–	–	(29,134)	(29,134)
At 31 December 2020	102,559	87,233	461	(2)	406,156	596,407

Statutory common reserve

According to the Company's Articles of Association, the Company is required to transfer 10% of its profit after tax, as determined in accordance with the PRC accounting rules and regulations, to statutory common reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory common reserve can be used to make good previous years' losses, if any, to expand the business operations of the Company and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital of the Company.

27 TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	28,000	14,845
Bills payables	50,707	5,294
	78,707	20,139

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

	2020 RMB'000	2019 RMB'000
0 to 6 months	27,646	13,642
7 to 12 months	100	822
Over 12 months	254	381
	28,000	14,845

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

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

28 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Government compensation in relation to relocation (Note)	88,261	–
Construction payables	9,566	5,963
Payroll and welfare payables	6,056	8,539
Contract liabilities	2,103	2,398
Other tax payables	2,059	1,984
Payables to transportation charges	1,675	1,625
Deferred government subsidy	1,026	1,944
Provision for utilities and safety expenses	829	1,919
Others	5,959	8,879
	117,534	33,251
Less: Non-current portion		
Deferred government subsidy	(712)	(1,452)
Current portion	116,822	31,799

Note:

As detailed in Note 22, On 28 September 2020, the Company and the Government Representative entered into the Closure and Relocation Agreement, of which certain production lines of the Group in Changzhou City were expected to be shut down or relocated. As at 31 December 2020, the Company has received compensation consideration amounting to RMB88,261,000.

29 BANK BORROWINGS

	2020 RMB'000	2019 RMB'000
Repayable within 1 year and denominated in RMB	500	20,500

The carrying amounts of the Group's bank borrowings approximate their fair values.

As at 31 December 2020, the effective interest rate of the bank borrowings was 4.4% (2019: 3.9%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 DEFERRED INCOME TAX

The gross movement on the deferred income tax account is as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	19,690	13,455
Credited to the statement of comprehensive income (Note 9)	5,916	6,235
At 31 December	25,606	19,690

The movements in deferred income tax assets and liabilities during the year, without taking into consideration of the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Deferred income RMB'000	Provisions RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2019	398	1,001	12,550	13,949
(Charged)/credited to the consolidated statement of comprehensive income	(90)	128	6,274	6,312
At 31 December 2019	308	1,129	18,824	20,261
(Charged)/credited to the consolidated statement of comprehensive income	(138)	3,170	3,038	6,070
At 31 December 2020	170	4,299	21,862	26,331
Set-off of deferred tax assets pursuant to set-off provisions				(357)
At 31 December 2020				25,974

30 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities:

	Accelerated tax depreciation RMB'000	Fair value gain on patents RMB'000	Total RMB'000
At 1 January 2019	329	165	494
Charged/(credited) to the consolidated statement of comprehensive income	98	(21)	77
At 31 December 2019	427	144	571
Charged/(credited) to the consolidated statement of comprehensive income	175	(21)	154
At 31 December 2020	602	123	725
Set-off of deferred tax assets pursuant to set-off provisions			(357)
At 31 December 2020			368

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB6,335,000 (2019: RMB3,313,000) in respect of losses amounting to approximately RMB25,341,000 (2019: RMB13,252,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2020 RMB'000	2019 RMB'000
2020	–	2,730
2021	15,807	1,901
2022	3,789	3,789
2023	2,101	2,101
2024	2,174	2,731
2025	1,470	–
	25,341	13,252

The Group had no unrecognised deferred income tax liabilities as at 31 December 2020 (2019: Nil).

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash generated from operations

	2020 RMB'000	2019 RMB'000
Profit before income tax	17,152	62,553
Adjustments for:		
Interest income	(215)	(264)
Investment income	(664)	(1,144)
Interest expense	62	521
Unrealised exchange difference	1,890	(945)
Fair value gain on derivative financial instruments	(80)	(43)
Amortisation of patents	92	85
Depreciation of property, plant and equipment	31,380	34,279
Depreciation of right-of-use assets	1,311	995
Loss on disposal of property, plant and equipment	1,291	2,144
Reversal of loss allowance on financial assets	(120)	(344)
(Reversal of)/Provision for inventories to net realisable value	(175)	698
Impairment for non-financial assets	12,869	–
	64,793	98,535
Changes in working capital:		
(Increase)/decrease in inventories	(19,182)	1,143
(Increase)/decrease in trade and bills receivables, other receivables, deposits and prepayments	(34,933)	35,415
Increase/(decrease) in trade and bills payables, contract liabilities, other payables and accruals	55,283	(26)
Decrease in deferred income	(918)	(491)
Cash generated from operations	65,043	134,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Lease liabilities		Bank borrowings		Dividends payable	
	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	949	–	20,500	39,311	–	–
Additions – leases	–	1,226	–	–	–	–
New bank borrowings	–	–	500	20,500	–	–
Repayment of principals	(622)	(299)	(20,500)	(38,873)	–	–
Interest paid	(34)	(30)	–	–	–	–
Interest accretion	34	30	–	–	–	–
Exchange difference	(22)	22	–	(438)	–	–
2019/2018 final dividend	–	–	–	–	29,134	26,485
Dividends paid	–	–	–	–	(29,134)	(26,485)
At 31 December	305	949	500	20,500	–	–

32 COMMITMENTS

Capital commitments for property, plant and equipment are as follows:

	2020	2019
	RMB'000	RMB'000
Contracted but not provided for	6,547	6,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 RELATED PARTY TRANSACTIONS

(a) Key management compensation

	2020 RMB'000	2019 RMB'000
Salaries and other short-term employee benefits	1,438	3,043
Retirement benefit contributions	3	38
	1,441	3,081

(b) Transactions with a related party

The following transactions did not constitute connected transactions as defined in Chapter 14A of the Listing Rules:

	2020 RMB'000	2019 RMB'000
Received from a related party (Note)	–	20,500
Payment to a related party (Note)	8,000	12,000
Purchase of equipment and patents	7,416	–

Note: The transactions derived from bank borrowing with a related party are interest-free and with short turnover days.

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY

AS AT 31 DECEMBER 2020

		2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Patents		548	–
Property, plant and equipment		176,709	194,615
Right-of-use assets		7,766	8,619
Construction in progress		58,721	28,548
Investments in subsidiaries		72,794	72,794
Deferred income tax assets		502	685
Prepayments		8,475	193
		325,515	305,454
Current assets			
Inventories		110,542	91,211
Trade and bills receivables		69,491	64,081
Other receivables, deposits and prepayments		14,151	4,973
Amounts due from subsidiaries		11,346	11,042
Loans to a subsidiary		230,000	208,000
Income tax recoverable		1,980	2,245
Derivative financial instruments		123	43
Pledged bank balances		15,212	1,588
Cash and bank balances		130,445	116,485
		583,290	499,668
Assets classified as held for sale		38,130	–
		621,420	499,668
Total assets		946,935	805,122
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		52,970	52,970
Reserves	Note (a)	701,724	681,019
Total equity		754,694	733,989

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

BALANCE SHEET OF THE COMPANY (Continued)

AS AT 31 DECEMBER 2020

	2020 RMB'000	2019 RMB'000
LIABILITIES		
Non-current liability		
Deferred income	712	1,452
Lease liabilities	–	309
	712	1,761
Current liabilities		
Trade and bills payables	78,707	20,124
Contract liabilities, other payables and accruals	112,017	28,108
Lease liabilities	305	640
Bank borrowings	500	20,500
	191,529	69,372
Total liabilities	192,241	71,133
Total equity and liabilities	946,935	805,122

The balance sheet of the Company was approved by the Board of Directors on 30 March 2021 and was signed on its behalf

Rui Xin Sheng *Director*	**Pan Chun** *Director*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Note (a) Reserve movement of the Company

	Share premium RMB'000	**Statutory common reserve** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2019	102,559	87,233	435,375	625,167
Profit and total comprehensive income for the year	–	–	82,337	82,337
Final dividend for the year ended 31 December 2018	–	–	(26,485)	(26,485)
At 31 December 2019	102,559	87,233	491,227	681,019

	Share premium RMB'000	**Statutory common reserve** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2020	102,559	87,233	491,227	681,019
Profit and total comprehensive income for the year	–	–	49,839	49,839
Final dividend for the year ended 31 December 2019	–	–	(29,134)	(29,134)
At 31 December 2020	102,559	87,233	511,932	701,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each of the Directors and chief executive officer's of the Company for the year ended 31 December 2020 is set out as follows:

Name of Director	Fees	Salaries	Discretionary bonus	Housing allowance	Estimated money value of other benefits	Retirement benefit contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director							
Mr. Rui Xin Sheng	320	480	–	–	–	–	800
Mr. Pan Chun (Note (i))	100	538	–	–	–	3	641
Non-executive director							
Mr. Zeng Xian Biao	50	–	–	–	–	–	50
Mr. Yu Xiao Ping	50	–	–	–	–	–	50
Ms. Leng Yi Xin	50	–	–	–	–	–	50
Mr. Wang Jian Ping (Note (iii))	20	–	–	–	–	–	20
Independent non-executive director							
Prof. Ouyang Ping Kai	60	–	–	–	–	–	60
Ms. Wei Xin	60	–	–	–	–	–	60
Ms. Au Fung Lan	60	–	–	–	–	–	60

35 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

The remuneration of each of the Directors and chief executive officer's of the Company for the year ended 31 December 2019 is set out as follows:

Name of Director	Fees	Salaries	Discretionary bonus	Housing allowance	Estimated money value of other benefits	Retirement benefit contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director							
Mr. Rui Xin Sheng	320	480	1,049	–	–	–	1,849
Mr. Pan Chun (Note (i))	100	745	349	–	–	38	1,232
Non-executive director							
Mr. Zeng Xian Biao	50	–	175	–	–	–	225
Mr. Yu Xiao Ping	50	–	175	–	–	–	225
Ms. Leng Yi Xin	50	–	175	–	–	–	225
Mr. Wang Jian Ping	50	–	175	–	–	–	225
Independent non-executive director							
Prof. Ouyang Ping Kai	60	–	–	–	–	–	60
Prof. Yang Sheng Li (Note (ii))	30	–	–	–	–	–	30
Ms. Wei Xin	60	–	–	–	–	–	60
Ms. Au Fung Lan	60	–	–	–	–	–	60

Note:

(i) Mr. Pan is also the chief executive officer of the Company.

(ii) Prof. Yang Sheng Li resigned as the independent non-executive director on 17 June 2019.

(iii) Mr. Wang Jian Ping has waived director's fee amounting to RMB30,000 for the year ended 31 December 2020 (2019: Nil). Save for that, none of the Directors waived any emoluments during the years ended 31 December 2020 and 2019.

(iv) No remuneration paid to or receivables by the Directors of the Company in respect of accepting office as director or director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

35 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the financial year (2019: Nil).

(c) Consideration provided to third parties for making available directors' services

During the financial year ended 31 December 2020, the Company did not pay consideration to any third parties for making available directors' services (2019: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2020, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors (2019: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: Nil).

FIVE YEAR SUMMARY

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Consolidated results					
Revenue	594,402	630,841	639,120	494,580	444,106
Operating profit	34,437	1,215	55,454	62,810	16,999
Finance income/(costs), net	364	29	(853)	(257)	153
Profit before income tax	34,801	1,244	54,601	62,553	17,152
Income tax (expense)/credit	(1,485)	1,456	(4,692)	(4,626)	(409)
Profit for the year	33,316	2,700	49,909	57,927	16,743
Profit for the year attributable to:					
Equity holders of the Company	33,172	3,382	50,525	58,299	16,827
Non-controlling interest	144	(682)	(616)	(372)	(84)
Dividends	10,594	–	26,485	29,134	10,594
Consolidated assets and liabilities					
Total non-current assets	400,861	416,937	420,620	427,032	438,111
Total current assets	275,497	315,445	311,398	310,707	409,218
Total current liabilities	(85,044)	(148,511)	(98,712)	(73,093)	(196,334)
Net current assets	190,453	166,934	212,686	237,614	212,884
Total assets less current liabilities	591,314	583,871	633,306	664,646	650,995
Total non-current liabilities	(2,461)	(2,914)	(2,439)	(2,332)	(1,080)
Net assets	588,853	580,957	630,867	662,314	649,915
Earnings per share					
– basic and diluted	RMB0.063	RMB0.006	RMB0.095	RMB0.110	RMB0.032

GLOSSARY

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*)
Chirotechnology Centre	The Jiangsu Biochemical Chirotechnology Research Centre
CIT	Corporate Income Tax
Concurrent Production Technology	The concurrent production technology for the production of fumaric acid and malic acid
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
GMP	Good Manufacturing Practices
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
HK Xinsheng Ltd	Hong Kong Xinsheng Pioneer Investment Company Limited
Lianyungang Changmao	Changmao Biochemical Lianyungang Company Limited, a subsidiary of the Company

GLOSSARY

Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange
Main Board	The securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM, and for avoidance of doubt, it does not include GEM for the purpose hereof
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
PQQ	Pyrroloquinoline quinone
PRC	The People's Republic of China
RMB	Renminbi
SFO	Securities and Futures Ordinance
Shanghai Changmao	Shanghai Changmao Biochemical Engineering Company Limited, a subsidiary of the Company
Shanghai Life Sci	Shanghai Medical Life Science Research Centre Limited
Shuguang Factory	Changzhou Shuguang Factory (常州曙光化工廠)
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	Supervisor(s) of the Company
USD	United States Dollars