CMBEC

ANNUAL REPORT 2022

CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

常 茂 生 物 化 學 工 程 股 份 有 限 公 司

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

(Stock Code: 954)

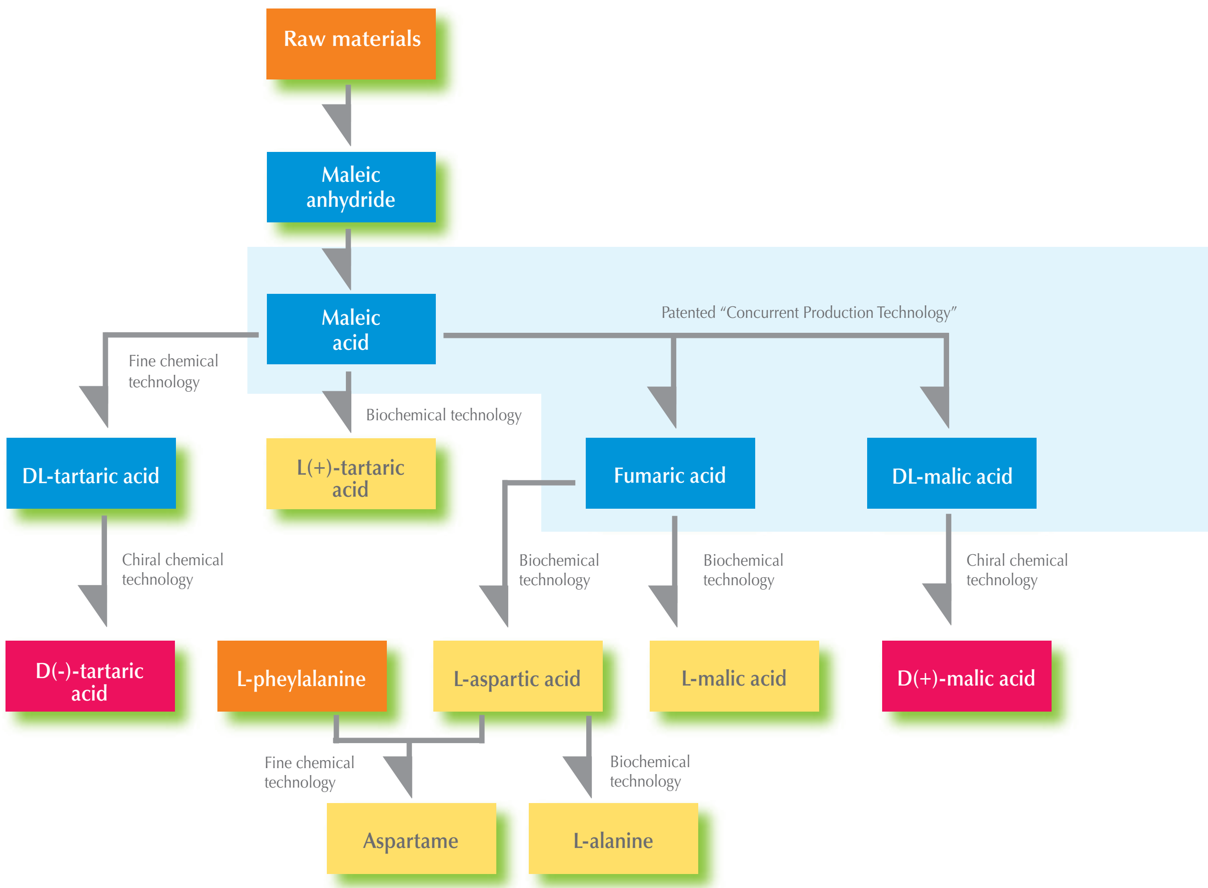
CONTENTS

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 intermediaries. 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

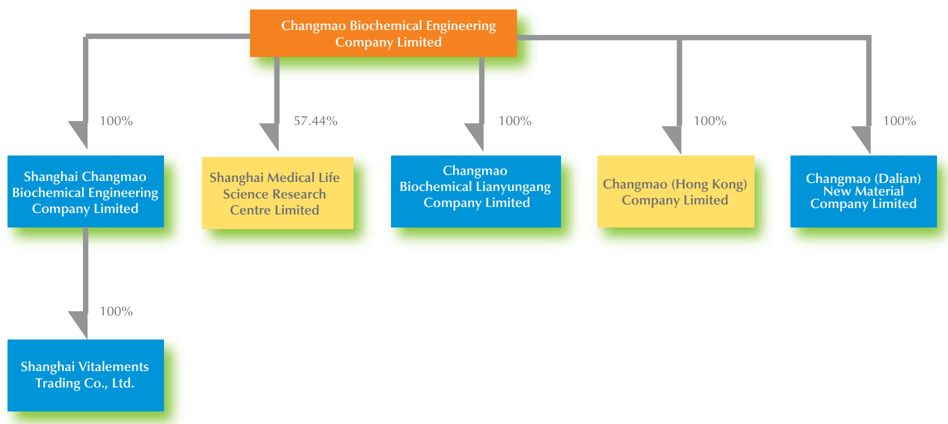


CORPORATE PROFILE

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 ISO14001 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
Mr. Zhou Zhi Wei
Mr. Shu Rong Xin
Ms. Cheng Mun Wah

SUPERVISOR NOMINATED BY SHAREHOLDERS
Ms. Rui Li Qin
Ms. Zhou Rui Juan

SUPERVISOR NOMINATED BY EMPLOYEES
Mr. Zhang Jun Peng

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
Mr. Zhou Zhi Wei
Mr. Shu Rong Xin
Ms. Cheng Mun Wah*

REMUNERATION AND APPRAISAL COMMITTEE
Mr. Rui Xin Sheng*
Mr. Zhou Zhi Wei
Mr. Shu Rong Xin
Ms. Cheng Mun Wah

NOMINATION COMMITTEE
Mr. Rui Xin Sheng
Mr. Zhou Zhi Wei*
Mr. Shu Rong Xin
Ms. Cheng Mun Wah

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10 Ice House Street
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Hong Kong

PRINCIPAL BANKERS
Bank of China
Industrial and Commercial Bank of China

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 2022 was approximately RMB730,034,000, which represented an increase of approximately 33% as compared with that of approximately RMB547,976,000 in last year; the net profit attributable to shareholders of the Company was approximately RMB81,423,000, which represented an increase of approximately 40% as compared with that of approximately RMB58,318,000 in last year.

BUSINESS REVIEW

(1) Production

In 2022, the Group has continued to carry out transformation and upgrading work, and the primary goal of each factory of the Group is to improve quality, and fundamentally improve product competitiveness. Factories in Changzhou and Lianyungang continue to adjust their production lines, improve the degree of automation and intelligence, strengthen management in the production process, and release production capacity while at the same time save energy and reduce consumption. At the same time, the Dalian factory has stepped up its pace of construction. During the year, the first-phase production lines have started trial production, and the construction of the second-phase production lines has also started.

(2) Sales

Benefiting from the recovery of downstream consumption demand and the hard adjustment of the production and sales team of the Group, the Group's sales in 2022 maintained a growth momentum. To cope with the Group's business transformation and upgrading, and seeking innovation, the sales team strives to maintain good relationships with old customers, explores new users, and strengthens product quality and service awareness.

(3) Safety Management

The Group conscientiously implements various daily safety management measures. In 2022, the Group has continued to promote overall safety improvement and transformation, learnt the "Shengrui Working Method", and improved the construction and operation of the company's safety culture system. Safety is the red line, and it is also the premise for the survival and development of the Group. In the future, the Group will continue to strengthen the awareness of safety production, risk prevention and improve various safety management.

(4) Environmental Management

With the improvement of domestic environmental protection requirements, the Group has continued to increase investment in environmental protection, and coordinated and organised various departments to implement various enhancements and improvements.

CHAIRMAN'S STATEMENT

In 2022, the Changzhou and Lianyungang factories of the Group has reduced energy consumption and emissions through the construction of key projects and equipment upgrades such as using Mechanical Vapor Recompression evaporator and carried out waste gas absorption transformation project to further improve the core competitiveness of the enterprise and create a good development environment for the survival and development of the enterprise.

RESEARCH AND DEVELOPMENT

The Group will continue to maintain the level of investment in research and development, and has formulated plannings of the research and development projects to be carried out in 2023. The progress of key research and development projects in 2022 are as follows:

(1) Continue to promote the New Vitamin Pyrroloquinoline Quinone Disodium (PQQ. Na2) Project

After the Group obtained the new feed additive certificate last year, the Group continued to invest in PQQ products and carried out follow-up research, trial and market development. In 2022, the Group has cooperated with customers and has obtained some feedback information. A production line for PQQ products will be set up in the second phase of the Dalian factory.

(2) Active Pharmaceutical Ingredient (API) and Pharmaceutical Adjuvant Project

In 2022, the L-malic acid API project of the Group's pharmaceutical business department received the "Notice of Approval of Marketing Application for Chemical Raw Material Drugs" issued by the State Drug Administration, and obtained the approval from the Drug Evaluation Center of the State Drug Administration and was officially launched to market.

The API and pharmaceutical adjuvant project is an update and upgrade of the Group's existing products, an effective way to increase the added value and economic benefits of products, and it is also the product direction that the Group will continue to invest in and focus on expanding.

CHAIRMAN'S STATEMENT

MAJOR PROJECTS

(1) Construction of the Dalian New Plant

The Dalian factory will still be the focus of the Group's development in the next few years. In 2022, the first phase of the project has completed and trial production has begun, and the construction of the second phase of the project also started in the year. The commissioning and construction of the Dalian factory, on the one hand, assumes the key links of the Group's maleic anhydride production, to ensure that the raw materials of the Group's products are independently controllable. On the other hand, the newly built production line has great advantages in the compositions of new products, which can further develop the strengths of the Group's product chain production, and at the same time accelerate the implementation and industrialisation process of the Group's research and development projects and technical reserves, and promote the renewal of the existing product chain upgrade.

(2) Transformation and Upgrading of Changzhou Plant

The Changzhou factory continued to undergo transformation and upgrading, and continued to promote automation and intelligent transformation work. In 2022, the new research and development building of the Changzhou factory has been capped, and facilities such as smart storage are also under construction. The Group's long-term goal is to build the Changzhou factory into a green factory and smart factory with demonstration value.

(3) Lianyungang Plant

Through the Group's adjustments to production and sales strategies, the production capacity of the Lianyungang factory in 2022 has recovered well, and has turned losses into profits.

(4) Proposed Initial Public Offering of Renminbi Ordinary Shares (A Shares) and listing on Growth Enterprise Market ("Proposed A Share Issuance")

The Company, according to the relevant requirements under the Company Law, the Securities Law, the Administrative Measures on the Registration of Initial Public Offerings of Stocks, the Rules for the Listing of Stocks on the Growth Enterprise Market of the Shenzhen Stock Exchange, relevant laws and regulations and the normative documents issued by CSRC and the Shenzhen Stock Exchange, strictly reviewed the relevant qualifications and conditions in relation to the initial public offering and listing of ordinary shares denominated in RMB on the Growth Enterprise Market of Shenzhen Stock Exchange and comprehensively considered the actual operation conditions and future development strategies of the Company. Following the said review and consideration, the Company believed that it meets the relevant requirements in relation to the initial public offering and listing of ordinary shares denominated in RMB and proposed to apply for the initial public offering and listing of ordinary shares denominated in RMB (A Shares) on the Growth Enterprise Market of the Shenzhen Stock Exchange.

The Board considers that the Proposed A Share Offering will enable the Company to access the PRC capital market by way of equity financing and improve its capital structure. The Board considers that the Proposed A Share Offering will enhance the corporate image of the Company, better facilitate the Company's capital expenditure needs, broaden the Company's fund raising channels, improve the Company's capital structure, and further strengthen the financial position of the Group and provide working capital to the Group.

For details, please refer to the announcement dated 15 March 2023 by the Company.

OUTLOOK AND PROSPECTS

With the addition of the Dalian factory, the production and management scales of the Group becomes larger, which puts forward higher requirements for the Group's development. Therefore, in the future, the Group will still ensure stable development by focusing on the following aspects:

(1) Accelerating Transformation and Upgrading, and Promoting the Construction of New Plants

The Group will fully support the construction of the new plant in Dalian. The Dalian plant has a good foundation. It has new equipment with large scale, which is in line with the policy trend and is supported by the local government. The Dalian plant will serve as the main production base of the Group's chemical products in the future. Restarting the production of maleic anhydride will help reduce the Group's production costs. Combined with the advantages of the existing product chain and the industrialisation process of scientific research results, the Group will be a producer of high-end food additives, pharmaceutical adjuvant, API, new vitamin and new materials and will create new economic benefits for the Group.

(2) Accelerating Technology Innovation and Promoting Product Upgrade

The Group insists that technological innovation is essential for the long-term development of an enterprise. During the transformation and upgrading period, we overcame difficulties and maintained a continuous increase in investment in research and development. In the future, the Group will actively integrate existing resources and research and development teams, increase investment, attract talents, focus on tackling key problems, and rely on technological progress to accelerate research and development investment in new feed additives PQQ, APIs and pharmaceutical excipients, polybutylene succinate (biodegradable plastics) and other new products. The Group will speed up production, cultivate new products that are safe, environmentally friendly and competitive in the market, promote the updating and upgrading of existing product chains, and seek new sources of profit.

CHAIRMAN'S STATEMENT

(3) Enhancing Safety and Environmental Protection Standards and Strengthening Risk Controls

The Group believes its long-term focus on safety and environmental protection investment will become its competitive advantage. In terms of safety, the Group will continue to strengthen safety risk controls, constantly improve safety in production environment, and reduce or even eliminate safety incidents. In terms of environmental protection, the Group will continue to implement clean production, implement pollution prevention and fulfill social responsibilities. The Group will always strive to improve its standards in energy and resource consumption, targeting to carbon neutrality, and reducing pollutant emissions, so as to build a resource-saving and environment-friendly enterprise in line with the national dual-carbon strategy.

(4) Focusing on Market Expansion and Develop Markets of High-end Customers

The Group's sales team is customer-oriented and is dedicated to the development of key customers and end users. It will actively research and develop new products to meet customer needs. It aims at being honest and trustworthy in operation, improving the reputation and added value of Changmao brand through the improvement of product quality and service, and improving its comprehensive competitiveness. In addition, the Group will continue to focus on the development of the international market, and enhance Changmo's international reputation and influence through collaborating with major international customers on new products and technologies.

There will be opportunities and challenges in the future. Based on the production of food additives, the Group will continue to improve the competitiveness of existing products and actively explore new market and new application areas. Give full play to its own research and development and manufacturing advantages, develop new functional food additives, new materials, APIs, etc., continue to extend the product chain, continue to grow bigger and stronger, and strive for innovative performance.

The long-term and stable development of the Group is inseparable from the strong support of all shareholders. On behalf of the board of directors of the Group, I would like to express my most sincere thanks to all investors!

Rui Xin Sheng
Chairman

The PRC, 28 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF KEY PERFORMANCE INDICATORS

Revenue (2022: RMB730,034,000; 2021: RMB547,976,000) **and gross profit margin** (2022: 24.8%; 2021: 7.1%)

Revenue and gross profit margin increased compared with that for the year ended 31 December 2021 mainly because:

(1) The extent of increase in average sales price of the products is greater than the increase in the cost of sales, leading to a considerable rise in sales revenue and overall gross profit margin.

(2) The average price of the major raw material, maleic anhydride has decreased in 2022 compared to that in 2021.

(3) The Group had relocated its old the maleic anhydride production line to its new production plant in Dalian City in 2021. Due to this operational adjustment, certain properties, plant and equipment can no longer be used, and hence the Group made a pre-tax provision for impairment of construction in progress and the property, plant and equipment. Approximately RMB17,552,000 impairment loss was recognised as cost of sales for the year ended 31 December 2021. No such impairment loss was recognised as cost of sales for the year ended 31 December 2022.

Selling and administrative expenses (2022: RMB96,966,000; 2021: RMB81,696,000)

Selling and administrative expenses increased mainly because of the expansion of operation of the Group. The Group's Lianyungang production plant has been re-operated in full in 2022 and its Dalian production plant also commenced operation in the last quarter of 2022. In addition, there was an increase in staff cost which was partly because of the incentive bonus in 2022. The Group has formulated a profit-based incentive bonus scheme and the amount of bonus under this scheme amounted to RMB7,110,000 for the year ended 31 December 2022 (2021: Nil).

Other gains, net (2022: RMB1,895,000; 2021: RMB124,176,000)

The Group recognised a gain of approximately RMB126,486,000 for the year ended 31 December 2021 as a result of the compensation received from the government for the demolition of certain production lines in its Changzhou production plant. The demolition has been substantially completed in 2021 and there was no such gain recognised for the year ended 31 December 2022.

Finance costs, net (2022: RMB1,729,000; 2021: RMB1,415,000)

Despite the increase in bank borrowing which is mainly used for financing the construction of the new production plant in Dalian, most of the interest expenses incurred by the Dalian production plant are capitalised.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense (2022: RMB6,286,000; 2021: RMB26,202,000)
The Company, being qualified as a High and New Technology Enterprise, is entitled to a preferential CIT rate of 15% for the year ended 31 December 2022. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. 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 10 to the consolidated financial statements. As at 31 December 2021, part of deferred tax assets of Changmao Biochemical Lianyungang Company Limited ("Lianyungang Changmao"), a wholly-owned subsidiary of the Group, which was recognised for tax losses carried forward has been reversed as they were not probable to be realised. The amount reversed was RMB8,437,000 for the year ended 31 December 2021. Lianyungang Changmao has resumed production in 2021 and began to turn around in the second quarter of 2022. In addition, it was qualified as a Technology-based Small and Medium Enterprises (科技型中小企業) starting from 2022, and therefore its tax losses can be carried forward to offset taxable net profits for 10 years instead of the usual 5 years.

Profit for the year attributable to the shareholders of the Company
For the year ended 31 December 2022, the Group recorded a profit attributable to shareholders of the Company of approximately RMB81,423,000 (2021: RMB58,318,000), which was mainly due to the increase in sales revenue and gross profit margin.

SEGMENTAL INFORMATION

Some of the Group's products are exported to Asia Pacific, Europe and America. As expressed as a percentage of revenue, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 35.1% (2021: 33.7%) of the Group's revenue while domestic sales in the PRC accounted for approximately 64.9% (2021: 66.3%) 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 2022, the Group had outstanding forward foreign exchange contracts liability with fair value amounted to RMB192,000 (2021: assets of RMB138,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had total outstanding bank borrowings of RMB289,615,000 (2021: RMB88,400,000). For details, please refer to Note 30 to the consolidated financial statements.

Except for the bank borrowings disclosed above, as at 31 December 2022 and 2021, the Group did not have any committed borrowing facilities. The Group generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Group is generally placed at banks to earn interest income or invested in wealth management products of low risks with banks.

As at 31 December 2022, the Group had capital commitments for property, plant and equipment amounting to approximately RMB96,350,000 (2021: RMB89,275,000). These capital commitments are mainly used for the construction of the Dalian factory and 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.

Save as disclosed above, the Group did not have any charge on its assets during the year ended 31 December 2022. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 35.5% (2021: 27.1%) as at 31 December 2022. The increase in liabilities-to-assets ratio is mainly due to the increase in bank borrowings for the construction of Dalian factory. As at 31 December 2022, the Group's cash and cash equivalents amounted to RMB59,993,000 (2021: RMB58,178,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

As at 31 December 2022, the Group employed a total of 497 employees (2021: 422 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 2022 was approximately RMB91,520,000 (2021: RMB64,859,000. The cost of staff wages, benefits and retirement increased mainly due to the increased in number of employees, annual salary increment and the incentive bonus scheme described below. The incentive bonus for the directors and staff of the Group was RMB7,110,000 (2021: Nil) for the year ended 31 December 2022.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2022 and 2021.

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 2022.

CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, 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 66, 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. Mr. Rui is the spouse of Ms. Leng Yi Xin (a non-executive Director).

Mr. Pan Chun (潘春), aged 53, 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 80, 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 67, 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 61, 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 61, 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

Mr. Zhou Zhi Wei (周志偉), aged 68, is an independent non-executive Director. 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 an independent supervisor of the Company from June 2020 to June 2022. Mr. Zhou was appointed as an independent non-executive Director in June 2022.

Mr. Shu Rong Xin (束榮新), aged 69, is an associate researcher (senior engineer). He graduated from Jiangsu Institute of Chemical Technology with a bachelor degree in 1982, and stayed to work at the school afterwards. He served as the deputy director and director of the General Affairs Department of Jiangsu Institute of Chemical Technology from 1984 to 1992. He served as the director of the Jiangsu Petrochemical Bloodline Party Committee Office and the director of the President's Office from 1992 to 1998. He served as Secretary of the Party Branch of the Chemical Engineering Department of Jiangsu Institute of Technology from 1998 to 2002. He served as Executive Dean of Huaide College (Independent College) of Jiangsu Institute of Technology from 2002 to 2007. He served as the director of the Audit Office and the deputy secretary of the Disciplinary Committee of Changzhou University from 2007 to 2013. Mr. Shu was first appointed as an independent non-executive Director in June 2022.

Ms. Cheng Mun Wah (鄭敏華), aged 61, has over 25 years of experience in the field of corporate finance and accounting in Hong Kong. Ms. Cheng holds a bachelor's degree of commerce from the University of Alberta in Canada. Ms. Cheng is currently a managing director of a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Ms. Cheng is a certified public accountant of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Chartered Association of Certified Accountants. Ms. Cheng was first appointed as an independent non-executive Director in July 2022.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Supervisors nominated by Shareholders

Ms. Rui Li Qin (芮麗琴), aged 48, holds a bachelor's degree and is an engineer. She graduated from Changzhou Chemical School in 1994, majoring in basic organic chemical engineering. She graduated from Changzhou Staff University in 2006, majoring in computer information management. She graduated from Changzhou University in 2015, majoring in pharmaceutical engineering. She served as a technician of the Company from August 1994 to September 2000. Since October 2000, she had been served as the team leader and deputy department chief of quality control, chief of technical quality inspection department, manager representative, vice chairman of the labor union, and medicine quality authoriser of the Company. She has been the head of the technical quality inspection department of the Company from April 2012 to present. She has been the medicine quality authoriser of the Company and the vice chairman of the Company's labor union since 2016. Ms. Rui was first appointed as a Supervisor in June 2022.

Ms. Zhou Rui Juan (周瑞娟), aged 68, 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 49, 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.

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 49, 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 54, 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.

Mr. Huang Huai Zhi (黃淮幟), aged 37, is the secretary of the Board. Mr. Huang graduated from East China University of Political Science and Law in 2008 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.

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

Code provision A.6.7 of CG Code stipulates that non-executive Directors and independent non-executive Directors should attend general meetings. Except for Ms. Au Fung Lan, all other Directors were unable to attend the annual general meeting of the Company that was held on 25 May 2022 as they were unable to travel to the Hong Kong due to the outbreak of the COVID-19 pandemic.

Save for the above, the Company has complied with the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 14 to the Listing Rules during the year ended 31 December 2022.

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 and Appraisal Committee, the Audit Committee and the Nomination Committee. The corporate governance practices adopted by the Company are as follows:

CORPORATE GOVERNANCE REPORT

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 2022, 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, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin and Ms. Cheng Mun Wah.

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

The Board meets regularly, and had met six times for the year ended 31 December 2022. Attendance of individual members of the Board meeting for the year ended 31 December 2022 is as follows:

	Name of Director	**Attended/ Eligible to attend**
Executive Directors	Rui Xin Sheng *(Chairman)*	6/6
	Pan Chun *(General Manager)*	6/6
Non-executive Directors	Zeng Xian Biao	6/6
	Yu Xiao Ping	6/6
	Leng Yi Xin	6/6
	Wang Jian Ping	6/6
Independent Non-executive Directors	Mr. Zhou Zhi Wei *(appointed on 18 June 2022)*	4/4
	Mr. Shu Rong Xin *(appointed on 18 June 2022)*	4/4
	Ms. Cheng Mun Wah *(appointed on 1 July 2022)*	2/2
	Prof. Ouyang Ping Kai *(resigned on 17 June 2022)*	2/2
	Ms. Wei Xin *(resigned on 17 June 2022)*	*2/2*
	Ms. Au Fung Lan *(resigned on 17 June 2022)*	*2/2*

CORPORATE GOVERNANCE REPORT

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 2022.

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.

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.

CORPORATE GOVERNANCE REPORT

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	Mr. Zhou Zhi Wei *(appointed on 18 June 2022)*	A, B
	Mr. Shu Rong Xin *(appointed on 18 June 2022)*	A, B
	Ms. Cheng Mun Wah *(appointed on 1 July 2022)*	A, B
	Prof. Ouyang Ping Kai *(resigned on 17 June 2022)*	B
	Ms. Wei Xin *(resigned on 17 June 2022)*	B
	Ms. Au Fung Lan *(resigned on 17 June 2022)*	A, B

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Remuneration and Appraisal Committee

The Remuneration and Appraisal 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 2022, the Remuneration and Appraisal Committee comprises three independent non-executive Directors, namely, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin, Ms. Cheng Mun Wah and an executive Director, Mr. Rui Xin Sheng (chairman of the committee). The Remuneration and Appraisal Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The Remuneration and Appraisal Committee held one meeting in 2022 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 2022 was as follows:

Name of committee member	Attended/Eligible to attend
Rui Xin Sheng	1/1
Mr. Zhou Zhi Wei (appointed on 18 June 2022)	0/0
Mr. Shu Rong Xin (appointed on 18 June 2022)	0/0
Ms. Cheng Mun Wah (appointed on 1 July 2022)	0/0
Prof. Ouyang Ping Kai (resigned on 17 June 2022)	1/1
Ms. Wei Xin (resigned on 17 June 2022)	1/1
Ms. Au Fung Lan (resigned on 17 June 2022)	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 2022, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin and Ms. Cheng Mun Wah (chairman of the committee).

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 four meetings for the year ended 31 December 2022, two of which were with the attendance of the external auditor. The meeting attendance rate of individual members for the year ended 31 December 2022 was as follows:

Name of committee member	Attended/Eligible to attend
Mr. Zhou Zhi Wei (appointed on 18 June 2022)	2/2
Mr. Shu Rong Xin (appointed on 18 June 2022)	2/2
Ms. Cheng Mun Wah (appointed on 1 July 2022)	2/2
Prof. Ouyang Ping Kai (resigned on 17 June 2022)	2/2
Ms. Wei Xin (resigned on 17 June 2022)	2/2
Ms. Au Fung Lan (resigned on 17 June 2022)	2/2

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 2022, the Nomination Committee comprises three independent non-executive Directors, namely, Mr. Zhou Zhi Wei (chairman of the committee), Mr. Shu Rong Xin and Ms. Cheng Mun Wah and an executive Director, Mr. Rui Xin Sheng.

The Nomination Committee held two meeting in 2022 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 2022 was as follows:

Name of committee member	Attended/Eligible to attend
Rui Xin Sheng	2/2
Mr. Zhou Zhi Wei (appointed on 18 June 2022)	1/1
Mr. Shu Rong Xin (appointed on 18 June 2022)	1/1
Ms. Cheng Mun Wah (appointed on 1 July 2022)	0/0
Prof. Ouyang Ping Kai (resigned on 17 June 2022)	1/1
Ms. Wei Xin (resigned on 17 June 2022)	1/1
Ms. Au Fung Lan (resigned on 17 June 2022)	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 contract with the Company. All the other Directors have not entered into any service contract with the Company. The terms of each Director is not more than three years and will be expired on 17 June 2025.

CORPORATE GOVERNANCE REPORT

Nomination of Candidates for Re-election of Directors

The terms of the seventh session of the Directors has been expired on 17 June 2022. Except for Prof. Ouyang Ping Kai, Ms. Wei Xin and Ms. Au Fung Lan, who decided not to offer themselves for re-election, all other retiring Directors are eligible and will offer themselves for re-election at the annual general meeting of the Company on 25 May 2022 ("2022 AGM"). Each of Prof. Ouyang Ping Kai, Ms. Wei Xin and Ms. Au Fung Lan has confirmed that he/she has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders of the Company.

On 25 March 2022, the Nomination Committee, having reviewed the Board's composition, nominated all the existing executive Directors and non-executive Directors to the Board for it to recommend to Shareholders for re-election at the 2022 AGM. In addition, the Nomination Committee nominated Mr. Zhou Zhi Wei and Mr. Shu Rong Xin to the Board for it to recommend to Shareholders for election as independent non-executive Directors at the 2022 AGM.

On 30 June 2022, the Nomination Committee, having reviewed the Board's composition, nominated Ms. Cheng Mun Wah to the Board as independent non-executive Directors. Ms. Cheng's appointment was approved at the EGM held on 12 October 2022 ("2022 EGM").

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. The Nomination Committee, in accordance with the Nomination Policy and Board Diversity Policy, nominated all the existing executive Directors and non-executive Directors, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin and Ms. Cheng Mun Wah to stand for election by Shareholders at the 2022 AGM and 2022 EGM respectively, the said nominations were accepted by the Board on 25 March 2022 and 30 June 2022 respectively with each candidate abstaining from voting on the proposition of himself/herself for election by Shareholders. All the candidates for 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.

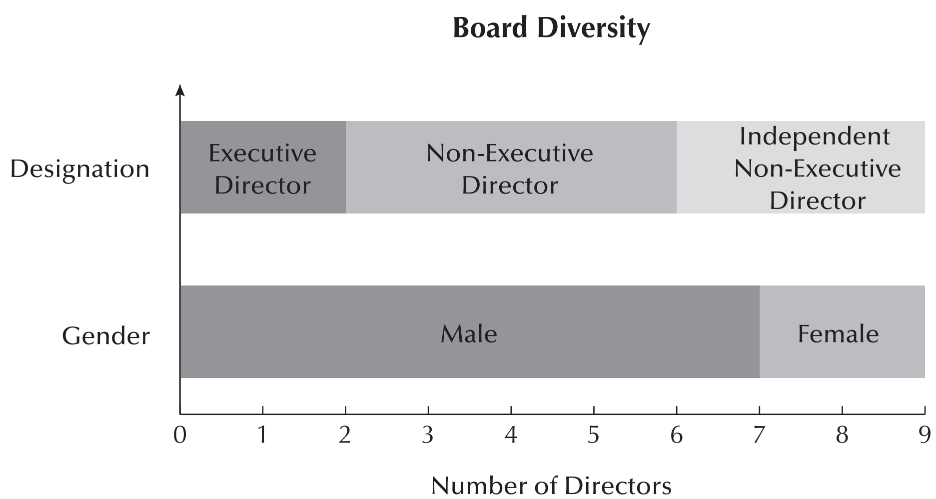
CORPORATE GOVERNANCE REPORT

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:



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.

CORPORATE GOVERNANCE REPORT

As at 31 December 2022, the supervisory committee comprises two supervisors nominated by shareholders, Ms. Rui Li Qin and Ms. Zhou Rui Juan, and a supervisor nominated by employees. No supervisor has entered into any supervisor's service contract with the Company. The terms of each supervisor is not more than three years and will be expired on 17 June 2025.

The supervisory committee held two meetings for the year ended 31 December 2022 with attendance rate of 100%.

COMPANY SECRETARY

Ms. Wan, Pui Ling Alice (温珮玲)(CPA), is the company secretary of the Company. She is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Ms. Wan joined the Company in June 2001. The Company Secretary 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 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 2022, 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 60 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 2022, 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 2022. 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.

CORPORATE GOVERNANCE REPORT

The Company has set up an internal audit department 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 2022 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 is as follow:

	2022 RMB'000	2021 RMB'000
Auditors' remuneration – Audit Service	1,604	1,604

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 in the Articles of Association of the Company at the EGM held on 12 October 2022. For details, please refer to the announcements of the Company dated 14 September 2022.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 28 March 2023

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 ISO14001 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 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. 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.

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 entities providing environmental protection services and the prescribed standards relating to the discharge of solid wastes, effluent and gases. The Group benefits from specific production technology that enables the Group to effectively control the pollution caused by the production process. At the same time, 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 2022.

In 2022, the Group's production was carried out in the production plants in Changzhou, Lianyungang and the Dalian. The following discussions and information on the environment include information of the Group's production plants in Changzhou, Lianyungang and Dalian. 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 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. The Group's new production plant in Dalian City has commence of operation in the last quarter of 2022 to produce maleic anhydride. In order to reduce steam consumption, the design of the maleic anhydride production line in Dalian factory enables the Group to recycle the steam output during the production process. This not only can reduce greenhouse gas emissions, but also reduce production costs.

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 2022 are within the limits set by the national standards.

Key Performance Indicators

	2022	2021	2020
Amount of waste water in total (in tonnes)	339,795	329,204	384,199
Amount of waste water – Per unit of output (in tonnes/tonne)	8.87	11.73	12.99
Exhaust gas in total (in tonnes)	1	–	3.90
Exhaust gas – Per unit of output (in tonnes/tonne)	0.03	–	0.000
Greenhouse gas emissions in total (in tonnes) (Note)	75,007	73,278	75,808
Greenhouse gas emissions – Per unit of output (in tonnes/tonne) (Note (a))	1.96	2.61	2.56
Hazardous waste produced in total (in tonnes)	1,042	804	658
Hazardous waste produced – Per unit of output (in tonnes/tonne)	0.03	0.03	0.02
Non-hazardous waste produced in total (in tonnes)	1,591	1,146	1,496
Non-hazardous waste produced – Per unit of output (in tonnes/tonne)	0.04	0.04	0.05
Hazardous waste due to demolition of part of the Changzhou Plant (in tonnes) (Note (b))	N/A	433	N/A

ENVIRONMENTAL AND SOCIAL REPORT

Notes:

(a) 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 0.3870 (2021: 0.3870). 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.

(b) Pursuant to new regulations regarding the latest development plan along the Yangtze River of Changzhou City and Binjiang Development Zone, the Company demolished some of its production facilities in 2021, resulting in some hazardous wastes being generated at one time.

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 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.

(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. With the new plant in Dalian is put into operation, the Group produces 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 2022, packaging materials only accounted for less than 4% of the cost of production.

Key Performance Indicators

	2022	2021	2020
Electricity consumption in total (in kwh)	48.1 million	29.4 million	32.2 million
Electricity consumption – Per unit of output (in kwh/tonne)	1,226	1,049	1,089
Steam consumption in total (sourcing from outside) (in tonnes)	187,193	195,662	177,605
Steam consumption (sourcing from outside) – Per unit of output (in tonnes/tonne)	4.89	6.97	6.00
Water consumption in total (in tonnes)	389,464	240,534	312,462
Water consumption – Per unit of output (in tonnes/tonne)	10.16	8.57	10.56

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, all management personnel involved in the production have passed the safety training and assessment of the local government safety production 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. All 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 2022.

ENVIRONMENTAL AND SOCIAL REPORT

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

Key performance indicators

	2022	2021	2020
Employment			
Number of employees (by gender)			
Male	347	285	281
Female	150	137	140
Including part-time employees	3	2	2
Number of employees (by employment type)			
Management	83	71	72
Production	324	265	261
Sales	29	26	27
Research and development	61	60	61
Number of employees (by age group)			
30 or under	99	66	86
31-50	349	314	304
Over 50	49	42	31
Employee turnover rate (by gender)			
Male	15%	26%	18%
Female	9%	17%	8%
Employee turnover rate (by age group)			
30 or under	25%	36%	27%
31-50	10%	20%	12%
Over 50	13%	16%	11%

ENVIRONMENTAL AND SOCIAL REPORT

Key performance indicators (Continued)

	2022	2021	2020
Health and safety indicators			
Number of work-related fatalities (rate)	Nil	Nil	1(0.2%)
Lost days due to work injury (rate)	50 days (0.01%)	Nil	225 days (0.03%)
Training			
Training expenses	RMB193,000	RMB277,000	RMB172,000
Percentage of employees trained (by gender)			
Male	98%	98%	98%
Female	94%	96%	94%
Percentage of employees trained (by employment type)			
Senior management	100%	100%	100%
Middle management	100%	96%	100%
General staff	96%	97%	96%
Percentage of employees trained (Overall)	97%	97%	96%
Average training hours completed per employee (by gender)			
Male	72	70	69
Female	72	70	70
Average training hours completed per employee (by employment type)			
Senior management	69	79	79
Middle management	76	63	41
General staff	72	70	73
Average training hours completed per employee (Overall)	70	68	69

ENVIRONMENTAL AND SOCIAL REPORT

(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 by the Group's supply department 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, quality management system ISO9001 and European Feed Additives and Pre-mixtures Quality System (FAMI-QS) certification system. 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. The Group's customers were satisfied.

The Group has standard procedures to handle customer complaints. There was no material complaints in 2022. 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.

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 2022, 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 2022. 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 donation in cash to the Changzhou Charity Association in 2021.

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 2022.

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 19 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 (2021: Nil). The Directors recommend the payment of a final dividend of RMB0.077 per share (inclusive of tax) totalling approximately RMB40,787,000 in respect of the year ended 31 December 2022 (2021: Nil).

DONATIONS

Charitable and other donations made by the Group during the year was nil (2021: RMB140,000).

SHARE ISSUED IN THE YEAR

Details of the shares issued by the Company in the year ended 31 December 2022 are set out in Note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the distributable reserves of the Company were approximately RMB602,511,000 (2021: RMB496,528,000) 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 144 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 2022.

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 (resigned on 17 June 2022)
Ms. Wei Xin (resigned on 17 June 2022)
Ms. Au Fung Lan (resigned on 17 June 2022)
Mr. Zhou Zhi Wei (appointed on 18 June 2022)
Mr. Shu Rong Xin (appointed on 18 June 2022)
Ms. Cheng Mun Wah (appointed on 1 July 2022)

Supervisors nominated by shareholders
Ms. Zhou Rui Juan
Mr. Zhou Zhi Wei (resigned on 17 June 2022)
Ms. Rui Li Qin (appointed on 18 June 2022)

Supervisor nominated by employees
Mr. Zhang Jun Peng

DIRECTORS AND SUPERVISORS (Continued)

The terms of each of the Directors and Supervisors will be expired on 17 June 2025. 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 and Mr. Pan Chun has entered into a service contract with the Company. All the other Directors and Supervisors have not entered into any service contract 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.

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

As at 31 December 2022, 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:

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (h))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (i))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (j))
Director							
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)

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

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.

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)

Notes: (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, 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.

(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) 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.

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)

Notes: (Continued)

(g) 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.

(h) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 31 December 2022.

(i) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2022.

(j) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2022.

Save as disclosed above, as at 31 December 2022, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, or (d) the Hong Kong Companies Ordinance (Cap. 622) to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

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 2022, the followings, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (e))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (f))
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%	–	–
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%	–	–

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 2022.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2022.

Save as disclosed above, as at 31 December 2022, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or 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 and Appraisal 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

	2022	2021
– the largest supplier	25%	35%
– five largest suppliers combined	58%	70%

Sales

	2022	2021
– the largest customer	5%	5%
– five largest customers combined	15%	18%

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 2022, 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 13 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 2022.

(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, 28 March 2023

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2022, 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 re-election of the eighth Supervisory Committee, Zhang Jun Peng was elected as the employee representative and Rui Li Qin was appointed as the chairman of the Supervisory Committee. 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 2022 reflected truly and fairly the operating results and financial position of the Company and its subsidiaries.

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

Rui Li Qin
Chairman of the Supervisory Committee

The PRC, 28 March 2023

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"), which are set out on pages 68 to 143, comprise:

- the consolidated balance sheet as at 31 December 2022;
- 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 significant accounting policies and other explanatory information.

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 2022, 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 matters identified in our audit are summarised as follows:

1. Revenue recognition of sales of goods
2. Impairment of property, plant and equipment and construction in progress in Lianyungang Changmao

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Revenue recognition of sales of goods Refer to Notes 2.24 and 5 to the consolidated financial statements. For the year ended 31 December 2022, revenue from sales of goods amounted to RMB730 million. As detailed in Note 2.24, 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.	Our audit procedures in relation to revenue recognition of sales of goods included: We understood, evaluated and validated management's internal controls in relation to the Group's revenue recognition of sales of goods. We understood and evaluated the revenue recognition policy of the Group by obtaining and examining the major sales contracts and contract terms. We conducted testing of revenue on a sampling basis as follows: – Examining the supporting documents in relation to revenue of sales of goods, including sales orders, goods delivery notes, customs declarations, bills of lading, customers' acceptance documents and invoices;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The focus on the revenue from sales of goods is due to large number of customers involved with goods distributed to many different locations. The amount of sales of goods recognized has a significant impact on the consolidated financial statements. Therefore, we need to deploy significant audit resources to execute the necessary audit procedures.	– Confirming with the selected customers for the balance of trade receivables, contract liabilities and the sales amount by considering the transaction amount, characteristics and nature of those customers; – Cut off testing of the revenue recorded before and after the balance sheet date by tracing the revenue recognition records to the relevant supporting documents, to assess whether the revenue was recognised in the correct reporting periods; We also conducted site visits, interviews and background research for major customers on a sampling basis. Based on our work performed, we considered that the revenue recognition of sales of goods can be supported by the audit evidence we have obtained.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Impairment of property, plant and equipment and construction in progress in Lianyungang Changmao Refer to Notes 2.9, 4(a) and 16(a) to the consolidated financial statements. The Group has recorded accumulated impairment provision of RMB18 million for the property, plant and equipment and construction in progress, which resumed operation in Changmao Biochemical Lianyungang Company Limited ("Lianyungang Changmao"), for the year ended 31 December 2021. Management has re-performed the impairment assessment on those assets for the year ended 31 December 2022. Management, with assistance from an independent valuer, conducted an impairment assessment by estimating the recoverable amounts of those assets allocated to one cash generating unit("CGU") based on value in use calculation in 2022.	Our audit procedures in relation to management's assessment on impairment of property, plant and equipment and construction in progress in Lianyungang Changmao included: We obtained an understanding of management's internal control and assessment process of the provisions for impairment of property, plants and equipment and construction in progress 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. We evaluated and tested the controls over the impairment of property, plant and equipment and construction in progress in Lianyungang Changmao. We evaluated the independent valuer's competence, capabilities and objectivity. We challenged the appropriateness of management's grouping of assets with the relevant CGU, the appropriateness of the valuation methodologies and the reasonableness of key assumptions adopted.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The value in use calculation requires the management to estimate the future cash flows expected to arise from the CGU, which includes significant assumptions such as discount rates and estimation of future operating and financial positions, future selling price and gross margin. Based on management's assessment, the Group did not record additional provision for those assets. We focused on auditing the provisions for impairment of those property, plant and equipment and construction in progress in Lianyungang Changmao because the estimation of recoverable amounts are subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of property, plant and equipment and construction in progress is considered significant due to the complexity of the valuation model and subjectivity of significant assumptions used.	We involved our in-house valuation experts to assess the appropriateness of the valuation models and the reasonableness of the discount rate adopted by management. We tested the forecasted selling prices to market data to corroborate with management's information on a sample basis. We tested the gross margin used in the cash flow forecasts against the business plans. We tested the completeness, accuracy and relevancy of the underlying data used and the mathematical accuracy of the calculations in the model. We compared actual operating results for the year ended 31 December 2022 to cash flows forecast to assess the reliability of the management's estimation of the cash flow forecast. Based on our work performed, we considered the significant accounting estimates and key assumptions applied by management in the impairment assessment of property, plant and equipment and construction in progress in 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.

INDEPENDENT AUDITOR'S REPORT

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.

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.

INDEPENDENT AUDITOR'S REPORT

- 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.

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, 28 March 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 RMB'000	2021 RMB'000
Revenue	5	730,034	547,976
Cost of sales	8	(549,203)	(509,296)
Gross profit		180,831	38,680
Other income	6	3,477	4,692
Other gains, net	7	1,895	124,176
Selling expenses	8	(8,421)	(8,210)
Administrative expenses	8	(88,545)	(73,486)
Reversal/(Impairment losses) of loss allowance on financial assets	8	136	(28)
Operating profit		89,373	85,824
Finance income		940	537
Finance costs		(2,669)	(1,952)
Finance costs, net	9	(1,729)	(1,415)
Profit before income tax		87,644	84,409
Income tax expense	10	(6,286)	(26,202)
Profit for the year		81,358	58,207
Other comprehensive income/(loss)			
Item that may be reclassified to profit or loss			
– currency translation difference		9	(2)
Total comprehensive for the year		81,367	58,205
Profit for the year attributable to:			
Shareholders of the Company		81,423	58,318
Non-controlling interests		(65)	(111)
		81,358	58,207
Total comprehensive income for the year attributable to:			
Shareholders of the Company		81,432	58,316
Non-controlling interests		(65)	(111)
		81,367	58,205
Earnings per share for profit attributable to Shareholders of the Company – basic and diluted	11	RMB0.154	RMB0.110

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2022

	Note	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Patents	15	773	1,021
Property, plant and equipment	16	427,492	290,180
Right-of-use assets	16	95,386	96,215
Investment properties	17	4,128	–
Construction in progress	18	250,544	211,163
Deferred income tax assets	31	24,654	20,491
Prepayment	23	30,744	20,419
Other non-current assets		10,988	–
		844,709	639,489
Current assets			
Inventories	21	160,911	122,903
Trade and bills receivables	22	75,422	87,836
Other receivables, deposits and prepayments	23	48,496	32,771
Income tax recoverable		1,244	–
Derivative financial instruments	24	–	138
Financial assets at fair value through other comprehensive income		3,636	–
Pledged bank balances	25	12,344	14,750
Cash and bank balances	25	59,993	58,628
		362,046	317,026
Total assets		1,206,755	956,515
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	26	52,970	52,970
Reserves	27	725,561	644,129
		778,531	697,099
Non-controlling interests		362	427
Total equity		778,893	697,526

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2022

	Note	2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	29	40	58
Lease liabilities	16	1,207	271
Deferred income tax liabilities	31	525	448
Bank borrowings	30	152,073	1,500
		153,845	2,277
Current liabilities			
Trade and bills payables	28	66,538	95,806
Contract liabilities, other payables and accruals	29	69,065	67,027
Derivative financial instruments	24	192	–
Income tax payable		–	6,395
Lease liabilities	16	680	584
Bank borrowings	30	137,542	86,900
		274,017	256,712
Total liabilities		427,862	258,989
Total equity and liabilities		1,206,755	956,515

The financial statements on pages 68 to 143 were approved by the Board of Directors on 28 March 2023 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 2022

		Attributable to shareholders 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 2021		52,970	190,251	406,156	649,377	538	649,915
Profit for the year		–	–	58,318	58,318	(111)	58,207
Other comprehensive loss-currency translation difference – Group		–	(2)	–	(2)	–	(2)
Final dividend for the year ended 31 December 2020	12	–	–	(10,594)	(10,594)	–	(10,594)
Balance at 31 December 2021		52,970	190,249	453,880	697,099	427	697,526
Balance at 1 January 2022		52,970	190,249	453,880	697,099	427	697,526
Profit for the year		–	–	81,423	81,423	(65)	81,358
Other comprehensive income-currency translation difference – Group		–	9	–	9	–	9
Balance at 31 December 2022		52,970	190,258	535,303	778,531	362	778,893

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	47,766	7,185
Interest paid		(11,366)	(1,860)
Income tax paid		(16,767)	(12,264)
Net cash generated from/(used in) operating activities		19,633	(6,939)
Cash flows from investing activities			
Purchase of patents		–	(249)
Prepayments for construction in progress and property, plant and equipment		(9,072)	(10,395)
Purchase of property, plant and equipment		(1,308)	(5,262)
Proceeds/(payments) from disposal of property, plant and equipment		792	(991)
Additions of construction in progress		(213,139)	(159,941)
Proceeds from government compensation in relation to demolition and closure		–	117,005
Additions of right-of-use assets-land use right		–	(75,367)
Payment for demolition and closure expenses, net		–	(10,709)
Decrease in short-term bank deposits with maturities of over 3 months		450	200
Interest received		940	537
Investment income received		627	552
Net cash used in investing activities		(220,710)	(144,620)
Cash flows from financing activities			
Principal elements of lease payments	32(b)	(1,007)	(561)
Proceeds from bank borrowings	32(b)	289,583	137,900
Repayment of bank borrowings	32(b)	(88,368)	(50,000)
Prepayment for professional services		(660)	–
Dividends paid	32(b)	–	(10,594)
Net cash generated from financing activities		199,548	76,745
Net decrease in cash and cash equivalents		(1,529)	(74,814)
Effect of foreign exchange rate changes		3,344	(701)
Cash and cash equivalents at 1 January		58,178	133,693
Cash and cash equivalents at 31 December	25	59,993	58,178

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 28 March 2023.

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 adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018-2020
- Reference to the Conceptual Framework – Amendments to HKFRS 3
- Covid-19 Related Rent Concessions beyond 30 June 2021 - Amendment to HKFRS 16 (March 2021) (the "HKFRS 16 Amendment (March 2021)")
- Amendments to AG 5 Merger Accounting for Common Control Combinations

The Group also elected to adopt the following amendments early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12, and
- Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 2022.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 gains, net".

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(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 shareholders 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.

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 2 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment and investment properties

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 gains, net" in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges.

Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs to their residual values over their estimated useful lives of 20 years. Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

2.8 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.

2.9 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets (Continued)

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.

2.10 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 gains, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.12 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 30-210 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 22 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.15 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 gains, net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.19 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. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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 and does not give rise to equal taxable and deductible temporary differences. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Provisions

Provisions for environmental restoration, restructuring costs, onerous contracts 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. Before the separate provision for onerous contracts is established, the Group recognises impairment loss that has occurred on inventories dedicated to that used in fulfilling the contracts. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and the effective interest rate of the Group's long-term bank borrowing.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2022, 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 RMB1,477,000 (2021: RMB1,522,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, bank deposits and other payables.

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:

	2022 RMB'000	2021 RMB'000
Trade, bills and other receivables and deposits excluding prepayments, deferred expenses and value-added tax receivables (Note 20)	80,066	89,046
Derivative financial instruments (Note 20)	–	138
Financial assets at FVOCI	3,636	–
Pledged bank balances and cash and bank balances (Note 25)	72,337	73,378
Maximum exposure to credit risk	156,039	162,562

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(i) Risk Management (Continued)

The credit period of the majority of the Group's trade receivables is due within 30 to 210 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.

(ii) Impairment of financial assets

The Group has five 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 and value-added tax receivables;
- derivative financial instruments;
- financial assets at FVOCI;
- pledged bank balances and cash and bank balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

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, based on shared credit risk characteristics 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Bills receivables, financial assets at FVOCI, derivative financial instrument and cash at bank

As at 31 December 2022, 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, financial assets at FVOCI 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 (2021: 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. A loss allowance of RMB779,000 (2021: 889,000) were made as at 31 December 2022.

(c) Liquidity risk

The Group's primary cash requirements have been for construction of Dalian factory 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	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2022				
Trade and bills payables	66,538	–	–	66,538
Other payables	34,074	–	–	34,074
Lease liabilities	685	385	821	1,891
Bank borrowings	140,848	37,632	134,894	313,374
Total	242,145	38,017	135,715	415,877
At 31 December 2021				
Trade and bills payables	95,806	–	–	95,806
Other payables	35,823	–	–	35,823
Lease liabilities	600	289	–	889
Bank borrowings	89,441	1,515	–	90,956
Total	221,670	1,804	–	223,474

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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 25. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Management intends to draw short-term bank loans so as to increase flexibility in financing.

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 2022, 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 RMB228,000 (2021: RMB74,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3 FINANCIAL RISK MANAGEMENT (Continued)

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 2022 and 2021 was as follows:

	2022	2021
Total liabilities (RMB'000)	427,862	258,989
Total assets (RMB'000)	1,206,755	956,515
Liabilities-to-assets ratio	35.5%	27.1%

The increase in liabilities-to-assets ratio is mainly due to the increasing bank borrowings for the construction of Dalian factory (Note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Fair value hierarchy

	31 December 2022 RMB'000	31 December 2021 RMB'000
Level 2		
Foreign exchange forward contracts (liabilities)/assets	(192)	138
Level 3		
Financial assets at fair value through other comprehensive income	3,636	–

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 bank borrowings, approximate their fair values due to their short maturities.

The amounts of fair value changes recognised in profit and loss or other comprehensive income for items in level 3 for the year ended 31 December 2022 was insignificant (2021: Nil).

3 FINANCIAL RISK MANAGEMENT (Continued)

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 2022 and 2021.

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 which are estimated based upon the continued use of the asset in the business; and (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 in the impairment test and as a result affect the Group's financial position and results of operations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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

In early 2018, Changmao Biochemical Lianyungang Company Limited ("Lianyungang Changmao"), suspended its production to comply with the government policies of Lianyungang. In 2021, the Group dismantled those assets related to maleic anhydride production business and moved part of these assets to Dalian factory, where applicable. By July 2021, Lianyungang Changmao applied to be a non-chemical enterprise, and resumed its operation.

Management has performed impairment assessment and recorded impairment charge in 2021. In 2022, management has re-performed the impairment assessment. Based on management's assessment, there was no additional impairment provision. Detailed disclosure of the valuation of Lianyungang Changmao is made in Note 16.

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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, and 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).

(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.

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.

	2022 RMB'000	2021 RMB'000
Revenue from sales of goods, recognised at a point in time	730,034	547,976

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

	2022 RMB'000	2021 RMB'000
Mainland China	474,146	363,185
Asia Pacific	106,921	85,886
Europe	90,098	57,563
America	45,938	29,706
Others	12,931	11,636
	730,034	547,976

5 REVENUE AND SEGMENT INFORMATION (Continued)

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

The analysis of revenue by geographic location is based on the country area in which the customer is located.

As at 31 December 2022, all the Group's non-current assets (other than the deferred income tax assets) amounted to RMB820,055,000 (2021: RMB618,998,000) are mainly located in Mainland China.

Included in the revenue from sales of goods, approximately RMB33,388,000 (2021: RMB26,439,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 5% (2021: 5%) 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 2022.

(i) *Significant changes in contract liabilities*

Contract liabilities have been decreased by RMB2,042,000 due to delivery of the goods.

(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.

	2022 RMB'000	2021 RMB'000
Sales of products	7,374	1,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 OTHER INCOME

	2022 RMB'000	2021 RMB'000
Government grants	2,171	2,923
Others	1,306	1,769
	3,477	4,692

7 OTHER GAINS, NET

	2022 RMB'000	2021 RMB'000
Gain from demolition and closure (Note (a))	–	126,486
Fair value (losses)/gains on financial assets at fair value through profit or loss	(1,526)	1,049
Net exchange gains/(losses)	7,770	(1,691)
Loss on disposal of property, plant and equipment	(4,349)	(1,668)
	1,895	124,176

(a) 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 RMB205,266,000. The Company has received all the compensation consideration and completed substantially the disposal of related assets in 2021. Netting off the carrying value of related assets and expenses, the Group recognized a gain of RMB126,486,000 for the year ended 31 December 2021.

8 EXPENSES BY NATURE

	2022 RMB'000	2021 RMB'000
Changes in inventories of finished goods and work in progress	(66,843)	16,908
Raw materials and consumables used	378,371	296,115
Staff costs (including emoluments of directors and supervisors) (Note 13)	91,520	64,859
Utilities	80,072	55,905
Impairment loss on non-financial assets (Note 16 and 18)	8,875	29,632
Depreciation of property, plant and equipment(Note 16)	28,558	26,617
Transportation costs	26,198	19,999
Research and development costs (Note (a))	13,920	12,649
Maintenance costs	16,093	8,895
Provision for inventories to net realisable value (Note 21)	17,607	6,733
Estimated loss on contracts (Note (b) and (29))	334	5,826
Depreciation of right-of-use assets (Note 16)	2,814	2,330
Auditors' remuneration – audit services	1,604	1,604
Amortisation of patents (Note 15)	248	267
(Reversal of loss allowance)/impairment losses on financial assets	(136)	28
Other expenses	46,798	42,653
	646,033	591,020

(a) 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.

(b) The Group has signed irrevocable sales contracts with certain customers. Due to the increase in the price of raw materials, the estimated cost of fulfilling these contracts exceeds the estimated revenue. The Group recognised a provision for onerous sales contracts of RMB334,000 for the year ended 31 December 2022 (2021: RMB5,826,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCE COSTS, NET

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	11,595	1,927
Interest paid/payable for lease liabilities	52	25
Less: amounts capitalised on qualifying assets	(8,978)	–
	2,669	1,952
Interest income on bank deposits	(940)	(537)
Finance costs, net	1,729	1,415

* Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 4.85% (2021: Not applicable).

10 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 High and New Technology Enterprise ("HNTE"), is entitled to enjoy the preferential tax rate of 15% for three years starting from 2020, and should apply for HNTE qualification renewal in 2023. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

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

	2022 RMB'000	2021 RMB'000
Current income tax		
– Provision for CIT	10,372	20,639
Deferred income tax (Note 31)	(4,086)	5,563
	6,286	26,202

10 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:

	2022 RMB'000	2021 RMB'000
Profit before income tax	87,644	84,409
Calculated at the tax rates applicable to results of the respective consolidated entities	11,029	6,518
Expenses not deductible for tax purposes	376	439
Tax losses and timing differences for which no deferred income tax asset was recognised	8,185	14,598
Reversal of previously recognised deferred income tax assets	903	8,437
Previously unrecognised tax losses now recouped to reduce deferred tax expense (c)	(7,314)	–
Previously unrecognised timing differences used to reduce deferred tax expense	(1,146)	–
Tax incentives for equipment (a)	(1,977)	–
Tax incentives for research and development expenses (b)	(3,723)	(3,744)
Others	(47)	(46)
Income tax expense	6,286	26,202

(a) According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2022 onwards, the newly purchased equipment can be one-off deducted in the calculation of taxable income in 2022, and 100% additional deduction before tax is allowed during the period from 1 October 2022 to 31 December 2022. The 100% additional deduction incentive has led to a reduction in income tax expenses.

(b) According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2022 onwards, enterprises engaging in research and development activities are entitled to claim 200% (2021: 200%) 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 2022 and 2021.

(c) Lianyungang Changmao was qualified as a Technology-based Small and Medium Enterprises starting from 2022, and therefore its tax losses can be carried forward to offset taxable net profits for 10 years instead of the usual 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2022 is based on the profit attributable to the shareholders of the Company of RMB81,423,000 (2021: RMB58,318,000) and 529,700,000 (2021: 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 (2021: Nil).

12 DIVIDENDS

No interim dividend was declared during the year (2021: Nil). The dividend paid in 2022 and 2021 were nil and RMB10,594,000 (RMB0.020 per share) respectively. A final dividend in respect of the year ended 31 December 2022 of RMB0.077 per share, totalling RMB40,787,000 is to be proposed at the Annual General Meeting on 18 May 2023. These financial statements do not reflect this dividend payable.

13 STAFF COSTS

Staff costs including directors' and supervisors' remuneration are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, wages and related welfare	77,280	53,193
Social security costs	7,820	6,508
Contribution to defined contribution retirement schemes (Note (a))	6,420	5,158
	91,520	64,859

(a) 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 2022 (2021: 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.

14 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the supervisors of the Company for the year ended 31 December 2022 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	10	–	–	–	–	–	10
Mr. Zhou Zhi Wei (Note i)	7	–	–	–	–	–	7
Mr. Zhang Jun Peng	6	331	–	–	–	12	349
Ms. Rui Li Qin (Note ii)	8	222	–	–	–	5	235

The remuneration of each of the supervisors of the Company for the year ended 31 December 2021 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	–	–	–	–	–	15
Mr. Zhou Zhi Wei (Note i)	15	–	–	–	–	–	15
Mr. Zhang Jun Peng	6	269	–	–	–	20	295

None of the supervisors received or will receive any retirement benefits or termination benefits during the financial year (2021: Nil).

Notes:

(i) Mr. Zhou Zhi Wei resigned as a supervisor on 17 June 2022 and was appointed as a director of the Company on 18 June 2022.

(ii) Ms. Rui Li Qin was appointed as a supervisor of the Company on 18 June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals, two (2021: two) of them are Directors of the Company and the details of their remuneration are disclosed in Note 37(a). The emoluments of the remaining three highest paid individual are as follows:

	2022 RMB'000	2021 RMB'000
Basic salaries, allowances and benefits in kind	1,554	1,604
Discretionary bonus	988	–
Retirement benefit contributions	59	72
	2,601	1,676

The emoluments fell within the following bands:

	Number of individuals 2022	2021
Emolument bands (in Hong Kong dollars)		
Nil to HK$1,000,000	2	3
HK$1,000,000 to HK$2,000,000	1	–

(c) Senior management remuneration by band

Save as disclosed in Note 14(b) above, all senior management are not directors nor supervisors, all senior management's emolument fell within the band of Nil to HK$1,000,000 (2021: the same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PATENTS

	2022 RMB'000	2021 RMB'000
Net book amount, at 1 January	1,021	1,039
Additions	–	249
Amortisation charge (Note 8)	(248)	(267)
Net book amount, at 31 December	773	1,021

	2022 RMB'000	2021 RMB'000
At cost	12,405	12,405
Accumulated amortisation	(11,632)	(11,384)
Net book amount, at 31 December	773	1,021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 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 2021				
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
Year ended 31 December 2021				
Opening net book amount	89,216	138,232	8,472	235,920
Additions	–	2,342	5,801	8,143
Transfer from construction in progress (Note 18)	80,975	50,387	442	131,804
Assets classified as held for sale	(13,929)	–	(503)	(14,432)
Transfer to construction in progress (Note 18)	–	(25,391)	(163)	(25,554)
Other disposals	–	(515)	(162)	(677)
Depreciation	(7,137)	(17,627)	(1,968)	(26,732)
Impairment loss (Note a)	(9,817)	(8,251)	(224)	(18,292)
Closing net book amount	139,308	139,177	11,695	290,180
At 31 December 2021				
Cost	210,895	357,324	41,884	610,103
Accumulated depreciation and impairment	(71,587)	(218,147)	(30,189)	(319,923)
Net book amount	139,308	139,177	11,695	290,180
Year ended 31 December 2022				
Opening net book amount	139,308	139,177	11,695	290,180
Additions	–	159	1,149	1,308
Transfer from construction in progress (Note 18)	74,822	97,284	2,337	174,443
Transfer to investment properties	(4,485)	–	–	(4,485)
Other disposals	(1,298)	(3,268)	(712)	(5,278)
Depreciation	(8,920)	(17,588)	(2,168)	(28,676)
Closing net book amount	199,427	215,764	12,301	427,492
At 31 December 2022				
Cost	273,770	438,646	43,958	756,374
Accumulated depreciation and impairment	(74,343)	(222,882)	(31,657)	(328,882)
Net book amount	199,427	215,764	12,301	427,492

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

For the year ended 31 December 2022, depreciation expense of RMB22,066,000 (2021: RMB21,614,000) and RMB6,492,000 (2021: RMB5,003,000) were charged in "cost of sales" and "administrative expenses", RMB118,000 (2021: 115,000) was accounted for in "construction in progress".

(a) Provision for impairment

In order to comply with the government policies of Lianyungang and the long-term development plan of the Group, the Group relocated the maleic anhydride production line in its subsidiary, Lianyungang Changmao to the new production plant in Dalian City. After that, Lianyungang Changmao resumed its operation with trial run in July 2021. However, the operation was still in loss in 2021. After further assessment, taking into account the trial run result of the operation in Lianyungan Changmao, the Group has recorded a provision for impairment of the property, plant and equipment and construction in progress of RMB17,552,000 for the year ended 31 December 2021. Management has re-performed the impairment assessment on those assets for the year ended 31 December 2022. Management, with assistance from an independent valuer, conducted an impairment assessment by estimating the recoverable amounts of those assets allocated to one cash generating unit ("CGU") based on value in use ("VIU") calculation. VIU is determined using cash flow projections based on financial forecast covering a eight-year period prepared by management. A eight-year forecast is considered appropriate for chemical products industry, taking 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 2022 impairment assessment was 16.8% (2021: 16.8%). For the purpose of sensitivity analysis, if the gross margin is reduced by 2% or the discount rate is increased by 2%, there would be no additional provision warranted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(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 the land use right of Dalian was used as collateral for bank facilities/borrowing in Dalian factory.

(i) Amounts recognised in the consolidated balance sheet

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

	2022 RMB'000	2021 RMB'000
Right-of-use assets		
Land use rights	93,247	95,356
Office premises	2,139	859
	95,386	96,215
Lease liabilities		
Current	680	584
Non-current	1,207	271
	1,887	855

Addition to the right-of-use assets during the 2022 financial year was RMB1,985,000 (2021: RMB76,500,000).

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

(b) Lease (Continued)

(ii) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets (Note 8)	2,814	2,330
Interest expense (included in finance cost) (Note 9)	52	25

The total cash outflow for leases in 2022 was RMB1,059,000 (2021: RMB586,000).

17 INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
At 1 January	–	–
Addition	4,485	–
Depreciation	(357)	–
At 31 December	4,128	–

(a) Amount recognised in the profit and loss for investment properties:

	2022 RMB'000	2021 RMB'000
Direct operating expenses from property that generated rental income	357	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INVESTMENT PROPERTIES (Continued)

(b) Fair value

	2022 RMB'000
At 31 December	48,157

The fair value of investment properties is not applicable as there were no investment properties as at 31 December 2021.

18 CONSTRUCTION IN PROGRESS

	2022 RMB'000	2021 RMB'000
At 1 January	211,163	140,538
Additions	222,835	191,152
Transfer from property, plant and equipment (Note (16))	–	25,554
Transfer to property, plant and equipment (Note (16))	(174,443)	(131,804)
Impairment (Note (a))	(8,875)	(11,340)
Transfer to held for sale asset	–	(2,937)
Disposal	(136)	–
At 31 December	250,544	211,163

(a) For the year ended 31 December 2022, management engaged an independent valuer to assess the recoverable value of the equipment to be used in construction in progress, which is determined to be fair value less costs of disposal ("FVLCOD"). In determining the FVLCOD, management leveraged their knowledge of those assets and considered available information in the industry and market information from the independent third party valuer. FVLCOD is a level 3 fair value measurement. As a result, the Group has recorded provision amounting to RMB8,875,000.

(b) During the year ended 31 December 2022, borrowing costs of RMB8,978,000 (2021: Nil) were capitalised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2022 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 organic acids products
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 (Dalian) New Material Company Limited)	PRC, limited liability company	RMB100,000,000	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.

20 FINANCIAL INSTRUMENTS BY CATEGORY

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade and bills receivables	75,422	87,836
Other receivables and deposits excluding prepayments, deferred expenses and value-added tax receivables	1,008	1,210
Pledged bank balances	12,344	14,750
Cash and bank balances	59,993	58,628
Financial assets at fair value through other comprehensive income	3,636	–
Financial assets at fair value through profit or loss		
Derivative financial instruments	–	138
Total	152,403	162,562

	2022 RMB'000	2021 RMB'000
Financial liabilities		
Financial liabilities at amortised cost		
Bank borrowings	289,615	88,400
Trade and bills payables	66,538	95,806
Other payables excluding accruals and contract liabilities	34,074	35,823
Lease liabilities	1,887	855
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	192	–
Total	392,306	220,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	28,436	47,027
Work-in-progress	27,399	13,063
Finished goods	105,076	62,813
	160,911	122,903

As at 31 December 2022, provision for impairment of inventories amounted to RMB19,762,000 (2021: RMB8,577,000).

Write-downs of inventories to net realisable value amounted to RMB17,607,000 (2021: RMB6,733,000). These were recognised as cost of sales during the year ended 31 December 2022.

22 TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	53,957	56,263
Bills receivables	21,465	31,573
	75,422	87,836

22 TRADE AND BILLS RECEIVABLES (Continued)

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

	2022 RMB'000	2021 RMB'000
0 to 3 months	53,387	56,278
4 to 6 months	1,241	678
Over 6 months	73	74
	54,701	57,030
Less: Loss allowance (Note 3.1)	(744)	(767)
	53,957	56,263

(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.

22 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 2021	739
Loss allowance for trade receivables	28
Loss allowance as at 31 December 2021	767
Reversal of loss allowance for trade receivables	(23)
Loss allowance as at 31 December 2022	744

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

	2022 RMB'000	2021 RMB'000
RMB	48,568	58,465
USD	26,854	29,371
	75,422	87,836

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other receivables, deposits and prepayments

	2022 RMB'000	2021 RMB'000
Prepayments and deposits	38,332	25,808
Value-added tax receivables	39,900	26,172
Other receivables	1,008	1,210
	79,240	53,190
Less: Non-current portion		
Prepayments for property, plants and equipment	(30,084)	(20,419)
Prepayment for professional services	(660)	–
Current portion	48,496	32,771

24 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2022, 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 2022 were approximately RMB10,248,000 (2021: RMB10,458,000). These foreign exchange forward contracts held for trading were expected to be settled within 12 months.

25 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	2022 RMB'000	2021 RMB'000
Short-term bank deposits with original maturities of over 3 months	–	450
Cash and cash equivalents	59,993	58,178
Cash and bank balances	59,993	58,628
Pledged bank balances	12,344	14,750
Total	72,337	73,378

	2022 RMB'000	2021 RMB'000
Denominated in:		
– RMB	62,329	60,106
– USD	9,689	13,030
– HKD	319	242
	72,337	73,378

There was no short-term bank deposit with original maturities of over 3 months as at 31 December 2022. The effective interest rate on the short-term bank deposit with original maturities of over 3 months is 1.55% per annum as at 31 December 2021.

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

25 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 RMB12,344,000 (2021: RMB14,750,000) mainly have been pledged to a bank to secure the Group's bills financing facilities as at 31 December 2022 (2021: the same).

26 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at RMB0.10 each	Nominal Value RMB'000
At 31 December 2022 and 2021	529,700,000	52,970

As at 31 December 2022 and 2021, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES

	Share Premium RMB'000	Statutory common reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2021	102,559	87,233	461	(2)	406,156	596,407
Profit for the year	–	–	–	–	58,318	58,318
Other comprehensive loss – currency translation difference – Group	–	–	–	(2)	–	(2)
Final dividend for the year ended 31 December 2020	–	–	–	–	(10,594)	(10,594)
At 31 December 2021	102,559	87,233	461	(4)	453,880	644,129

	Share premium RMB'000	Statutory common reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2022	102,559	87,233	461	(4)	453,880	644,129
Profit for the year	–	–	–	–	81,423	81,423
Other comprehensive loss – currency translation difference – Group	–	–	–	9	–	9
At 31 December 2022	102,559	87,233	461	5	535,303	725,561

27 RESERVES (Continued)

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.

28 TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	27,222	52,212
Bills payables	39,316	43,594
	66,538	95,806

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

	2022 RMB'000	2021 RMB'000
0 to 6 months	26,766	51,304
7 to 12 months	20	373
Over 12 months	436	535
	27,222	52,212

(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.

29 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Construction payables	26,294	31,273
Provision for demolition costs	5,639	8,524
Contract liabilities	6,260	8,302
Payroll and welfare payables	18,215	6,746
Provision for onerous contracts (Note (a))	334	5,826
Other tax payables	3,313	1,042
Payables to transportation charges	2,820	548
Deferred government subsidy	58	112
Provision for utilities and safety expenses	480	39
Others	5,692	4,673
	69,105	67,085
Less: Non-current portion		
Deferred government subsidy	(40)	(58)
Current portion	69,065	67,027

(a) The Group has signed irrevocable sales contracts with certain customers. Due to the increase in the price of raw materials, the estimated cost of fulfilling these contracts exceeds the estimated revenue. As at 31 December 2022 and 2021, the Group has made a provision for inventory to net realisable value for these unexecuted sales contracts, and recognises estimated liabilities based on the excess of the estimated loss exceeding the provision for inventory to net realisable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 BANK BORROWINGS

	2022			2021		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Secured bank borrowings	33,642	152,073	185,715	8,500	1,500	10,000
Unsecured bank borrowings	103,900	–	103,900	78,400	–	78,400
	137,542	152,073	289,615	86,900	1,500	88,400

At 31 December, the Group's bank borrowings are repayable as follows:

	2022 RMB'000	2021 RMB'000
Repayable within 1 year and	137,542	86,900
Between 1 and 2 years	35,145	1,500
Between 2 and 5 years	116,928	–
	289,615	88,400

The secured bank borrowings are secured by the Group's land use rights at Dalian with a net book value of 72,729,000 (2021: RMB74,237,000) as at 31 December 2022 and guaranteed by the Company.

The bank borrowings are denominated in RMB. The carrying amounts of the Group's bank borrowings approximate their fair values.

As at 31 December 2022, the effective interest rate of the secured bank borrowings was 4.3% (2021: 4.7%) and the effective interest rate of the unsecured bank borrowings was 3.6% (2021: 4.4%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DEFERRED INCOME TAX

The balance of deferred tax assets comprises temporary differences attributable to:

	2022 RMB'000	2021 RMB'000
Tax losses	23,167	16,391
Provision	3,805	4,430
Deferred income	9	17
Others	3	7
Total deferred tax assets	26,984	20,845
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,330)	(354)
	24,654	20,491

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

	Deferred Income and others RMB'000	Provisions RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2021	170	4,299	21,862	26,331
(Charged)/credited to the consolidated statement of comprehensive income	(146)	131	(5,471)	(5,486)
At 31 December 2021	24	4,430	16,391	20,845
(Charged)/credited to the consolidated statement of comprehensive income	(12)	(625)	6,776	6,139
At 31 December 2022	12	3,805	23,167	26,984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DEFERRED INCOME TAX (Continued)

The balance of deferred tax liabilities comprises temporary differences attributable to:

	2022 RMB'000	2021 RMB'000
Accelerated tax depreciation	2,774	699
Fair value gain on patent	81	103
Total deferred tax liabilities	2,855	802
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,330)	(354)
	525	448

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

	Accelerated tax depreciation RMB'000	Fair value gain on patents RMB'000	Total RMB'000
At 1 January 2021	602	123	725
Charged/(credited) to the consolidated statement of comprehensive income	97	(20)	77
At 31 December 2021	699	103	802
Charged/(credited) to the consolidated statement of comprehensive income	2,075	(22)	2,053
At 31 December 2022	2,774	81	2,855

31 DEFERRED INCOME TAX (Continued)

Deferred income tax assets of tax loss are recognised when 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 RMB12,140,000 (2021: RMB15,619,000) in respect of losses amounting to approximately RMB48,559,000 (2021: RMB62,474,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2022 RMB'000	2021 RMB'000
2022	–	5,583
2023	2,101	11,354
2024	2,174	11,382
2025	1,470	5,596
2026	3,800	28,559
2027	15,799	–
2031	20,107	–
2032	3,108	–
	48,559	62,474

The Group had no unrecognised deferred income tax liabilities as at 31 December 2022 (2021: Nil).

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2022 RMB'000	2021 RMB'000
Profit before income tax	87,644	84,409
Adjustments for:		
Interest income	(940)	(537)
Investment income	(627)	(552)
Interest expense	2,669	1,952
Net exchange difference	(3,282)	681
Fair value loss/(gain) on derivative financial instruments	330	(15)
Amortisation of patents	248	267
Amortisation of other non-current assets	225	–
Depreciation of property, plant and equipment	28,558	26,617
Depreciation of right-of-use assets	2,814	2,330
Depreciation of investment property	357	–
Gain from disposal of property, plant and equipment related to demolition and closure	–	(126,486)
Loss on disposal of property, plant and equipment	4,349	1,668
(Reversal of loss allowance)/Loss allowance on financial assets	(136)	28
Provision for prepayments	43	–
Provision for inventories to net realisable value	17,607	6,733
Impairment for non-financial assets	8,875	29,632
	148,734	26,727
Changes in working capital:		
Increase in inventories	(55,615)	(4,096)
Increase in trade and bills receivables, other receivables, deposits and prepayments	(18,057)	(25,705)
(Decrease)/Increase in trade and bills payables, contract liabilities, other payables and accruals	(16,029)	11,173
Increase in other non-current assets	(11,213)	–
Decrease in deferred income	(54)	(914)
Cash generated from operations	47,766	7,185

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Lease liabilities		Bank borrowings		Dividends payable	
	2022	2021	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	855	305	88,400	500	–	–
Additions – leases	1,987	1,133	–	–	–	–
New bank borrowings	–	–	289,583	137,900	–	–
Repayment of principals	(1,007)	(561)	(88,368)	(50,000)	–	–
Interest paid	(52)	(25)	–	–	–	–
Interest accretion	52	25	–	–	–	–
Exchange difference	52	(22)	–	–	–	–
2020 final dividend	–	–	–	–	–	10,594
Dividends paid	–	–	–	–	–	(10,594)
At 31 December	1,887	855	289,615	88,400	–	–

33 COMMITMENTS

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

	2022	2021
	RMB'000	RMB'000
Contracted but not provided for	96,350	89,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS

(a) Key management compensation

	2022 RMB'000	2021 RMB'000
Salaries and other short-term employee benefits	4,763	1,463
Retirement benefit contributions	22	38
	4,785	1,501

(b) Balance of a related party

	2022 RMB'000	2021 RMB'000
Other Payables		
Hong Kong Xinsheng Pioneer Investment Company Limited	223	204

Hong Kong Xinsheng Pioneer Investment Company Limited is the beneficial owner of the Company.

35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

See Note 12 for the final dividend to be proposed at the Annual General Meeting on 18 May 2023.

Save for the above, there were no material subsequent events during the period from 31 December 2022 to the approval date of these financial statements by the Board of Directors on 28 March 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY

AS AT 31 December 2022

		2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Patents		450	614
Property, plant and equipment		211,644	199,263
Right-of-use assets		6,474	5,339
Construction in progress		16,259	18,113
Investments in subsidiaries		197,356	197,356
Deferred income tax assets		1,011	2,933
Prepayments		5,063	2,529
		438,257	426,147
Current assets			
Inventories		132,999	95,444
Trade and bills receivables		72,434	87,150
Other receivables, deposits and prepayments		5,757	6,911
Amounts due from subsidiaries		244,258	155,705
Loans to a subsidiary		131,811	142,311
Income tax recoverable		1,244	–
Derivative financial instruments		–	138
Financial assets at fair value through other comprehensive income		3,618	–
Pledged bank balances		10,738	13,149
Cash and bank balances		41,744	53,803
		644,603	554,611
Total assets		1,082,860	980,758
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		52,970	52,970
Reserves	Note (a)	812,973	706,990
Total equity		865,943	759,960

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

BALANCE SHEET OF THE COMPANY (Continued)

AS AT 31 December 2022

	2022 RMB'000	2021 RMB'000
LIABILITIES		
Non-current liability		
Deferred income	40	58
Lease liabilities	1,207	271
	1,247	329
Current liabilities		
Trade and bills payables	64,252	94,426
Contract liabilities, other payables and accruals	43,282	40,664
Amounts due to a subsidiary	3,364	–
Derivative financial instruments	192	–
Income tax payable	–	6,395
Lease liabilities	680	584
Bank borrowings	103,900	78,400
	215,670	220,469
Total liabilities	216,917	220,798
Total equity and liabilities	1,082,860	980,758

The balance sheet of the Company was approved by the Board of Directors on 28 March 2023 and was signed on its behalf.

Rui Xin Sheng
Director

Pan Chun
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 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 2021	102,559	87,233	511,932	701,724
Profit and total comprehensive income for the year	–	–	15,860	15,860
Final dividend for the year ended 31 December 2020	–	–	(10,594)	(10,594)
At 31 December 2021	102,559	87,233	517,198	706,990

	Share premium RMB'000	Statutory common reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2022	102,559	87,233	517,198	706,990
Profit and total comprehensive income for the year	–	–	105,983	105,983
At 31 December 2022	102,559	87,233	623,181	812,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 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 2022 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	2,370	–	–	–	3,170
Mr. Pan Chun (Note (i))	100	545	948	–	–	22	1,615
Non-executive director							
Mr. Zeng Xian Biao	55	–	474	–	–	–	529
Mr. Yu Xiao Ping	55	–	474	–	–	–	529
Ms. Leng Yi Xin	55	–	474	–	–	–	529
Mr. Wang Jian Ping (Note (ii))	33	–	–	–	–	–	33
Independent non-executive director							
Mr. Zhou Zhi Wei (Note (iii))	43	–	–	–	–	–	43
Mr. Shu Rong Xin (Note (iii))	43	–	–	–	–	–	43
Ms. Cheng Min Wah (Note (iv))	40	–	–	–	–	–	40
Prof. Ouyang Ping Kai (Note (v))	28	–	–	–	–	–	28
Ms. Wei Xin (Note (v))	28	–	–	–	–	–	28
Ms. Au Fung Lan (Note (v))	28	–	–	–	–	–	28

37 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 2021 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	563	–	–	–	38	701
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 (ii))	–	–	–	–	–	–	–
Independent non-executive director							
Prof. Ouyang Ping Kai (Note (v))	60	–	–	–	–	–	60
Ms. Wei Xin (Note (v))	60	–	–	–	–	–	60
Ms. Au Fung Lan (Note (v))	60	–	–	–	–	–	60

Notes:

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

(ii) Mr. Wang Jian Ping has waived director's fee amounting to RMB23,000 for the year ended 31 December 2022 (2021: RMB50,000). Save for that, none of the directors waived any emoluments during the years ended 31 December 2022 and 2021.

(iii) Mr. Zhou Zhi Wei and Mr. Shu Rong Xin were appointed as directors on 18 June 2022.

(iv) Ms. Cheng Min Wah was appointed as Director on 1 July 2022.

(v) Prof. Ouyang Ping Kai, Ms. Wei Xin and Ms. Au Fung Lan resigned as directors on 17 June 2022.

(vi) 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.

37 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 (2021: Nil).

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

During the financial year ended 31 December 2022, the Company did not pay consideration to any third parties for making available directors' services (2021: 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 2022, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors (2021: 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 (2021: Nil).

FIVE YEAR SUMMARY

	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Consolidated results					
Revenue	639,120	494,580	444,106	547,976	730,034
Operating profit	55,454	62,810	16,999	85,824	89,373
Finance income/(costs), net	(853)	(257)	153	(1,415)	(1,729)
Profit before income tax	54,601	62,553	17,152	84,409	87,644
Income tax expense	(4,692)	(4,626)	(409)	(26,202)	(6,286)
Profit for the year	49,909	57,927	16,743	58,207	81,358
Profit for the year attributable to:					
Equity holders of the Company	50,525	58,299	16,827	58,318	81,423
Non-controlling interest	(616)	(372)	(84)	(111)	(65)
Dividends	26,485	29,134	10,594	–	40,787
Consolidated assets and liabilities					
Total non-current assets	420,620	427,032	438,111	639,489	844,709
Total current assets	311,398	310,707	409,218	317,026	362,046
Total current liabilities	(98,712)	(73,093)	(196,334)	(256,712)	(274,017)
Net current assets	212,686	237,614	212,884	60,314	88,029
Total assets less current liabilities	633,306	664,646	650,995	699,803	932,738
Total non-current liabilities	(2,439)	(2,332)	(1,080)	(2,277)	(153,845)
Net assets	630,867	662,314	649,915	697,526	778,893
Earnings per share					
– basic and diluted	RMB0.095	RMB0.110	RMB0.032	RMB0.110	RMB0.154

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 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

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
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, a subsidiary of the Company
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