



CMBE

INTERIM REPORT **2021**

CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

常茂生物化學工程股份有限公司

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

(Stock Code: 954)

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021 – Unaudited

	Note	For the six months ended 30 June	
		2021 Rmb'000	2020 Rmb'000
Revenue	5	246,356	219,947
Cost of sales		(212,266)	(169,975)
Gross profit		34,090	49,972
Other income	6	1,055	1,276
Other gains/(losses), net	6	842	(52)
Selling expenses		(7,762)	(6,173)
Administrative expenses		(29,296)	(24,691)
Reversal of loss allowance on financial asset		183	97
Operating (loss)/profit		(888)	20,429
Finance income		314	98
Finance costs		(562)	(38)
Finance (costs)/income, net	7	(248)	60
(Loss)/profit before income tax	8	(1,136)	20,489
Income tax credit/(expense)	9	1,157	(5,513)
Profit for the period		21	14,976
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		(1)	2
Total comprehensive income for the period		20	14,978
Profit for the period attributable to:			
Equity holders of the Company		242	15,178
Non-controlling interests		(221)	(202)
		21	14,976
Total comprehensive income for the period attributable to:			
Equity holders of the Company		241	15,180
Non-controlling interests		(221)	(202)
		20	14,978
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	10	Rmb0.000	Rmb0.029

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2021 – Unaudited

	Note	30 June 2021 Rmb'000	31 December 2020 Rmb'000
ASSETS			
Non-current assets			
Patents	12	973	1,039
Property, plant and equipment	13	219,968	235,920
Right-of-use assets	13	96,411	24,863
Construction in progress	13	119,501	140,538
Deferred income tax assets		29,014	25,974
Prepayments		29,502	9,777
		495,369	438,111
Current assets			
Inventories		105,762	125,540
Trade and bills receivables	14	79,825	69,535
Other receivables, deposits and prepayments		40,831	24,355
Income tax recoverable		10,569	1,980
Derivative financial instruments		69	123
Pledged bank balances	15	5,662	15,212
Cash and bank balances	15	57,226	134,343
		299,944	371,088
Assets classified as held for sale	16	93,737	38,130
		393,681	409,218
Total assets		889,050	847,329
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	52,970	52,970
Reserves	18	586,054	596,407
		639,024	649,377
Non-controlling interests		317	538
Total equity		639,341	649,915

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	<i>Note</i>	30 June 2021 Rmb'000	31 December 2020 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income		556	712
Deferred income tax liabilities		410	368
		966	1,080
Current liabilities			
Trade and bills payables	19	57,042	78,707
Contracted liabilities, other payables and accruals		109,541	116,822
Income tax payable		2,266	–
Lease liabilities		–	305
Dividend payable		10,594	–
Bank borrowings	20	69,300	500
		248,743	196,334
Total liabilities		249,709	197,414
Total equity and liabilities		889,050	847,329

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 – Unaudited

	Attributable to equity holders of the Company				Non-controlling interests Rmb'000	Total Rmb'000
	Share capital Rmb'000	Other reserves Rmb'000	Retained earnings Rmb'000	Sub-total Rmb'000		
Balance at 1 January 2020	52,970	190,259	418,463	661,692	622	662,314
Profit for the period	–	–	15,178	15,178	(202)	14,976
Other comprehensive income						
– currency translation difference – Group	–	2	–	2	–	2
Final dividend for the year ended 31 December 2019	–	–	(29,134)	(29,134)	–	(29,134)
Balance at 30 June 2020	52,970	190,261	404,507	647,738	420	648,158
Balance at 1 January 2021	52,970	190,251	406,156	649,377	538	649,915
Profit for the period	–	–	242	242	(221)	21
Other comprehensive income						
– currency translation difference – Group	–	(1)	–	(1)	–	(1)
Final dividend for the year ended 31 December 2020	–	–	(10,594)	(10,594)	–	(10,594)
Balance at 30 June 2021	52,970	190,250	395,804	639,024	317	639,341

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021 – Unaudited

	For the six months ended 30 June	
	2021	2020
	Rmb'000	Rmb'000
Cash flows from operating activities		
Cash (used in)/generated from operations	(7,372)	29,273
Interest paid	(476)	(100)
Income tax paid	(8,164)	(95)
Net cash (used in)/generated from operating activities	(16,012)	29,078
Cash flows from investing activities		
Prepayments for construction in progress, property, plant and equipment	(19,725)	–
Purchase of property, plant and equipment	(2,452)	(1,179)
Proceeds from disposal of property, plant and equipment	1,267	93
Purchase of land use rights	(75,367)	–
Additions of construction in progress	(26,487)	(15,652)
Payments for relocation expenses	(7,676)	–
Increase in pledged bank balances	–	(5,176)
Decrease in long-term and short-term bank deposits with original maturities of over 3 months	650	500
Interest received	314	38
Investment income received	365	440
Net cash used in investing activities	(129,111)	(20,936)
Cash flows from financing activities		
Principal elements of lease payments	(305)	(311)
Proceeds from new bank borrowings	69,300	500
Repayment of bank borrowings	(500)	(20,500)
Net cash generated from/(used in) financing activities	68,495	(20,311)
Net decrease in cash and cash equivalents	(76,628)	(12,169)
Effect of foreign exchange rate changes	161	171
Cash and cash equivalents at 1 January	133,693	119,316
Cash and cash equivalents at 30 June	57,226	107,318

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Changmao Biochemical Engineering Company Limited is a joint stock limited company incorporated in the PRC. The Company listed its H shares on the Growth Enterprise Market of the Stock Exchange on 28 June 2002 and the listing of its H shares was transferred to the Main Board of the Stock Exchange on 28 June 2013. The principal activities of Group are the production and sale of organic acid products.

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

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information has been prepared in accordance with applicable disclosure provisions of Listing Rules, including compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial statements should be read in conjunction with the 2020 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 18 August 2021. This condensed consolidated interim financial information has not been audited.

The accounting policies used in preparing the condensed consolidated interim financial statements are consistent with those used in the 2020 Financial Statements. Other New HKFRSs which have become effective in this period have no material impact on the accounting policies in the Group's condensed consolidated interim financial statements for the period.

New and amended standards

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

4 FINANCIAL RISK MANAGEMENT

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION

Executive directors are identified as the chief operating decision maker. Management has determined the operating segments based on the information reported to the executive Directors for the purposes of allocating resources and assessing performance.

The Group is engaged in the production and sale of organic acid products. Resources of the Group are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, and the executive Directors consider the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirement of HKFRS 8.

	For the six months ended 30 June	
	2021	2020
	Rmb'000	Rmb'000
Mainland China	158,221	124,848
Asia Pacific	41,371	37,249
Europe	28,235	40,534
America	13,960	10,351
Others	4,569	6,965
	246,356	219,947

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 sales 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 location is not substantially out of line with the Group's overall ratio of profit to revenue.

As at 30 June 2021, all of the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb466,355,000 (31 December 2020: Rmb412,137,000) are located in Mainland China.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	For the six months ended 30 June	
	2021 Rmb'000	2020 Rmb'000
Other income		
Government grants	139	214
Others	916	1,062
	1,055	1,276
Other gains/(losses), net		
Fair value losses on financial assets at fair value through profit or loss	(54)	(64)
Gain/(loss) on disposal of property, plant and equipment	1,193	(1,258)
Net exchange (loss)/gains	(663)	1,270
Others	366	–
	842	(52)

7 FINANCE (COSTS)/INCOME, NET

	For the six months ended 30 June	
	2021 Rmb'000	2020 Rmb'000
Interest for lease liabilities	(4)	(21)
Interest on bank borrowings	(558)	(17)
	(562)	(38)
Interest income on bank deposits	314	98
Finance (costs)/income, net	(248)	60

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging the following:

	For the six months ended 30 June	
	2021 Rmb'000	2020 Rmb'000
Amortisation of patents	66	42
Amortisation of right-of-use assets	1,001	655
Depreciation	13,110	16,267

9 INCOME TAX (CREDIT)/EXPENSE

PRC CIT is provided for on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

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

	For the six months ended 30 June	
	2021 Rmb'000	2020 Rmb'000
Current income tax		
– Provision for CIT	1,836	5,053
– Under/(over)-provision in prior year	5	(15)
Deferred income tax	(2,998)	475
Income tax (credit)/expense	(1,157)	5,513

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	For the six months ended 30 June	
	2021 Rmb'000	2020 Rmb'000
(Loss)/profit before income tax	(1,136)	20,489
Calculated at the tax rates applicable to results of the respective consolidated entities	(1,470)	1,788
Expenses not deductible for tax purposes	–	1
Tax losses for which no deferred income tax asset was recognised	319	278
Reversal of previously recognised tax losses	–	3,477
Under/(over)-provision in prior year	5	(15)
Others	(11)	(16)
Income tax (credit)/expense	(1,157)	5,513

10 EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2021 is based on the profit attributable to the equity holders of the Company of approximately Rmb242,000 (for the six months ended 30 June 2020: Rmb15,178,000) and 529,700,000 shares (for the six months ended 30 June 2020: 529,700,000 shares) weighted average number of shares in issue during the period.

The Company has no dilutive potential shares in issue during the period (Corresponding period in 2020: Nil).

11 DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (Corresponding period in 2020: Nil).

12 PATENTS

	Rmb'000
Net book value as at 1 January 2021	1,039
Amortisation	(66)
Net book value as at 30 June 2021	973

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 CAPITAL EXPENDITURE

	Property, plant and equipment Rmb'000	Right-of-use assets Rmb'000	Construction in progress Rmb'000
Net book value as at 1 January 2021	235,920	24,863	140,538
Transfer from construction in progress	28,070	–	(28,070)
Additions	2,452	75,367	26,993
Assets classified as held for sale	(33,290)	(2,818)	(19,960)
Other disposal	(74)	–	–
Depreciation/amortisation charge	(13,110)	(1,001)	–
Net book value as at 30 June 2021	219,968	96,411	119,501

14 TRADE AND BILLS RECEIVABLES

	30 June 2021 Rmb'000	31 December 2020 Rmb'000
Trade receivables (note (a))	56,890	52,389
Bills receivables (note (b))	22,935	17,146
	79,825	69,535

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

	30 June 2021 Rmb'000	31 December 2020 Rmb'000
0 to 3 months	53,575	50,309
4 to 6 months	3,854	2,706
Over 6 months	–	113
	57,429	53,128
Less: Provision for impairment of trade receivables	(539)	(739)
	56,890	52,389

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	30 June 2021 Rmb'000	31 December 2020 Rmb'000
Short-term bank deposits with original maturities of over 3 months	–	650
Cash and cash equivalents	57,226	133,693
Cash and bank balances	57,226	134,343
Pledged bank balances	5,662	15,212
Total	62,888	149,555
	30 June 2021 Rmb'000	31 December 2020 Rmb'000
Denominated in:		
– Rmb	47,023	127,421
– USD	15,747	21,807
– Hong Kong Dollars	118	327
	62,888	149,555

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16 ASSETS CLASSIFIED AS HELD FOR SALE

Pursuant to new regulations regarding the latest development plan along the Yangtze River of Changzhou City and Binjiang Development Zone, production of certain chemical products along the Yangtze River was restricted. The Company's production facilities in Changzhou were located in the restricted areas. On 28 September 2020, the Company entered into a closure and relocation agreement (the "Agreement") with Changzhou 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 approximately Rmb205,266,000.

The concerned land use rights and 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.

17 SHARE CAPITAL

Registered, issued and fully paid

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 30 June 2021 and 31 December 2020	529,700,000	52,970

As at 30 June 2021 and 31 December 2020, the share capital of the Company composed of 2.5 million Domestic Shares, 343.5 million Foreign Shares and 183.7 million H shares. The H Shares rank pari passu with the Domestic Shares and Foreign Shares in all aspects and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed by legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18 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 2020	102,559	87,233	461	6	418,463	608,722
Profit for the period	–	–	–	–	15,178	15,178
Other comprehensive income						
– currency translation difference – Group	–	–	–	2	–	2
Final dividend for the year ended 31 December 2019	–	–	–	–	(29,134)	(29,134)
At 30 June 2020	102,559	87,233	461	8	404,507	594,768
	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Exchange reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2021	102,559	87,233	461	(2)	406,156	596,407
Profit for the period	–	–	–	–	242	242
Other comprehensive income						
– currency translation difference – Group	–	–	–	(1)	–	(1)
Final dividend for the year ended 31 December 2020	–	–	–	–	(10,594)	(10,594)
At 30 June 2021	102,559	87,233	461	(3)	395,804	586,054

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE AND BILLS PAYABLES

	30 June 2021 Rmb'000	31 December 2020 Rmb'000
Trade payables	38,170	28,000
Bills payables	18,872	50,707
	57,042	78,707

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

	30 June 2021 Rmb'000	31 December 2020 Rmb'000
0 to 6 months	22,792	27,646
7 to 12 months	14,282	100
Over 12 months	1,096	254
	38,170	28,000

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

20 BANK BORROWINGS

All the bank borrowings are denominated in Rmb.

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

The outstanding bank borrowings as at 30 June 2021 were unsecured and were repayable within one year.

As at 30 June 2021, the average effective interest rate of the bank borrowings was approximately 4.35% (31 December 2020: 4.4%)

21 CONTINGENT LIABILITIES

As at 30 June 2021 and 31 December 2020, the Group did not have any material contingent liabilities.

22 COMMITMENTS

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

	30 June 2021 Rmb'000	31 December 2020 Rmb'000
Authorised but not contracted for	106,696	6,547

BUSINESS AND FINANCIAL REVIEW

BUSINESS REVIEW AND OUTLOOK

Results for the Half Year

The Group's sales revenue for the six months ended 30 June 2021 was approximately Rmb246,356,000, which represented an increase of approximately 12% as compared with that of Rmb219,947,000 in the corresponding period in last year; the net profit attributable to equity holders of the Company was approximately Rmb242,000, which represented a decrease of approximately 98% over that of Rmb15,178,000 in the corresponding period in last year.

In the first half of 2020, the government of Changzhou Binjiang Development Zone had made new planning adjustments to enterprises that located within one kilometer along the Yangtze River, causing the Group to cease the production of the main raw material, maleic anhydride, in June of that year. After production of maleic anhydride has been ceased, the Group has to purchase raw materials from third parties since then. In the first half of 2021, the price of maleic anhydride continued to rise and stayed high, 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, therefore it was necessary to increase the amount of steam purchased from outside, and the price of steam increased over the period which further increased the production costs of the product, resulting in a decline in gross profit margin.

In the first half of 2021, the COVID-19 pandemic bounced back. Since the outbreak of the pandemic last year, the demand in foreign markets had been suppressed. This had an impact on the market prices of the Group's main export products, resulting in a decline in gross profit margin.

Business Review

Due to the continued outbreak of the COVID-19, there was a decline in demand in the Group's main export regions, such as Europe and the United States in the first half of 2021. The sales prices of tartaric acid, which accounted for a relatively large portion of the Group's export, had dropped significantly that affected the gross profit level of the Group in the first half of the year. At the same time, the COVID-19 has caused a huge impact on the global transportation, resulting in a substantial increase in shipping costs for exports to the United States, Europe and Australia. Gross profit margin decreased in some of the foreign CIF orders signed by the Group due to increased freight costs. Facing the current situation where the export performance was greatly affected, the sales team of the Group actively adjusted the sales strategy, strengthened the sales of tartaric acid, malic acid and other products in the domestic market, grasped the basis of the national strategy of expanding domestic demand and the new development pattern that adapted to the domestic cycle as the mainstay and promotes the mutual promotion of domestic and international double loops. On the basis of maintaining old customers, developing new users, strengthening product quality and service awareness, the Group's sales team copes with the Group's business transformation and upgrading, seeking innovation and changes, and minimising the negative impact of the COVID-19 on the Group's sales as much as possible.

BUSINESS AND FINANCIAL REVIEW

While conscientiously implementing various daily safety management tasks, the safety department actively promoted the overall safety improvement and transformation of the plant area, promoted a series of work such as the special section on the safety design of the second phase of the plant transformation and upgrading plan for the Changzhou factory, improved the safety information platform, and completed the safety status assessment. Safety is the red line and the prerequisite for the Company's survival and development. In the future production process, the Company will continue to strengthen the awareness of safe production risk prevention and improve various safety management tasks.

To meet the needs of environmental protection improvement, the Group continued to increase investment in environmental protection, and coordinated and organised various departments to implement various upgrading and renovation work. In the first half of this year, the environmental protection department completed the environmental approval procedures related to the relocation of the first phase of the Changzhou factory, compiled the Company's emergency response plan and environmental risk assessment report, and initiated the related work of the provincial hazardous waste life cycle monitoring system.

Research and Development

As at 30 June 2021, the chirotechnology centre of in Changzhou factory has been completely dismantled, and part of the research and development equipment had been properly stored in the factory area. It will continue to be used after the new research and development building is completed. Some research and development equipment had been shipped to the Dalian New Factory. In the first quarter of this year, the staff of the research and development centre is using the Changzhou University laboratory to continue experiments, and will move back after the Group completed the construction of the new research and development building.

In the first half of 2021, the Company's pharmaceutical business department focused on the preparations for the malic acid active pharmaceutical ingredients ("API") project. The on-site rectification has been completed and is waiting in line for the on-site inspection of the drug registration of malic acid API by the Centre for Food and Drug Inspection of National Medical Products Administration. The API project is an update and upgrade of the Company's existing products and is an effective way to increase the added value and economic benefits of the products. The certification threshold for API is high and the process time is long, therefore a long incubation period is required to achieve industrialisation and largescale production.

In the first half of 2021, the Group continued the application for approval of using the new vitamin, pyrroloquinoline quinone disodium salt (PQQ. Na₂), as a new feed additive, carried out the production research and promoted PQQ. Na₂'s application. The final evaluation of experts has been completed recently, and the official announcement and approval of the Ministry of Agriculture are awaited.

BUSINESS AND FINANCIAL REVIEW

MAJOR PROJECTS

1. Project of Dalian New Plant

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

In the first half of 2021, led by the chairman of the Group with the construction team, Changmao Dalian quickly completed a series of actions such as land purchase, construction contract bidding, and commencement of construction. As at 30 June 2021, Changmao Dalian has completed pre-procedures such as safety and environmental assessment, and obtained the construction documents such as construction land use rights certificate, construction land planning permit and construction permit. At present, the construction of various monomer projects is in full swing.

2. Transformation and upgrading of Changmao headquarter

In the second half of 2020, the production lines of maleic anhydride in Changzhou Plant 1 has been ceased and some equipment was shipped to Dalian. The food additive production lines, common equipment, the research and development centre, etc. will be soon moved to the Changzhou Plant 2, and the Changzhou factory was converted from a chemical enterprise into a light industrial enterprise. In February of this year, the Group opened the administrative headquarter of the Gaoxin Plaza, and at the same time adjusted the responsibilities and administrative procedures of various departments. The ability of the Group’s administrative headquarter and production plants to work online and coordination in multiple locations is strengthened.

In the first half of 2021, the dismantled of Changzhou Plant 1 had been carried out in an orderly manner in accordance with the “Closure and Relocation Agreement”.

3. Changmao Biochemical Lianyungang Company Limited

On 2 June 2021, the local government of Lianyungang issued a document clarifying that Lianyungang Changmao would withdraw from the list of “approval for 4 kinds of projects” (四個一批) of chemical companies, agreeing that Lianyungang Changmao would resume normal production in accordance with the management of non-chemical company. As at 30 June 2021, Lianyungang Changmao had completed the dismantling of various chemical equipment, obtained the business license for light industry enterprise, and resumed production.

* For identification purpose only

BUSINESS AND FINANCIAL REVIEW

OUTLOOK AND PROSPECTS

2021 was the most unsettling year for the Group. The concentrated outbreak of external factors put a lot of pressure on the production and operation, but we always believe that opportunities and challenges coexist and actively respond to challenges. In the first half of 2021, the Group achieved three major achievements: the construction of the Dalian New Plant, transformation and upgrading of the Changmao factory and the resumption of production at the Lianyungang factory. Production and operation are also gradually moving on the right track. Although the net profit declined in the first half of the year, the production and sales situation remained relatively good.

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

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

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

2. Accelerating technology innovation and promoting product upgrade

The Group insists that technological innovation is the driving force for long-term development of an enterprise. During the transformation and upgrading period, we still overcame difficulties and continued to increase investment in technological innovation and consolidated its existing resources and research team. In the future, the Group will actively integrate existing resources and research and development team, increase investment, attract talents, focus on tackling key problems. By relying on technological advancement and speeding up the development of new vitamin PQQ, pharmaceutical adjuvant, APIs, biodegradable material PBS (Poly (butylene succinate)) 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.

BUSINESS AND FINANCIAL REVIEW

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 controls, pay attention to safety risks, improve the safety of the production environment, reduce and eliminate safety accidents. In terms of environmental protection, the Group will continue to promote clean production and implement pollution prevention, and fulfill social responsibility. The Group endeavors to become an environment-friendly enterprise which save energy, is carbon neutral, 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 explore and develop superior customers and end-users. By meeting customer needs through the improvement of product quality and service, enhancing the reputation and adding value to the Changmao brand, the overall competitive advantages are enhanced. In addition, the Group will also focus on the development of the international market, and enhance the international reputation and influence of Changmao through 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. The Group is currently in the listing counseling period. As of the date of this report, the Company has not determined the plan of the proposed A Share offering and has not applied to any regulatory authorities in the PRC or anywhere else for the approval of the Proposed A Share Offering.

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

BUSINESS AND FINANCIAL REVIEW

REVIEW OF FINANCIAL STATEMENTS

The audit committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021 in conjunction with the Directors.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021.

SEGMENTAL INFORMATION

Part of the Group's products are exported to Europe, Asia Pacific and America. In terms of percentage, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 36% (for the six months ended 30 June 2020: 43%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 64% (for the six months ended 30 June 2020: 57%) of the Group's sales 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 were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the period, the Group used certain forward contracts to hedge its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had total outstanding bank borrowings of approximately Rmb69,300,000 (31 December 2020: Rmb500,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2021 were unsecured. The Company expects to renew the bank borrowings in due time if necessary. The interest rate of the outstanding bank loans is at fixed rate with an average of approximately 4.35% per annum (31 December 2020: 4.4%).

Except for the bank borrowings disclosed above, as at 30 June 2021 and 31 December 2020, 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.

BUSINESS AND FINANCIAL REVIEW

As at 30 June 2021, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb106,696,000. These capital commitments are mainly used for the construction of the new production plant in Dalian City, the PRC. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets as at 30 June 2021. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 28.1% and 23.3% as at 30 June 2021 and 31 December 2020 respectively. As at 30 June 2021, the Group's cash and cash equivalents amounted to approximately Rmb57,226,000 (31 December 2020: Rmb133,693,000).

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

EMPLOYEES

Including the Directors, as at 30 June 2021, the Group employed a total of 424 employees (30 June 2020: 448 employees). Total amount of staff costs for the six months ended 30 June 2021 was approximately Rmb30,330,000 (for the six months ended 30 June 2020: Rmb25,360,000). The increase in staff cost was mainly due to salary increment of the employees. Employees are remunerated in accordance with the nature of the job and also on individual merit. The Company also formulated a staff incentive scheme under which for the year ending 31 December 2022, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) and 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.

BUSINESS AND FINANCIAL REVIEW

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 30 June 2021 and 31 December 2020.

The Group is constructing a new plant in Dalian City, the PRC. The phase 1 of the maleic anhydride industrial chain project in the Dalian New Plant will include production lines of maleic anhydride of annual production capacity of 40,000 tonnes, maleic acid of annual production capacity of 12,000 tonnes and fumaric acid of annual production capacity of 2,000 tonnes. The Board expected that phase 1 of the maleic anhydride industrial chain project will be completed and commence operation within 2022. The expansion will enhance the Group's production through the addition of production facilities, and thus is expected to benefit the operations and development of the Group. For further details, please refer to the announcements of the Company dated 2 December 2020, 9 April 2021, 26 April 2021 and 10 May 2021 and the circular of the Company dated 22 June 2021.

Save for the above, the Group has no plans for material investments or capital assets.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD

There was no material acquisitions and disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2021.

CONTINGENT LIABILITIES

As at 30 June 2021 and 31 December 2020, the Group did not have any material contingent liabilities.

DISCLOSURE OF INTERESTS

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

As at 30 June 2021, the interests (including interests in shares and short positions) of the Directors, the Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap. 622), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (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))
<i>Director</i>							
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%
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))	-	-

DISCLOSURE OF INTERESTS

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

Notes:

- (a) Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Rui is also the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui is the beneficial owner of 3,768,000 H Shares and Ms. Leng Yi Xin, a Director and spouse of Mr. Rui, is the beneficial owner of 52,000 H Share. Ms. Leng Yi Xin is also interested in HK Xinsheng and Changzhou Xinsheng, details of which are set out in Note (b) below.
- (b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares and 53,000 Class "B" shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Ms. Leng is also the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Ms. Leng is the beneficial owner of 52,000 H Share and Mr. Rui Xin Sheng (a Director and spouse of Ms. Leng) is the beneficial owner of 3,768,000 H Shares. Mr. Rui is also interested in HK Xinsheng and Changzhou Xinsheng, details of which are set out in Note (a) above.
- (c) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class "A" shares and 100,000 Class "B" shares. He is also the registered holder and beneficial owner of 200,000 shares in HK Bio, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Bio is 6,750,000 shares.

DISCLOSURE OF INTERESTS

- (d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares in HK Bio, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Bio is 6,750,000 shares. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class "A" shares and 100,000 Class "B" shares.
- (e) Mr. Yu and his spouse (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares. Mr. Yu's spouse, Ms. Lam Mau, is also the beneficial owner of 2,620,000 H shares.
- (f) Prof. Ouyang is the registered holder and beneficial owner of 4,000 Class "B" shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class "A" shares and 100,000 Class "B" shares.
- (g) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares in HK Bio, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Bio is 6,750,000 shares.
- (h) Mr. Zhang is the registered holder and beneficial owner of 800 Class "B" shares in HK Xinsheng, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Zhang is also the registered holder and beneficial owner of 120,000 shares in HK Bio, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Bio is 6,750,000 shares.
- (i) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 30 June 2021.
- (j) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2021.
- (k) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2021.

Save as disclosed above, as at 30 June 2021, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap. 622), to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS

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

So far as known to the Directors, as at 30 June 2021, the followings, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (e))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (f))
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%	–	–
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%	–	–
Jomo Limited	Beneficial owner	66,000,000	19.21%	–	–
Ms. Lam Mau	Interest of spouse, interest of controlled corporation and beneficial owner	66,000,000 (Note (a))	19.21%	2,620,000 (Note (a))	1.43%
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%	–	–

DISCLOSURE OF INTERESTS

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (e))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (f))
上海科技創業投資股份有限公司 (Shanghai S&T Investment Company Limited*, formerly 上海科技投資股份有限公司)	Interest of controlled corporation	62,500,000 (Note (b))	18.20%	–	–
上海科技創業投資有限公司 (Shanghai Technology Entrepreneur Investment Company*, formerly 上海科技投資公司)	Interest of controlled corporation	62,500,000 (Note (c))	18.20%	–	–
上海科技創業投資(集團)有限公司 (Shanghai S&T Venture Capital (Group) Co., Ltd*)	Interest of controlled corporation	62,500,000 (Note (d))	18.20%	–	–

* For identification purpose only

DISCLOSURE OF INTERESTS

Notes:

- (a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares. Ms. Lam Mau is also the beneficial owner of 2,620,000 H shares.
- (b) Shanghai S&T Investment Company Limited is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited, which is the registered holder and beneficial owner of 62,500,000 Foreign Shares.
- (c) Shanghai Technology Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai S&T Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.
- (d) Shanghai S&T Venture Capital (Group) Co., Ltd. is the beneficial owner of 100% of the issued capital of Shanghai Technology Entrepreneur Investment Company. Shanghai Technology Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued capital of Shanghai S&T Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.
- (e) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 30 June 2021.
- (f) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2021.

Save as disclosed above, as at 30 June 2021, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

At no time during the period was the Company, of its subsidiaries or its other associated corporation a party to any arrangement (including share option scheme) to enable the Directors, Supervisors and chief executives of the Company or any of their spouses or children under eighteen years of age to hold any interests or short position in the shares or underlying shares in or debentures of the Company or its specific undertaking or other associated corporation.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2021.

SHARE CAPITAL STRUCTURE

As at 30 June 2021, the category of the issued shares of the Company is as follows:

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

Notes:

- (a) Overseas listed foreign shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and are traded in Hong Kong dollars and listed on the Main Board of the Stock Exchange.
- (b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in Rmb and issued to the promoters of the Company.
- (c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

The H Shares of the Company were listed on the GEM on 28 June 2002. The listing of the H Shares of the Company was subsequently transferred from GEM to the Main Board of the Stock Exchange on 28 June 2013.

OTHER INFORMATION

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

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

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;
- (c) disputes between holders of Domestic Shares and Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Foreign Shares and overseas listed foreign shares; and
- (d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

OTHER INFORMATION

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Code provision A.6.7 of CG Code stipulates that non-executive Directors and independent non-executive Directors should attend general meetings. Except for Ms. Au Fung Lan, all other Directors were unable to attend the annual general meeting of the Company that held on 18 May 2021 as they were unable to travel to the Hong Kong due to the outbreak of the COVID-19 pandemic.

Save for the above, the Company has complied with the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 14 to the Listing Rules during the six months ended 30 June 2021.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company had also made specific enquiry of all Directors in relation to the compliance of the Model Code. The Company was not aware of any non-compliance with the Model Code for the six months ended 30 June 2021.

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

GLOSSARY

2020 Financial Statements	The Group's annual financial statements for the year ended 31 December 2020
Board	Board of Directors of the Company
CG Code	Code provisions of Corporate Governance Code in Appendix 14 of the Listing Rules
Changmao or the Company	Changmao Biochemical Engineering Company Limited
Changzhou Xinsheng	常州新生生化科技開發有限公司(Changzhou Xinsheng Biochemical Technology Development Company Limited*)
CIT	Corporate Income Tax
Dalian New Plant	the new plant of the Group located at Dalian City, Liaoning Province, the PRC
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 Stock Exchange
Group	The Company and its subsidiaries
H Shares	H shares of the Company
HK Bio	Hong Kong Bio-chemical Advanced Technology Investment Company Limited
HK Xinsheng	Hong Kong Xinsheng Pioneer Investment Company Limited
Lianyungang Changmao	Changmao Biochemical Lianyungang Company Limited, a subsidiary of the Company
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange

* For identification purpose only

GLOSSARY

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
New HKFRSs	New standards, amendments and interpretations of Hong Kong Financial Reporting Standards
PRC	The People's Republic of China
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	Supervisor(s) of the Company
USD	United States Dollars