ANNUAL REPORT 2023

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)

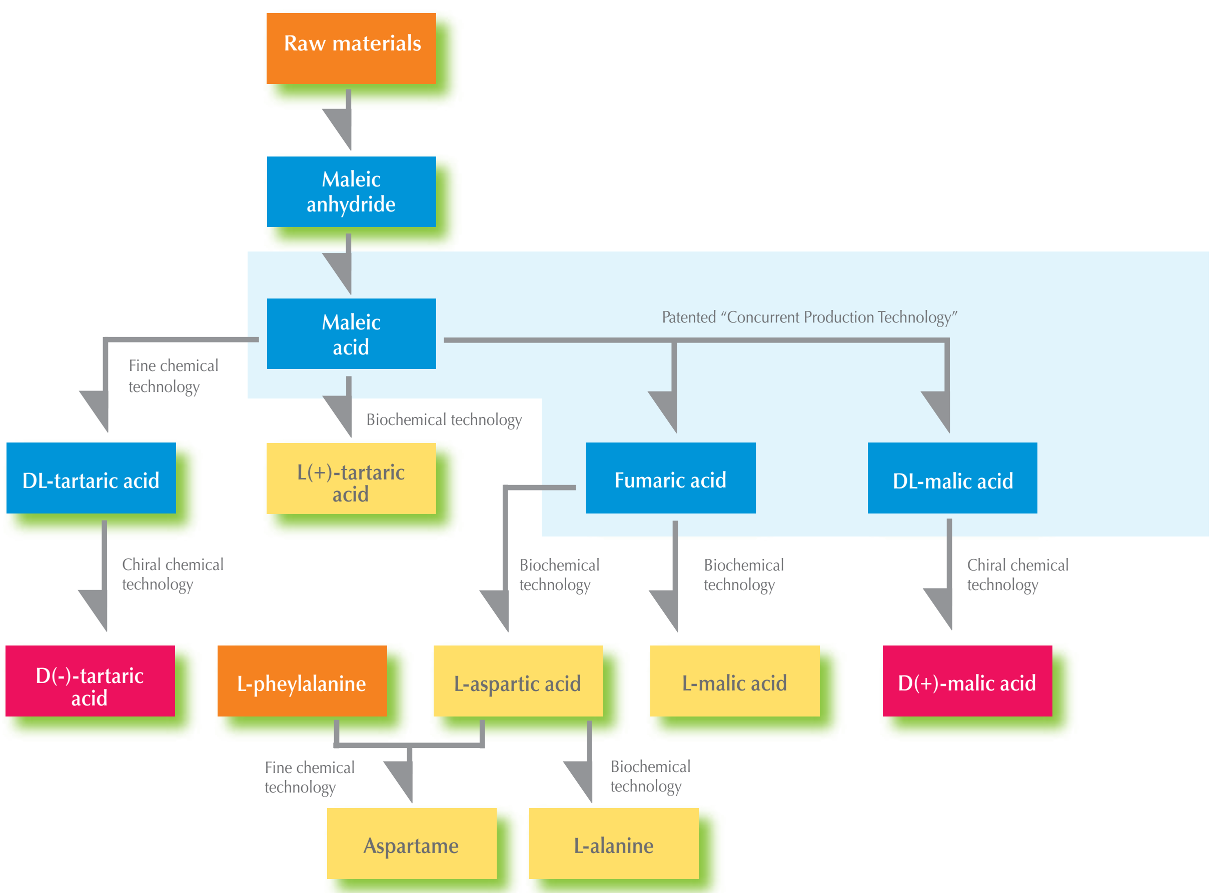
CONTENTS

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

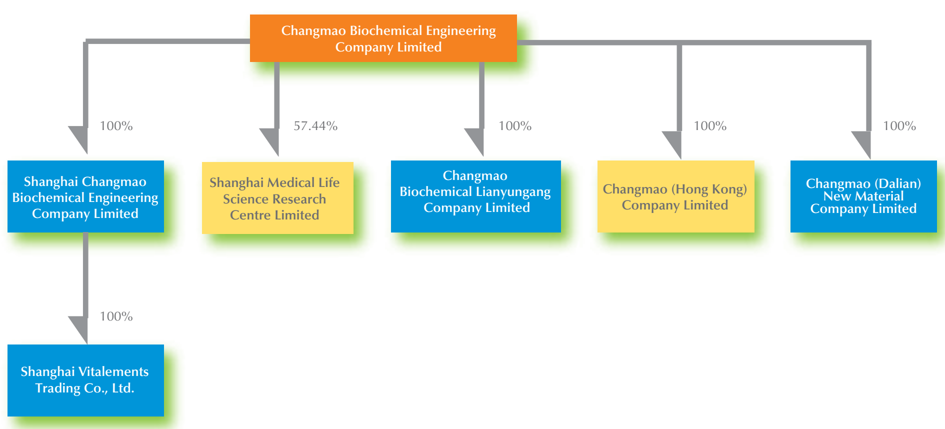


CORPORATE PROFILE

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, ISO22000 Food Safety Management System 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

SUPERVISORS 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

LEGAL ADDRESS
No. 1228 Chang Jiang Bei Road
New North Zone
Changzhou City
Jiangsu Province, 213034
The PRC

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

PRINCIPAL BANKERS
Bank of China
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank

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,

On behalf of the Board, I would like to present the Group's full year results and audited consolidated financial statements for the year ended 31 December 2023.

RESULTS FOR THE YEAR

The Group's sales revenue for the year ended 31 December 2023 was RMB637,078,000, which represented a decrease of approximately 13% as compared with that of approximately RMB730,034,000 in last year; the net loss attributable to shareholders of the Company was approximately RMB86,057,000, while the net profit attributable to shareholders of the Company for last year was RMB81,423,000.

The losses incurred by the Group in 2023 were mainly due to: (1) decrease in sales revenue and gross profit margin due to the decrease in product selling prices and the weakening demand on export; (2) the Group's new production plant in Dalian City started operation in the fourth quarter of 2022. Its production lines are still under adjustment to achieve the targeted output and costs. It is not profitable yet and has a negative impact on the Group's overall gross profit margin. The Board expects that after the adjustments, the production lines of the Dalian plant will reach full operation, and its operating conditions will gradually improve, eventually becoming the growth point of the Group; and (3) Lianyungang Changmao was loss-making in 2023 as it had not operated in full capacity and there was a decrease in sales price of its products. In view of this, the Group has made a provision for impairment of construction in progress and property, plant and equipment amounting to RMB38,583,000 (2022: Nil) and a write off of deferred income tax assets amounting to RMB23,652,000 (2022: Nil). The impairment loss and deferred tax asset write off are a non-cash accounting treatments in accordance with Hong Kong Financial Reporting Standards and have no effect on the cash flow for the Group's operation.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Facing the challenging operating environment, the Group strived to reduce costs, adjust sales strategies and strengthen research and development. In 2023, the Group's various aspects of work were as follows:

1. **Production**

   In 2023, the Group paid close attention to management and technological innovation in the production process. It had focused on product quality and saving energy and reducing consumption throughout the year. During the year, the Group's factory in Changzhou (the "Changzhou Factory") completed transformation and upgrading and transitioned to stable production. By adjusting the production ratio of marketable products, the Group is able to ensure stability of production and sales volume in the overall market downturn. At the same time, the Group's factory in Dalian (the "Dalian Factory") has also speeded up its construction pace. The first-phase production line has been officially put into production, and the construction of the second-phase production line has also been basically completed and the production line is expected to start trial production in 2024. In 2023, the Group's factory in Lianyungang was greatly affected by the market prices of its products and the production environment of the industrial park, resulting in unstable production and inability to reach full production and sales. The management of the Group will specifically focus to adjust its production and sales plans and it is expected that there will be improvement in 2024.

2. **Sales**

   Affected by the decrease in product price and weakened demand in export in 2023, the Group's sales work had faced great challenges. As such, the Group made adjustments to its sales strategy and carried out work to enhance the team's combat effectiveness, such as building a new team and improving the assessment mechanism during the year and has achieved certain results. Our sales teams will continue to maintain good relationship with our existing customers, develop new end users of the Group's products, strengthen service awareness, and strive to cope with the Group's business transformation and upgrading, seeking innovation and change.

3. **Safety Management**

   The Group conscientiously implements various daily safety management measures. In 2023, the Group had further strengthened the building up of safety management culture. Safety is a red line, and it is also the premise for the survival and development of the Group. The Group will continue to strengthen the awareness of safety production, risk prevention and improve various safety management.

CHAIRMAN'S STATEMENT

4. **Environmental Management**

The Group continues to increase investment in environmental protection and coordinates and organises various departments to implement improvements in various environmental protection aspects.

In 2023, the Changzhou Factory benefited from the environmental management standards and was included in Changzhou City's positive list of ecological environment supervision and law enforcement (常州市生態環境監督執法正面清單). During the year, the Changzhou Factory also piloted to carry out the requirements under the "Greenhouse Gas Emission Verification Statement (溫室氣體排放核查聲明)", obtained the Product Carbon Footprint Certificate (產品碳足迹證書) and completed the Changzhou Municipal Green Factory review (常州市級綠色工廠評審).

The Group will continue to do a good job on environmental protection work, reduce energy consumption and emissions through continuous technological updates and investment in new equipment, promote Changzhou Factory's environmental management experience and create a good development environment for the development of the Group.

RESEARCH AND DEVELOPMENT

The Group will continue to maintain the level of investment in research and development. In 2023, the Group obtained 5 newly authorised patents, including 2 invention patents. The progress of key research and development projects are as follows:

1. **Continue to promote the New Feed Additive Pyrroloquinoline Quinone Disodium (PQQ.Na2) Project**

The Group continued to invest in PQQ.Na2 products and carried out follow-up research, trial and market development. With the approval of the Ministry of Agriculture and Rural Affairs in 2023, the scope of application of the Group's feed additive PQQ.Na2 has been expanded to weaned piglets. The sales and research and development departments have also cooperated with customers and have obtained some feedback. The Group will continue to actively promote this project.

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

In 2023, the pharmaceutical division of the Group added a new pharmaceutical adjuvant, sodium tartrate, which was registered at the Center for Evaluation (CDE) of the State Drug Administration in December.

The API and pharmaceutical adjuvant project upgrades the Group's existing products and is 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

OUTLOOK AND PROSPECTS

With the three factories of the Group in Changzhou, Lianyungang and Dalian as the pilers of the Group, the research and development, production and sales scale of the entire Group have reached a higher level, which put forward higher requirements for the overall coordination and coordination of the entire management. Therefore, the Group will continue to ensure stable development by focusing on the following aspects:

1. **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 guidelines and is supported by the local government. The Dalian Factory is the main production base for chemical products of the Group. With leveraging the flexible and efficient advantages of the synergy from the first–phase and second-phase product chain, it will be the basis of the Group's competition in the future. Combined with these advantages and the industrialisation of scientific research results, the Dalian factory will further expand into new products such as new feed additives which will create new economic benefits.

2. **Accelerating Technology Innovation and Improving Product Competitiveness**

   The Group is adamant that technological innovation is essential for the long-term development of an enterprise. We strive to maintain a continuous increase in investment in research and development. The Group will continue to actively integrate existing resources and research and development teams, increase investment, attract talents, focus on tackling key problems, and rely on technological progress to reduce costs, increase efficiency and to improve product competitiveness. We will accelerate the research and development progress of new products. The Group will promote the upgrading of existing product chains, and continuously seek new profit sources and growth points.

3. **Enhancing Safety and Environmental Protection Standards, Strengthening Risk Controls and Focus on Sustainable Development**

   Safety, environmental protection and sustainable development considerations will play an increasingly important role in the Group's future business. 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 promote cleaner production and implement pollution prevention to fulfill social responsibilities. The Group will always strive to promote energy conservation and consumption reduction, and continue to improve its management level on carbon footprint and pollutant emissions.

CHAIRMAN'S STATEMENT

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 user of its products. The Group will actively research and develop new products to proactively meet customer needs. It aims at being honest and trustworthy in operation, improving the awareness and reputation of the Changmao brandname 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 Changmao'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. The Group will give full play to its own research and development and manufacturing advantages, develop new feed additives PQQ, new materials, APIs, pharmaceutical adjuvant and other new products, etc., to continue to extend the product chain, and continue to grow bigger and stronger.

The Group is fully aware that it is necessary to continuously evaluate and improve the current business conditions of each factory and plan for the future. The Group will also continue to actively manage and adjust its existing product chain to maintain a healthy development momentum with the goal of achieving maximum value for shareholders.

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

Rui Xin Sheng
Chairman

The PRC, 26 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF KEY PERFORMANCE INDICATORS

Revenue (2023: RMB637,078,000; 2022: RMB730,034,000) **and gross profit margin** (2023: 4.1%; 2022: 24.8%)

Revenue and gross profit margin for the year ended 31 December 2023 decreased mainly because:

(1) Ther was a decrease in sales revenue and gross profit margin due to the decrease in product selling prices and the weakening demand on export;

(2) the Group's new production plant in Dalian City started operation in the fourth quarter of 2022. Its production lines are still under adjustment to achieve the targeted output and costs. It is not profitable yet and has a negative impact on the Group's overall gross profit margin. The Board expects that after the adjustments, the production lines of the Dalian plant will reach the planned production volume and costs, and its operating conditions will gradually improve, eventually becoming the growth point of the Group; and

(3) Lianyungang Changmao was loss-making in 2023 as it had not operated in full capacity and there was a decrease in sales price of its products. In view of this, the Group has re-accessed the carrying value of the construction in progress, the property, plant and equipment. Provision for impairment of construction in progress and property, plant and equipment amounting RMB38,583,000 (2022: Nil) was made, of which RMB38,549,000 was charged to cost of sales.

Selling and administrative expenses (2023: RMB83,307,000; 2022: RMB96,966,000)

The decrease in selling and administrative expenses was mainly because the Group did not accrue incentive bonuses under the profit-based incentive bonus plan in 2023.

Other income (2023: RMB6,745,000; 2022: RMB3,477,000)

The increase in other income was mainly due to the increase in government subsidies in 2023 compared with that in 2022.

Other (losses)/gains, net (2023: loss of RMB1,112,000; 2022: gain of RMB1,895,000)

The other losses in 2023 mainly represented the loss on disposal of property, plant and equipment whereas the other gains, net in 2022 mainly represented exchange gains partially offset by loss on disposal of property, plant and equipment.

Finance costs, net (2023: RMB6,532,000; 2022: RMB1,729,000)

Despite the increase in bank borrowings 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. The increase in financing costs was mainly due to the increase in the average balance of bank loans used for short-term working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense (2023: RMB27,938,000; 2022: RMB6,286,000)
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 2023. 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 statement of comprehensive income. As at 31 December 2023, the deferred tax assets related to the carry forward of tax losses of Lianyungang Changmao was written off because they were unlikely to be realised. The amount of write off was RMB23,652,000 (2022: RMB8,437,000).

(Loss)/profit for the year attributable to the shareholders of the Company
The Group recorded a loss attributable to shareholders of the Company of approximately RMB86,057,000 for the year ended 31 December 2023 (2022: profit of RMB81,423,000), which was mainly due to the decrease in sales revenue and gross profit margin, as well as the impairment losses and deferred tax asset write-off of Lianyungang Changmao. The Board wishes to emphasize that the impairment loss and write off of deferred tax assets are non-cash accounting treatments in accordance with Hong Kong Financial Reporting Standards and have no effect on the cash flow for the Group's operation.

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 27.0% (2022: 35.1%) of the Group's revenue while domestic sales in the PRC accounted for approximately 73.0% (2022: 64.9%) 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 2023, the Group had outstanding forward foreign exchange contracts liability with fair value amounting to RMB30,000 (2022: RMB192,000).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the Group had total outstanding bank borrowings of RMB492,613,000 (2022: RMB289,615,000). In 2023, the Group signed new loan agreements of RMB200 million with two commercial banks. As at 31 December 2023, bank loans of RMB153 million had been received, which was mainly used for the construction of new production lines at the Dalian Factory. For details of bank borrowings, please refer to Note 30 to the consolidated balance sheet.

Except for the bank borrowings disclosed above, as at 31 December 2023 and 2022, 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 with banks of low risks.

As at 31 December 2023, the Group had capital commitments for property, plant and equipment amounting to approximately RMB86,586,000 (2022: RMB96,350,000). 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 2023. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 47.6% (2022: 35.5%) as at 31 December 2023. The increase in liabilities-to-assets ratio is mainly due to the increase in bank borrowings for the construction of production lines in the Dalian Factory. As at 31 December 2023, the Group's cash and cash equivalents amounted to RMB89,554,000 (2022: RMB59,993,000).

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2023, the Group had a total of 631 staff (2022: 507). 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 2023 was approximately RMB89,667,000 (2022: RMB91,520,000). The cost of staff wages, benefits and retirement decreased mainly because there was no bonus paid to Directors and employees for the year ended 31 December 2023 under the incentive bonus scheme described below (2022: RMB7,110,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Under the staff incentive scheme for each of the three years ended 31 December 2025, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before payment of the bonuses referred to below) amount to not less than RMB40 million (the "Target Profit"):

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

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

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

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2023 and 2022.

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 2023.

CONTINGENT LIABILITIES

As at 31 December 2023 and 2022, 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 67, 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 54, 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 81, 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 68, 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 62, 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 62, 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 69, 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 70, 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 62, 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 49, 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 69, 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 (工會積極份子) 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 50, 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 50, 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 55, 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 38, 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.

The Company has complied with the code provisions of Corporate Governance Code in Appendix C1 as set out by the Stock Exchange in Appendix 14 to the Listing Rules during the year ended 31 December 2023.

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:

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 2023, 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.

CORPORATE GOVERNANCE REPORT

The Board meets regularly, and had met five times for the year ended 31 December 2023. Attendance of individual members of the Board meeting for the year ended 31 December 2023 is as follows:

	Name of Director	**Attended/ Eligible to attend**
Executive Directors	Mr. Rui Xin Sheng *(Chairman)*	5/5
	Mr. Pan Chun *(General Manager)*	5/5
Non-executive Directors	Mr. Zeng Xian Biao	5/5
	Mr. Yu Xiao Ping	3/5
	Ms. Leng Yi Xin	5/5
	Mr. Wang Jian Ping	5/5
Independent Non-executive Directors	Mr. Zhou Zhi Wei	4/5
	Mr. Shu Rong Xin	5/5
	Ms. Cheng Mun Wah	5/5

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 2023.

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	Mr. Rui Xin Sheng	B
	Mr. Pan Chun	B
Non-executive Directors	Mr. Zeng Xian Biao	B
	Mr. Yu Xiao Ping	B
	Ms. Leng Yi Xin	B
	Mr. Wang Jian Ping	B
Independent non-executive Directors	Mr. Zhou Zhi Wei	B
	Mr. Shu Rong Xin	B
	Ms. Cheng Mun Wah	A, B

A: attending seminars provided by external parties

B: reading materials in relation to regulatory update

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 2023, the Remuneration and Appraisal Committee comprises three independent non-executive Directors, namely, Mr. Zhou Zhi Wei, Mr. Shu Rong Xin (chairman of the committee), Ms. Cheng Mun Wah and an executive Director, Mr. Rui Xin Sheng. 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 2023 among others, to review the remuneration packages of individual executive Directors and senior management, 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 2023 was as follows:

Name of committee member	Attended/Eligible to attend
Mr. Rui Xin Sheng	1/1
Mr. Zhou Zhi Wei	1/1
Mr. Shu Rong Xin	1/1
Ms. Cheng Mun Wah	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 2023, 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 six meetings for the year ended 31 December 2023, two of which were with the attendance of the external auditor. The meeting attendance rate of individual members for the year ended 31 December 2023 was as follows:

Name of committee member	Attended/Eligible to attend
Mr. Zhou Zhi Wei	6/6
Mr. Shu Rong Xin	6/6
Ms. Cheng Mun Wah	6/6

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 2023, 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 one meeting in 2023 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 2023 was as follows:

Name of committee member	Attended/Eligible to attend
Mr. Rui Xin Sheng	1/1
Mr. Zhou Zhi Wei	1/1
Mr. Shu Rong Xin	1/1
Ms. Cheng Mun Wah	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. Candidates 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.

CORPORATE GOVERNANCE REPORT

Nomination of Candidates for Re-election of Directors

The nominations shall be 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 shall also taken into account the performance evaluation for the past years for all the existing Directors who offer themselves for re-election.

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.

Board Diversity Policy

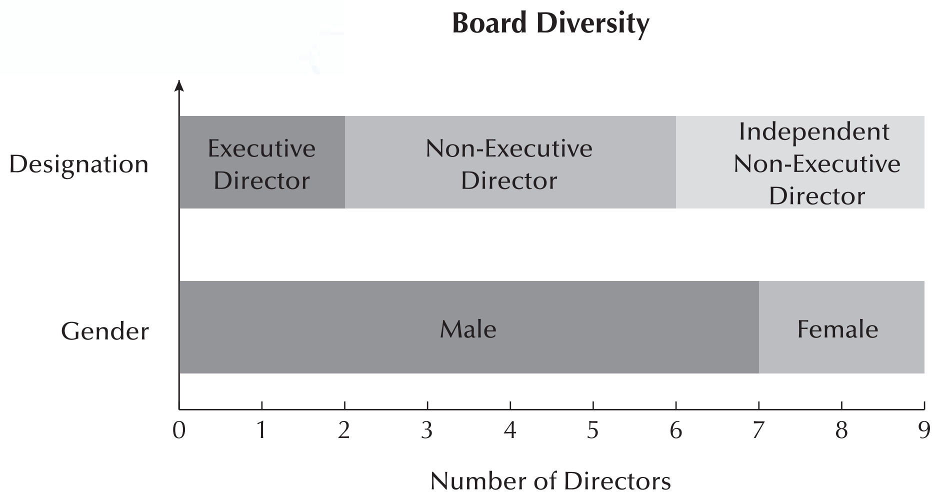
The Group has adopted a board diversity policy (the "Board Diversity Policy"). A summary, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy and Measurable Objectives

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

Implementation and Monitoring

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



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.

As at 31 December 2023, the supervisory committee comprises two supervisors nominated by shareholders, Ms. Rui Li Qin and Ms. Zhou Rui Juan, and a supervisor nominated by employees, Mr. Zhang Jun Peng. 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 three meetings for the year ended 31 December 2023 with attendance rate of 100%.

CORPORATE GOVERNANCE REPORT

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 2023, 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.

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 2023, 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 2023. 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.

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.

CORPORATE GOVERNANCE REPORT

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 2023 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:

	2023 RMB'000	2022 RMB'000
Auditors' remuneration		
– Audit service	2,755	1,604
– Non-audit service	330	–

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.

CORPORATE GOVERNANCE REPORT

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 general meeting.

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

There was no change to the articles in the Articles of Association of the Company in 2023.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 26 March 2024

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 2023.

In 2023, 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's Dalian Factory started operation in the fourth quarter of 2022, under full-year operations starting from 2023, certain indicators in total has increased compared with 2022. The Group uses butane to produce maleic anhydride. Greenhouse gas emissions is much less compared to traditional method of production.

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 2023 are within the limits set by the national standards.

Key Performance Indicators

	2023	2022	2021
Amount of waste water in total (in tonnes)	377,761	339,795	329,204
Amount of waste water – Per unit of output (in tonnes/tonne)	7.37	8.87	11.73
Exhaust gas in total (in tonnes)	21	1	–
Exhaust gas – Per unit of output (in tonnes/tonne)	0.00	0.00	–
Greenhouse gas emissions in total (in tonnes) (Note)	91,157	75,007	73,278
Greenhouse gas emissions – Per unit of output (in tonnes/tonne) (Note (a))	1.78	1.96	2.61
Hazardous waste produced in total (in tonnes)	1,347	1,042	804
Hazardous waste produced – Per unit of output (in tonnes/tonne)	0.03	0.03	0.03
Non-hazardous waste produced in total (in tonnes)	1,370	1,591	1,146
Non-hazardous waste produced – Per unit of output (in tonnes/tonne)	0.03	0.04	0.04
Hazardous waste due to demolition of part of the Changzhou Plant (in tonnes) (Note (b))	N/A	N/A	433

The increase in some indicators in total in 2023 was because that the Dalian Factory has been operating throughout the year since 2023.

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 (2022: 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.

ENVIRONMENTAL AND SOCIAL REPORT

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.

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 2023, packaging materials only accounted for less than 4% of the cost of production.

Key Performance Indicators

	2023	2022	2021
Electricity consumption in total (in kwh)	68.3 million	48.1 million	29.4 million
Electricity consumption – Per unit of output (in kwh/tonne)	1,333	1,226	1,049
Steam consumption in total (sourcing from outside) (in tonnes)	132,689	187,193	195,662
Steam consumption (sourcing from outside) – Per unit of output (in tonnes/tonne)	2.59	4.89	6.97
Water consumption in total (in tonnes)	588,195	389,464	240,534
Water consumption – Per unit of output (in tonnes/tonne)	11.48	10.16	8.57

The increase in some indicators in total in 2023 was because that the Dalian Factory has been operating throughout the year since 2023.

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 its headquarter in Changzhou has accredited as the national "Second Grade Enterprise of Work Safety Standardisation" (安全生產標準化二級企業). It has also attained the ISO45001 Occupational Health and Safety Management System (職業健康安全管理體系) in the PRC in 2023.

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 2023.

ENVIRONMENTAL AND SOCIAL REPORT

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

Key performance indicators

	2023	2022	2021
Employment			
Number of employees (by gender)			
Male	427	347	285
Female	182	150	137
Including part-time employees	4	3	2
Number of employees (by employment type)			
Management	65	83	71
Production	450	324	265
Sales	33	29	26
Research and development	61	61	60
Number of employees (by age group)			
30 or under	197	99	66
31-50	345	349	314
Over 50	67	49	42
Employee turnover rate (by gender)			
Male	12%	15%	26%
Female	16%	9%	17%
Employee turnover rate (by age group)			
30 or under	20%	25%	36%
31-50	10%	10%	20%
Over 50	10%	13%	16%

ENVIRONMENTAL AND SOCIAL REPORT

Key performance indicators (Continued)

	2023	2022	2021
Health and safety indicators			
Number of work-related fatalities (rate)	Nil	Nil	Nil
Lost days due to work injury (rate)	50 days (0.00%)	50 days (0.01%)	Nil
Training			
Training expenses	RMB415,000	RMB193,000	RMB277,000
Percentage of employees trained (by gender)			
Male	98%	98%	98%
Female	95%	94%	96%
Percentage of employees trained (by employment type)			
Senior management	100%	100%	100%
Middle management	97%	100%	96%
General staff	97%	96%	97%
Percentage of employees trained (Overall)	97%	97%	97%
Average training hours completed per employee (by gender)			
Male	73	72	70
Female	72	72	70
Average training hours completed per employee (by employment type)			
Senior management	92	69	79
Middle management	87	76	63
General staff	71	72	70
Average training hours completed per employee (Overall)	73	70	68

(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 2023. The Group has been focusing on product quality, and continuously improving the process to ensure product quality and strengthen brand management to meet potential complaints and ensure proper quality delivery.

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

ENVIRONMENTAL AND SOCIAL REPORT

The Group has inspection and test control procedures to test the semi-finished products or finished products item by item. Standard procedures are in place to deal with each qualified or non-qualified products. There is a "certificate of analysis" for each finished product to facilitate product traceability. In case a product recall is triggered, the Group initiates a recall procedure, analyses the extent of the food hazard and classifies it, re-examines the products if necessary and makes a recall if needed based on the results of the analysis or examination. The Group would also record the number of products recalled to ensure that unsafe batch of products are fully and promptly recalled and are appropriately processed in accordance with the procedures for handling recalled products. In 2023, 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 2023. 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 donation to the Charity Association in the PRC in 2023.

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 2023.

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 (2022: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: RMB40,787,000).

DONATIONS

Charitable and other donations made by the Group during the year was RMB10,000 (2022: Nil).

SHARE ISSUED IN THE YEAR

Details of the shares issued by the Company in the year ended 31 December 2023 are set out in Note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the distributable reserves of the Company were approximately RMB606,876,000 (2022: RMB602,511,000) as reported in the statutory financial statements prepared in accordance with the PRC Generally Accepted Accounting Principles.

PRE-EMPTIVE RIGHTS

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

SUMMARY FINANCIAL INFORMATION

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

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2023.

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

Supervisors nominated by shareholders
Ms. Zhou Rui Juan
Ms. Rui Li Qin

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 2023, 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%	6,740,000	3.67%
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%	6,740,000	3.67%
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%

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 6,688,000 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.

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 6,688,000 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 2023.

(i) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2023.

(j) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2023.

Save as disclosed above, as at 31 December 2023, 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.

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 2023, 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%	–	–

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:

(a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares. Ms. Lam Mau is also the beneficial owner of 2,620,000 H shares.

(b) Shanghai S&T Investment Company Limited is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited, which is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(c) Shanghai Technology Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai S&T Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(d) Shanghai S&T Venture Capital (Group) Co., Ltd is the beneficial owner of 100% of the issued capital of Shanghai Technology Entrepreneur Investment Company. Shanghai Technology Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued capital of Shanghai S&T Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(e) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2023.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2023.

Save as disclosed above, as at 31 December 2023, 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

	2023	2022
– the largest supplier	15%	25%
– five largest suppliers combined	50%	58%

Sales

	2023	2022
– the largest customer	6%	5%
– five largest customers combined	15%	15%

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 2023, 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 38.14 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 2023.

(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".

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, 26 March 2024

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2023, 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 2023 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, 26 March 2024

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 135, comprise:

- the consolidated balance sheet as at 31 December 2023;
- 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 statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information 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 2023, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 5 to the consolidated financial statements. For the year ended 31 December 2023, revenue from sales of goods amounted to RMB637 million. As detailed in Note 5, 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 and contract liabilities 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. 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 4(a), 16(a) and 38.7 to the consolidated financial statements. As detailed in Note 4(a), management of the Group considered impairment indicators on property, plant and equipment and construction in progress in Changmao Biochemical Lianyungang Company Limited ("Lianyungang Changmao") and has performed an impairment assessment on these assets for the year ended 31 December 2023. As a result, the Group recorded a total impairment provision charge of approximately RMB39 million in the consolidated statement of comprehensive income for the year. Management conducted an impairment assessment and estimated the recoverable amount of those assets allocated to one cash generating unit ("CGU") based on the higher of its fair value less costs of disposal and value in use ("VIU"). The VIU calculation requires 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.	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 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
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 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 2023 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, 26 March 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	5	637,078	730,034
Cost of sales	8	(611,269)	(549,203)
Gross profit		25,809	180,831
Other income	6	6,745	3,477
Other (losses)/gains, net	7	(1,112)	1,895
Selling expenses	8	(8,689)	(8,421)
Administrative expenses	8	(74,618)	(88,545)
(Impairment losses)/reversal of loss allowance on financial assets	8	(183)	136
Operating (loss)/profit		(52,048)	89,373
Finance income		1,051	940
Finance costs		(7,583)	(2,669)
Finance costs, net	9	(6,532)	(1,729)
(Loss)/profit before income tax		(58,580)	87,644
Income tax expense	10	(27,938)	(6,286)
(Loss)/profit for the year		(86,518)	81,358
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		1	9
Total comprehensive (loss)/income for the year		(86,517)	81,367
(Loss)/profit for the year attributable to:			
Shareholders of the Company		(86,057)	81,423
Non-controlling interests		(461)	(65)
		(86,518)	81,358
Total comprehensive (loss)/income for the year attributable to:			
Shareholders of the Company		(86,056)	81,432
Non-controlling interests		(461)	(65)
		(86,517)	81,367
(Loss)/earnings per share for (loss)/profit attributable to Shareholders of the Company			
– basic and diluted	11	RMB(0.162)	RMB0.154

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Patents	15	639	773
Property, plant and equipment	16	433,394	427,492
Construction in progress	16	339,054	250,544
Right-of-use assets	18	93,411	95,386
Investment properties	17	3,770	4,128
Deferred income tax assets	31	684	24,654
Prepayment	23	18,289	30,744
Other non-current assets		14,938	10,988
		904,179	844,709
Current assets			
Inventories	21	132,075	160,911
Trade and bills receivables	22	87,937	75,422
Other receivables, deposits and prepayments	23	17,642	48,496
Income tax recoverable		2,498	1,244
Financial assets at fair value through other comprehensive income		7,002	3,636
Pledged bank balances	24	1,609	12,344
Cash and bank balances	24	89,554	59,993
		338,317	362,046
Total assets		1,242,496	1,206,755
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	25	52,970	52,970
Reserves	26	598,718	725,561
		651,688	778,531
Non-controlling interests		(99)	362
Total equity		651,589	778,893

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	28	13,584	40
Lease liabilities	18	1,073	1,207
Deferred income tax liabilities	31	602	525
Bank borrowings	30	250,410	152,073
		265,669	153,845
Current liabilities			
Trade and bills payables	27	30,771	66,538
Contract liabilities, other payables and accruals	28	51,275	69,065
Derivative financial instruments	29	30	192
Lease liabilities	18	959	680
Bank borrowings	30	242,203	137,542
		325,238	274,017
Total liabilities		590,907	427,862
Total equity and liabilities		1,242,496	1,206,755

The financial statements on pages 68 to 135 were approved by the Board of Directors on 26 March 2024 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 2023

		Attributable to shareholders of the Company					
	Notes	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 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		–	9	–	9	–	9
Balance at 31 December 2022		52,970	190,258	535,303	778,531	362	778,893
Balance at 1 January 2023		52,970	190,258	535,303	778,531	362	778,893
Loss for the year		–	–	(86,057)	(86,057)	(461)	(86,518)
Other comprehensive income – currency translation difference		–	1	–	1	–	1
Final dividend for the year ended 31 December 2022	12	–	–	(40,787)	(40,787)	–	(40,787)
Others	26	–	1,042	(1,042)	–	–	–
Balance at 31 December 2023		52,970	191,301	407,417	651,688	(99)	651,589

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	18,325	47,766
Interest paid		(15,529)	(11,366)
Income tax paid		(5,145)	(16,767)
Net cash (used in)/generated from operating activities		(2,349)	19,633
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,766)	(1,308)
Proceeds from disposal of property, plant and equipment		795	792
Payments for construction in progress		(137,403)	(222,211)
Proceeds from government grants		15,000	–
Decrease in short-term bank deposits with maturities of over 3 months		–	450
Interest received		1,051	940
Investment income received		217	627
Net cash used in investing activities		(122,106)	(220,710)
Cash flows from financing activities			
Principal elements of lease payments	32(c)	(926)	(1,007)
Proceeds from bank borrowings	32(c)	424,059	289,583
Repayment of bank borrowings	32(c)	(226,962)	(88,368)
Prepayment for professional services		–	(660)
Dividends paid	32(c)	(42,332)	–
Net cash generated from financing activities		153,839	199,548
Net increase/(decrease) in cash and cash equivalents		29,384	(1,529)
Effect of foreign exchange rate changes		177	3,344
Cash and cash equivalents at 1 January		59,993	58,178
Cash and cash equivalents at 31 December	24	89,554	59,993

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 26 March 2024.

2 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 financial assets at fair value through other comprehensive income and 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.

(a) New and amended standards adopted by the Group

The Group has applied the following new and amended standards for its annual reporting period commencing 1 January 2023:

- Definition of Accounting Estimates – amendments to HKAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12
- 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 BASIS OF PREPARATION (Continued)

(b) New and amended standards and interpretation not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 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.

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 2023, if Renminbi ("RMB") had weakened/strengthened by 5% against USD with all other variables held constant, post-tax loss for the year would have been approximately RMB1,961,000 lower/higher (2022: post-tax profit for the year would have been approximately RMB1,477,000 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, cash and bank balances, trade and bills receivables 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:

	2023 RMB'000	2022 RMB'000
Trade and bills receivables, other receivables and deposits (excluding non-financial assets)	89,051	76,430
Financial assets at fair value through other comprehensive income	7,002	3,636
Pledged bank balances and cash and bank balances (Note 24)	91,163	72,337
Maximum exposure to credit risk	187,216	152,403

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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

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

- trade and bills receivables;
- other receivables and deposits (excluding non-financial assets);
- financial assets at fair value through other comprehensive income ("FVOCI");
- pledged bank balances and cash and bank balances.

Trade receivables

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

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

The Group categorises its trade receivables, based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of credit sales over a period of 12 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 and cash at bank

As at 31 December 2023, substantially all of the Group's bank balances are deposited in major financial institutions located in the PRC. Management does not expect any losses from non-performance by these banks. Bills receivables and financial assets at FVOCl 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 (2022: same).

Other receivables and deposits

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

If a significant increase in credit risk of a receivable has occurred since initial recognition, then loss allowance is measured as lifetime expected credit losses. The credit loss allowance was immaterial as at 31 December 2023 (2022: same).

(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 2023				
Trade and bills payables	30,771	–	–	30,771
Other payables	30,443	–	–	30,443
Lease liabilities	1,023	702	431	2,156
Bank borrowings	257,707	85,644	184,288	527,639
Total	319,944	86,346	184,719	591,009
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

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 24. 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 2023, if the interest rates on borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been approximately RMB389,000 higher/lower (2022: post-tax profit for the year would have been approximately RMB228,000 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 2023 and 2022 was as follows:

	2023	2022
Total liabilities (RMB'000)	590,907	427,862
Total assets (RMB'000)	1,242,496	1,206,755
Liabilities-to-assets ratio	47.6%	35.5%

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Fair value hierarchy

	31 December 2023 RMB'000	31 December 2022 RMB'000
Level 2		
Foreign exchange forward contracts liabilities	30	192
Level 3		
Financial assets at fair value through other comprehensive income	7,002	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 2023 was insignificant (2022: insignificant).

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 2023 and 2022.

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 construction in progress

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 fair value less cost of disposal ("FVLCOD") or value-in-use ("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.

Management has performed impairment assessment on the property, plant and equipment and construction in progress of Changmao Biochemical Lianyungang Company Limited ("Lianyungang Changmao") and no impairment provision based on the assessment in 2022. In 2023, management has re-performed the impairment assessment and recognised an impairment provision of approximately RMB38,583,000. Details of the impairment assessment of Lianyungang Changmao is disclosed in Note 16.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Net realisable value of inventories

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

(c) Useful lives of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION

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

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

	2023 RMB'000	2022 RMB'000
Revenue from sales of goods, recognised at a point in time	637,078	730,034

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

	2023 RMB'000	2022 RMB'000
Mainland China	465,224	474,146
Asia Pacific	86,314	106,921
Europe	50,910	90,098
America	23,028	45,938
Others	11,602	12,931
	637,078	730,034

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 2023, all the Group's non-current assets (other than the deferred income tax assets) amounted to RMB903,495,000 (2022: RMB820,055,000) are mainly located in Mainland China.

Included in the revenue from sales of goods, approximately RMB35,115,000 (2022: RMB33,388,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 6% (2022: 5%) of the total revenue of the Group. There are no single customers contributing over 10% of the Group's total revenue.

5 REVENUE AND SEGMENT INFORMATION (Continued)

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 2023.

(i) Significant changes in contract liabilities

Contract liabilities have been decreased by RMB1,867,000 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.

	2023 RMB'000	2022 RMB'000
Sales of products	5,930	7,374

Accounting policies of 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 and accepted 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.

6 OTHER INCOME

	2023 RMB'000	2022 RMB'000
Government grants (Note (i))	4,591	2,171
Others	2,154	1,306
	6,745	3,477

(i) Deferral and presentation of government grants

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.

7 OTHER (LOSSES)/GAINS, NET

	2023 RMB'000	2022 RMB'000
Fair value gains/(losses) on financial liabilities at fair value through profit or loss	271	(1,526)
Net exchange (losses)/gains	(246)	7,770
Loss on disposal of property, plant and equipment	(1,137)	(4,349)
	(1,112)	1,895

8 EXPENSES BY NATURE

	2023 RMB'000	2022 RMB'000
Changes in inventories of finished goods and work in progress	7,488	(66,843)
Raw materials and consumables used	324,199	378,371
Staff costs (including emoluments of directors and supervisors) (Note 13)	89,667	91,520
Utilities	81,887	80,072
Impairment loss on property, plant and equipment (Note 16)	34,714	–
Impairment loss on construction in progress (Note 16)	3,869	8,875
Depreciation of property, plant and equipment (Note 16)	37,522	28,558
Transportation costs	28,714	26,198
Research and development costs (Note (a))	10,209	13,920
Maintenance costs	7,985	16,093
Provision for inventories to net realisable value (Note 21)	12,749	17,607
Depreciation of right-of-use assets (Note 18)	3,065	2,814
Auditors' remuneration		
– audit services	2,755	1,604
– non-audit services	330	–
Amortisation of patents (Note 15)	134	248
Impairment losses/(reversal of loss allowance) on financial assets	183	(136)
Other expenses	49,289	47,132
	694,759	646,033

(a) Included in research and development costs were 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 were in the research and initial development stage, and did not recognise any of those expenditure as an asset.

9 FINANCE COSTS, NET

	2023 RMB'000	2022 RMB'000
Interest on bank borrowings	15,876	11,595
Interest paid/payable for lease liabilities (Note 18)	90	52
Less: amounts capitalised on qualifying assets (Note 16(c))	(8,383)	(8,978)
	7,583	2,669
Interest income on bank deposits	(1,051)	(940)
Finance costs, net	6,532	1,729

* 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 4.50% (2022: 4.85%).

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. The Company has renewed the HNTE qualification successfully in November 2023. Other subsidiaries of the Company 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:

	2023 RMB'000	2022 RMB'000
Current income tax	3,891	10,372
Deferred income tax (Note 31)	24,047	(4,086)
	27,938	6,286

10 INCOME TAX EXPENSE (Continued)

The tax on the Group's (loss)/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:

	2023 RMB'000	2022 RMB'000
(Loss)/profit before income tax	(58,580)	87,644
Calculated at the tax rates applicable to results of the respective consolidated entities	(18,134)	11,029
Expenses not deductible for tax purposes	460	376
Tax losses and timing differences for which no deferred income tax asset was recognised	25,460	8,185
Reversal of previously recognised deferred income tax assets	23,652	903
Previously unrecognised tax losses now recouped to reduce deferred tax expense (Note (c))	–	(7,314)
Previously unrecognised timing differences used to reduce deferred tax expense	–	(1,146)
Tax incentives for equipment (Note (a))	–	(1,977)
Tax incentives for research and development expenses (Note (b))	(3,479)	(3,723)
Others	(21)	(47)
Income tax expense	27,938	6,286

(a) According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC in 2022, the newly purchased equipment during the period from 1 October 2022 to 31 December 2022 can be one-off deducted in the calculation of taxable income in 2022, and 100% additional deduction before tax is allowed. 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 2021 onwards, enterprises engaging in research and development activities are entitled to claim 200% (2022: 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 2023 and 2022.

(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 (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2023 is based on the loss attributable to the shareholders of the Company of RMB86,057,000 (2022: profit of RMB81,423,000) and 529,700,000 (2022: 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 (2022: Nil).

12 DIVIDENDS

No interim dividend was declared during the year (2022: Nil). The dividend paid in 2023 and 2022 were RMB40,787,000 and nil (RMB0.077 per share and nil), respectively. The directors do not recommend the payment of final dividend in respect of the year ended 31 December 2023.

13 STAFF COSTS

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

	2023 RMB'000	2022 RMB'000
Salaries, wages and related welfare	71,699	77,280
Social security costs	9,858	7,820
Contribution to defined contribution retirement schemes (Note (a))	8,110	6,420
	89,667	91,520

(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 2023 (2022: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the supervisors of the Company for the year ended 31 December 2023 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	6	–	–	–	–	–	6
Mr. Zhang Jun Peng	6	313	–	–	–	25	344
Ms. Rui Li Qin	15	262	–	–	–	24	301

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

None of the supervisors received or will receive any retirement benefits or termination benefits during the financial year (2022: 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.

14 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals, two (2022: 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:

	2023 RMB'000	2022 RMB'000
Basic salaries, allowances and benefits in kind	1,829	1,554
Discretionary bonus	–	988
Retirement benefit contributions	108	59
	1,937	2,601

The emoluments fell within the following bands:

	Number of individuals 2023	2022
Emolument bands (in Hong Kong dollars)		
Nil to HK$1,000,000	3	2
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. (2022: the same).

15 PATENTS

	2023 RMB'000	2022 RMB'000
Net book amount, at 1 January	773	1,021
Amortisation charge (Note 8)	(134)	(248)
Net book amount, at 31 December	639	773

	2023 RMB'000	2022 RMB'000
At cost	12,405	12,405
Accumulated amortisation	(11,766)	(11,632)
Net book amount, at 31 December	639	773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

	Buildings RMB'000	Plant and machinery RMB'000	Equipment and motor vehicles RMB'000	Total RMB'000
At 1 January 2022				
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 (c))	74,822	97,284	2,337	174,443
Transfer to investment properties (Note 17)	(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
Year ended 31 December 2023				
Opening net book amount	199,427	215,764	12,301	427,492
Additions	110	1,089	566	1,765
Transfer from construction in progress (Note (c))	15,638	60,530	2,739	78,907
Other disposals	–	(1,842)	(90)	(1,932)
Depreciation	(12,140)	(23,288)	(2,696)	(38,124)
Impairment loss (Note (a))	(21,672)	(12,800)	(242)	(34,714)
Closing net book amount	181,363	239,453	12,578	433,394
At 31 December 2023				
Cost	289,518	496,745	47,110	833,373
Accumulated depreciation and impairment	(108,155)	(257,292)	(34,532)	(399,979)
Net book amount	181,363	239,453	12,578	433,394

16 PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS (Continued)

For the year ended 31 December 2023, depreciation expense of RMB31,175,000 (2022: RMB22,066,000) and RMB6,347,000 (2022: RMB6,492,000) were charged in "cost of sales" and "administrative expenses", RMB602,000 (2022: RMB118,000) was accounted for in "construction in progress".

(a) Provision for impairment

According to the accounting policies stated in Note 38.7 and critical accounting estimates and judgements stated in Note 4(a), the Group performed impairment testing on property, plant and equipment and construction in progress of Lianyungang Changmao with impairment indicators, and recorded impairment charge of RMB34,714,000 (2022: Nil) and RMB3,869,000 (Note 16 (c)) (2022: Nil) on property, plant and equipment and construction in progress, respectively, for the year ended 31 December 2023. Impairment provisions on property, plant and equipment and construction in progress of RMB38,549,000 and RMB34,000 were charge in "cost of sales" and "administrative expenses", respectively, for the year ended 31 December 2023. Impairment provisions on construction in progress of RMB8,875,000 (Note 16 (c)) were charge in "administrative expenses" for the year ended 31 December 2022.

Management conducted an impairment assessment and assessed the recoverable amounts of those assets allocated to one cash generating unit ("CGU"), which is the higher of FVLCOD and VIU. In determining the FVLCOD, management leveraged their knowledge of subject assets and via considered available information. FVLCOD is a level 3 fair value measurement. VIU is determined using cash flow projections based on financial forecast covering a seven-year period prepared by management. A seven-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. Selling prices are estimated with reference to the orders on hand, historical market price and inflation. Gross margin is estimated based on the aforementioned selling price and the cost of key raw materials and related expenses with reference to the historical data and inflation. The pre-tax discount rate used in the 2023 impairment assessment was 15.1% (2022: 16.8%). For the purpose of sensitivity analysis, if the gross margin is reduced by 2% or the discount rate is increased by 1%, there would be an additional impairment provision of RMB1,000,000 or RMB2,180,000.

16 PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS (Continued)

(b) Depreciation methods and useful lives

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	5-15 years
Equipment and motor vehicles	5 years

See Note 38.4 for the other accounting policies relevant to property, plant and equipment.

(c) Construction in progress

	2023 RMB'000	2022 RMB'000
At 1 January	250,544	211,163
Additions	171,286	222,835
Transfer to property, plant and equipment	(78,907)	(174,443)
Impairment loss (Note (i))	(3,869)	(8,875)
Disposal	–	(136)
At 31 December	339,054	250,544

(i) For the year ended 31 December 2022, management assessed certain equipment could not be used in construction in progress and recorded provision amounting to RMB8,875,000.

For the year ended 31 December 2023, details of impairment provision are disclosed in Note 16(a).

(ii) During the year ended 31 December 2023, borrowing costs of RMB8,383,000 (2022: RMB8,978,000) were capitalised.

17 INVESTMENT PROPERTIES

	2023 RMB'000	2022 RMB'000
At 1 January	4,128	–
Transfer from property, plant and equipment (Note 16)	–	4,485
Depreciation	(358)	(357)
At 31 December	3,770	4,128

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

	2023 RMB'000	2022 RMB'000
Direct operating expenses from property that generated rental income	358	357

(b) Fair value

	2023 RMB'000	2022 RMB'000
At 31 December	49,909	48,157

18 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:

	2023 RMB'000	2022 RMB'000
Right-of-use assets		
Land use rights	91,138	93,247
Office premises	2,273	2,139
	93,411	95,386
Lease liabilities		
Current	959	680
Non-current	1,073	1,207
	2,032	1,887

Additions to right-of-use assets during the 2023 financial year was RMB1,090,000 (2022: RMB1,987,000).

(ii) Amounts recognised in the statement of comprehensive income

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

	2023 RMB'000	2022 RMB'000
Depreciation charge of right-of-use assets (Note 8)	3,065	2,814
Interest expense (included in finance cost) (Note 9)	90	52

The total cash outflow for leases in 2023 was RMB1,016,000 (2022: RMB1,059,000).

19 SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2023 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	RMB300,000,000	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 FINANCIAL INSTRUMENTS BY CATEGORY

	2023 RMB'000	2022 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade and bills receivables	87,937	75,422
Other receivables and deposits (excluding non-financial assets)	1,114	1,008
Pledged bank balances	1,609	12,344
Cash and bank balances	89,554	59,993
Fair value through other comprehensive income	7,002	3,636
Total	187,216	152,403

	2023 RMB'000	2022 RMB'000
Financial liabilities		
Financial liabilities at amortised cost		
Bank borrowings	492,613	289,615
Trade and bills payables	30,771	66,538
Other payables (excluding non-financial liabilities)	30,443	34,074
Lease liabilities	2,032	1,887
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	30	192
Total	555,889	392,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	16,126	28,436
Work-in-progress	27,091	27,399
Finished goods	88,858	105,076
	132,075	160,911

(i) Assigning costs to 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.

(ii) Amounts recognised in profit or loss

As at 31 December 2023, provision for impairment of inventories amounted to RMB18,150,000 (2022: RMB19,762,000).

Write-downs of inventories to net realisable value amounted to RMB12,749,000 (2022: RMB17,607,000). These were recognised as cost of sales during the year ended 31 December 2023.

22 TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	66,459	53,957
Bills receivables	21,478	21,465
	87,937	75,422

(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:

	2023 RMB'000	2022 RMB'000
0 to 3 months	62,680	53,387
4 to 6 months	4,611	1,241
Over 6 months	95	73
	67,386	54,701
Less: Loss allowance (Note 3.1)	(927)	(744)
	66,459	53,957

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 3.1(b) for a description of the Group's impairment policies.

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

22 TRADE AND BILLS RECEIVABLES (Continued)

(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.

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 2022	767
Reversal of loss allowance for trade receivables	(23)
Loss allowance as at 31 December 2022	744
Provision for loss allowance for trade receivables	183
Loss allowance as at 31 December 2023	927

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

	2023 RMB'000	2022 RMB'000
RMB	51,441	48,568
USD	36,496	26,854
	87,937	75,422

(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

	2023 RMB'000	2022 RMB'000
Prepayments and deposits	24,562	38,332
Value-added tax receivables	10,255	39,900
Other receivables	1,114	1,008
	35,931	79,240
Less: Non-current portion		
Prepayments for property, plants and equipment	(18,289)	(30,084)
Prepayment for professional services	–	(660)
Current portion	17,642	48,496

24 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	2023 RMB'000	2022 RMB'000
Cash and cash equivalents	89,554	59,993
Pledged bank balances	1,609	12,344
Total	91,163	72,337

	2023 RMB'000	2022 RMB'000
Denominated in:		
– RMB	80,099	62,329
– USD	10,688	9,689
– HKD	376	319
	91,163	72,337

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

The conversion of RMB 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 RMB1,609,000 (2022: RMB12,344,000) mainly have been pledged to a bank to secure payment of wages of the construction workers of the Group's Dalian factory ("Wages Guarantee") as at 31 December 2023 (2022: Wages Guarantee and to secure the Group's bills financing facilities).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at RMB0.10 each	Nominal Value RMB'000
At 31 December 2023 and 2022	529,700,000	52,970

As at 31 December 2023 and 2022, 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

26 RESERVES

	Share premium RMB'000	Statutory common reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Special reserves 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 income – currency translation difference	–	–	–	9	–	–	9
At 31 December 2022	102,559	87,233	461	5	–	535,303	725,561

	Share Premium RMB'000	Statutory common reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Special reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2023	102,559	87,233	461	5	–	535,303	725,561
Loss for the year	–	–	–	–	–	(86,057)	(86,057)
Other comprehensive income – currency translation difference	–	–	–	1	–	–	1
Final dividend for the year ended 31 December 2022	–	–	–	–	–	(40,787)	(40,787)
Others	–	–	–	–	1,042	(1,042)	–
At 31 December 2023	102,559	87,233	461	6	1,042	407,417	598,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 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.

27 TRADE AND BILLS PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables	30,771	27,222
Bills payables	–	39,316
	30,771	66,538

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

	2023 RMB'000	2022 RMB'000
0 to 6 months	30,313	26,766
7 to 12 months	111	20
Over 12 months	347	436
	30,771	27,222

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000
Construction payables	22,791	26,294
Provision for demolition costs	3,513	5,639
Contract liabilities	4,393	6,260
Payroll and welfare payables	9,435	18,215
Other tax payables	2,162	3,313
Payables to transportation charges	1,458	2,820
Deferred government subsidy	14,352	58
Others	6,755	6,506
	64,859	69,105
Less: Non-current portion		
Deferred government subsidy	(13,584)	(40)
Current portion	51,275	69,065

29 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2023, 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 2023 were approximately RMB16,448,000 (2022: RMB10,248,000). These foreign exchange forward contracts held for trading were expected to be settled within 12 months.

For information about the methods and assumptions used in determining fair value see Note 3.3.

30 BANK BORROWINGS

	2023			2022		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Secured bank borrowings	54,650	250,410	305,060	33,642	152,073	185,715
Unsecured bank borrowings	187,553	–	187,553	103,900	–	103,900
	242,203	250,410	492,613	137,542	152,073	289,615

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

	2023 RMB'000	2022 RMB'000
Repayable within 1 year and	242,203	137,542
Between 1 and 2 years	75,882	35,145
Between 2 and 5 years	174,528	116,928
	492,613	289,615

(a) As at 31 December 2023, the secured bank borrowings are secured by the Group's land use rights in Dalian with the carrying value of RMB71,222,000 (2022: RMB72,729,000) and guaranteed by the Company.

(b) The bank borrowings are all denominated in RMB.

(c) As at 31 December 2023, the fair value of the non-current borrowings approximate RMB215,806,000 (2022: RMB93,161,000). The carrying amount of the Group's current borrowings approximate their fair value.

(d) As at 31 December 2023, the effective interest rate of the secured bank borrowings was 4.4% (2022: 4.3%) and the effective interest rate of the unsecured bank borrowings was 3.4% (2022: 3.6%).

(e) The Group has complied with the financial covenants of its bank borrowings during both periods presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DEFERRED INCOME TAX

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

	2023 RMB'000	2022 RMB'000
Tax losses	–	23,167
Provision	2,379	3,805
Lease liabilities	305	321
Deferred income	6	9
Others	–	3
Total deferred tax assets	2,690	27,305
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,006)	(2,651)
	684	24,654

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	Lease liabilities RMB'000	Total RMB'000
At 1 January 2022	24	4,430	16,391	–	20,845
(Charged)/credited to the consolidated statement of comprehensive income	(12)	(625)	6,776	321	6,460
At 31 December 2022	12	3,805	23,167	321	27,305
Charged to the consolidated statement of comprehensive income	(6)	(1,426)	(23,167)	(16)	(24,615)
At 31 December 2023	6	2,379	–	305	2,690

31 DEFERRED INCOME TAX (Continued)

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

	2023 RMB'000	2022 RMB'000
Accelerated tax depreciation	2,206	2,774
Right-of-use assets	341	321
Fair value gain on patent	61	81
Total deferred tax liabilities	2,608	3,176
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,006)	(2,651)
	602	525

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	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2022	699	103	–	802
Charged/(credited) to the consolidated statement of comprehensive income	2,075	(22)	321	2,374
At 31 December 2022	2,774	81	321	3,176
(Credited)/charged to the consolidated statement of comprehensive income	(568)	(20)	20	(568)
At 31 December 2023	2,206	61	341	2,608

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 RMB54,886,000 (2022: RMB12,140,000) in respect of losses amounting to approximately RMB219,545,000 (2022: RMB48,559,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2023 RMB'000	2022 RMB'000
2023	–	2,101
2024	2,174	2,174
2025	1,470	1,470
2026	3,800	3,800
2027	23,191	15,799
2028	77,890	–
2029	28,251	–
2030	24,999	–
2031	26,917	20,107
2032	11,353	3,108
2033	19,500	–
	219,545	48,559

The Group had no unrecognised deferred income tax liabilities as at 31 December 2023 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2023 RMB'000	2022 RMB'000
(Loss)/profit before income tax	(58,580)	87,644
Adjustments for:		
Interest income	(1,051)	(940)
Investment income	(191)	(627)
Interest expense	7,583	2,669
Net exchange difference	1,352	(3,282)
Fair value (gain)/loss on derivative financial instruments	(188)	330
Amortisation of patents	134	248
Amortisation of other non-current assets	1,666	225
Amortisation of government grants related to assets	(706)	–
Depreciation of property, plant and equipment	37,522	28,558
Depreciation of right-of-use assets	3,065	2,814
Depreciation of investment property	358	357
Loss on disposal of property, plant and equipment	1,137	4,349
Loss allowance/(reversal of loss allowance) on financial assets	183	(136)
Provision for prepayments	–	43
Provision for inventories to net realisable value	12,749	17,607
Impairment for non-financial assets	38,583	8,875
	43,616	148,734
Changes in working capital:		
Decrease/(increase) in inventories	16,088	(55,615)
Decrease/(increase) in trade and bills receivables, other receivables, deposits and prepayments	12,944	(18,057)
Decrease in trade and bills payables, contract liabilities, other payables and accruals	(48,707)	(16,029)
Increase in other non-current assets	(5,616)	(11,213)
Decrease in deferred income	–	(54)
Cash generated from operations	18,325	47,766

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Non-cash investing activities

	2023 RMB'000	2022 RMB'000
Purchase of property, plant and equipment and payments for construction in progress through bills receivables	91,520	64,859

Non-cash transaction of acquisition of right-of-use assets during the 2023 financial year was disclosed in Note 18(i).

(c) Analysis of changes in financing activities during the year

	Lease liabilities		Bank borrowings		Dividends payable	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
At 1 January	1,887	855	289,615	88,400	–	–
Financing cash flows						
– New bank borrowings	–	–	424,059	289,583	–	–
– Repayment of principals	(926)	(1,007)	(226,962)	(88,368)	–	–
– Dividends paid	–	–	–	–	(42,332)	–
New leases	1,090	1,987	–	–	–	–
Other Changes						
– Interest expenses	90	52	–	–	–	–
– Interest paid (presented as operating cash flows)	(90)	(52)	–	–	–	–
– Foreign exchange adjustments	(19)	52	–	–	1,545	–
– Final dividend declared	–	–	–	–	40,787	–
– Others	–	–	5,901	–	–	–
At 31 December	2,032	1,887	492,613	289,615	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 COMMITMENTS

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

	2023 RMB'000	2022 RMB'000
Contracted but not provided for	86,586	96,350

34 RELATED PARTY TRANSACTIONS

(a) Key management compensation

	2023 RMB'000	2022 RMB'000
Salaries and other short-term employee benefits	1,453	4,763
Retirement benefit contributions	46	22
	1,499	4,785

(b) Balance of a related party

	2023 RMB'000	2022 RMB'000
Other Payables		
Hong Kong Xinsheng Pioneer Investment Company Limited	227	223

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

35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no material subsequent events during the period from 31 December 2023 to the approval date of these financial statements by the Board of Directors on 26 March 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY

AS AT 31 December 2023

		2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Patents		401	450
Property, plant and equipment		201,705	211,644
Right-of-use assets		6,464	6,474
Construction in progress		32,519	16,259
Investments in subsidiaries		397,356	197,356
Deferred income tax assets		684	1,011
Prepayments		1,397	5,063
		640,526	438,257
Current assets			
Inventories		106,380	132,999
Trade and bills receivables		83,330	72,434
Other receivables, deposits and prepayments		5,609	5,757
Amounts due from subsidiaries		62,814	244,258
Loans to a subsidiary		132,811	131,811
Income tax recoverable		2,498	1,244
Financial assets at fair value through other comprehensive income		5,679	3,618
Pledged bank balances		–	10,738
Cash and bank balances		74,885	41,744
		474,006	644,603
Total assets		1,114,532	1,082,860
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		52,970	52,970
Reserves	Note (a)	817,885	812,973
Total equity		870,855	865,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

BALANCE SHEET OF THE COMPANY (Continued)

AS AT 31 December 2023

	2023 RMB'000	2022 RMB'000
LIABILITIES		
Non-current liabilities		
Deferred income	21	40
Lease liabilities	1,073	1,207
	1,094	1,247
Current liabilities		
Trade and bills payables	25,706	64,252
Contract liabilities, other payables and accruals	28,335	43,282
Amounts due to a subsidiary	–	3,364
Derivative financial instruments	30	192
Lease liabilities	959	680
Bank borrowings	187,553	103,900
	242,583	215,670
Total liabilities	243,677	216,917
Total equity and liabilities	1,114,532	1,082,860

The balance sheet of the Company was approved by the Board of Directors on 26 March 2024 and was signed on its behalf.

Rui Xin Sheng
Director

Pan Chun
Director

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	Special reserves 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

	Share premium RMB'000	Statutory common reserve RMB'000	Special reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2023	102,559	87,233	–	623,181	812,973
Profit and total comprehensive income for the year	–	–	–	45,699	45,699
Final dividend for the year ended 31 December 2022	–	–	–	(40,787)	(40,787)
Others	–	–	547	(547)	–
At 31 December 2023	102,559	87,233	547	627,546	817,885

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 officers of the Company for the year ended 31 December 2023 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	553	–	–	–	46	699
Non-executive director							
Mr. Zeng Xian Biao	60	–	–	–	–	–	60
Mr. Yu Xiao Ping	60	–	–	–	–	–	60
Ms. Leng Yi Xin	60	–	–	–	–	–	60
Mr. Wang Jian Ping (Note (ii))	60	–	–	–	–	–	60
Independent non-executive director							
Mr. Zhou Zhi Wei	80	–	–	–	–	–	80
Mr. Shu Rong Xin	80	–	–	–	–	–	80
Ms. Cheng Min Wah	80	–	–	–	–	–	80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 officers 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

Notes:

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

(ii) Mr. Wang Jian Ping did not waived director's fee for the year ended 31 December 2023 (2022: waived RMB23,000). Save for that, none of the directors waived any emoluments during the years ended 31 December 2023 and 2022.

(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 (2022: Nil).

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

During the year ended 31 December 2023, the Company did not pay consideration to any third parties for making available directors' services (2022: 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 2023, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors (2022: 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 (2022: Nil).

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES

This note provides a list of other material 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 financial statements are for the Group consisting of the Company and its subsidiaries.

38.1 Subsidiaries

(a) Consolidation

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

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

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

Acquisition-related costs are expensed as incurred.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.1 Subsidiaries (Continued)

(a) *Consolidation (Continued)*

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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.1 Subsidiaries (Continued)

(a) Consolidation (Continued)

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

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

(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.

38.2 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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.3 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 RMB, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

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

All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "Other (losses)/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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.3 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.

38.4 Property, plant and equipment

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

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

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 (Note 38.7).

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

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.5 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.

38.6 Construction in process

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.

38.7 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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.7 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.

38.8 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 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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.8 Financial assets (Continued)

(c) Measurement

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

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

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.9 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.

38.10 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.

Note 6 provides further information on how the Group accounts for government grants.

38.11 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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.12 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.

38.13 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.

(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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.13 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

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.

38.14 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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.14 Employees benefits (Continued)

(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.

38.15 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.

38.16 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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.17 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.

38 SUMMARY OF OTHER MATERIAL ACCOUNTING POLICIES (Continued)

38.17 Leases (Continued)

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.

38.18 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.

FIVE YEAR SUMMARY

	2019	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Consolidated results					
Revenue	494,580	444,106	547,976	730,034	637,078
Operating profit/(loss)	62,810	16,999	85,824	89,373	(52,048)
Finance (costs)/income, net	(257)	153	(1,415)	(1,729)	(6,532)
Profit/(loss) before income tax	62,553	17,152	84,409	87,644	(58,580)
Income tax expense	(4,626)	(409)	(26,202)	(6,286)	(27,938)
Profit/(loss) for the year	57,927	16,743	58,207	81,358	(86,518)
Profit/(loss) for the year attributable to:					
Equity holders of the Company	58,299	16,827	58,318	81,423	(86,057)
Non-controlling interest	(372)	(84)	(111)	(65)	(461)
Dividends	29,134	10,594	–	40,787	–
Consolidated assets and liabilities					
Total non-current assets	427,032	438,111	639,489	844,709	904,179
Total current assets	310,707	409,218	317,026	362,046	338,317
Total current liabilities	(73,093)	(196,334)	(256,712)	(274,017)	(325,238)
Net current assets	237,614	212,884	60,314	88,029	13,079
Total assets less current liabilities	664,646	650,995	699,803	932,738	917,258
Total non-current liabilities	(2,332)	(1,080)	(2,277)	(153,845)	(265,669)
Net assets	662,314	649,915	697,526	778,893	651,589
Earnings/(loss) per share					
– basic and diluted	RMB0.110	RMB0.032	RMB0.110	RMB0.154	RMB(0.162)

DEFINITIONS

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

DEFINITIONS

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 C3 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