CMBEC

ANNUAL REPORT 2014

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)

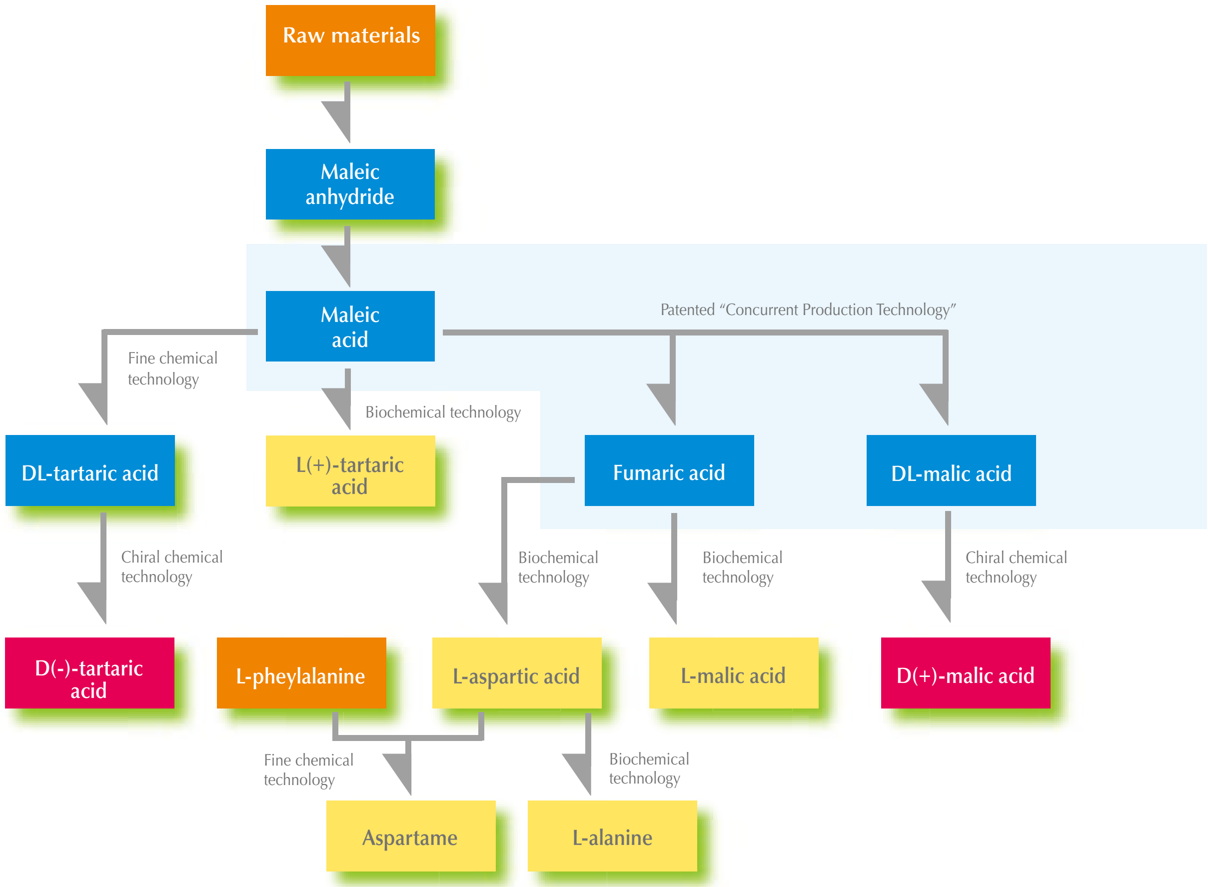
CONTENTS

CORPORATE PROFILE

Established in 1992, Changmao Biochemical Engineering Company Limited is a leading organic acid producer in the PRC. Changmao produces organic acids for sales to food additive, chemical and pharmaceutical industries. Changmao's products conform to the highest international standards and are mainly exported to overseas such as Western Europe, the United States, Australia and Japan.

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

PRODUCTION FLOWCHART OF CHANGMAO'S PRODUCTS

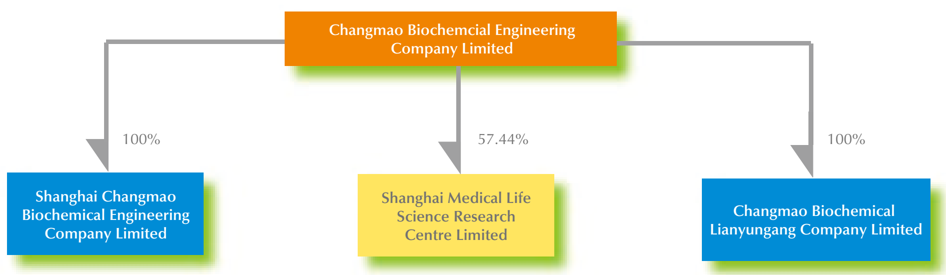


CORPORATE PROFILE

The Group persists in pursuing advanced technologies as its production direction and focuses in investment in new technology research and development which combines the production process with theoretical concepts. The Group received numerous awards in relation to production technologies including First Prize in Technological Achievement (技術發明一等獎) and Second Prize in Scientific Improvement (科技進步二等獎) in The Petroleum Chemical Industry in China (中國石油化工行業). The Group attained the ISO9001 Quality System Standards, Environmental Management System ISO14001 and FSSC22000 Food Safety System Certification. Its core product, L(+)-tartaric acid obtained the Food and Drug Administration (FDA) certificate in 2006. 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 base 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

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

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

SUPERVISORS NOMINATED BY SHAREHOLDERS
Ms. Zhou Rui Juan
Mr. Lu He Xing

SUPERVISOR NOMINATED BY EMPLOYEES
Mr. Zhang Jun Peng

INDEPENDENT SUPERVISORS NOMINATED BY SHAREHOLDERS
Prof. Jiang Yao Zhong
Mr. Geng Gang

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

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

COMPLIANCE OFFICER
Mr. Rui Xin Sheng

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

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

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

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
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10 Ice House Street
Central
Hong Kong

PRINCIPAL BANKERS
Bank of China
Changzhou Branch, the PRC

Industrial and Commercial Bank of China
Changzhou Branch, the PRC

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants

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 present the annual report of the Company for the year ended 31 December 2014. In 2014, under the concerted efforts of the Board and all the staff, the Group maintained steady production and operation. Project construction made headway as planned. The progress of international collaboration, research and development and management were satisfactorily in all aspects. The Group's development reflected a positive and healthy trend in general.

RESULTS FOR THE YEAR

The Group's turnover for the year ended 31 December 2014 was approximately Rmb561,669,000 which represents a decrease of approximately 20% as compared to that in last year. Net profit attributable to the equity holders of the Company was approximately Rmb37,223,000, which represents a decrease of approximately 47% as compared to that in last year. Gross margin was approximately 19.8%, which represents a decrease of approximately 4.2% as compared to that in last year. In 2014, the changes in organic acid market caused increase in international competition, sales volume and sales prices showed a downward trend, and affected the performance and profit of the Group.

BUSINESS REVIEW

In face of the complex and challenging domestic and international market situations, the Group has made relentless efforts to achieve the targets on energy conservation, emission control, and improvements on production capacity and efficiency in the whole production processes. With continuous improved processes, the Group has successfully made a breakthrough of production bottleneck, brought the advantage of large scale production into play and managed to control production costs and ensure the quality of products, and satisfied the market demand in both domestic and international markets.

Facing the competitive organic acid market, the Group has adjusted its sales strategy. Our core sales team has obtained market information in advance, grasped the market trend and has flew repeatedly to Europe and America and visited important customers directly to seek for new sales channels and open up new markets through in-depth communication and strengthened direct cooperation with end customers. Currently tartaric acid and malic acid are still the Group's main products, their sales accounted for 46% and 24% of the total sales respectively. The Group's production capacity of tartaric acid is in a leading role in that industry.

CHAIRMAN'S STATEMENT

In terms of management, the Group has always been committed to upgrading the quality management system and promoting the internationalisation of management systems. For a long time, the Group has been constantly improving its internal management and the Group's overall competitiveness. The Group has adhered to the strengthening of management processes with safety standardisation. Production safety was ensured through meticulous execution of the approval, monitoring and training of safety management personnel in respect of safety operation. Meanwhile, the Group has also been conscientious in the implementation of environmental protection measures. On top of corporate earnings, the Group's social value is clearly reflected through its strict adherence to the pollutant discharge standards and active fulfilment of corporate social responsibilities.

Trademark strategy has also been a key project under the management tasks of the Group. The Group's logo was accredited as the "Famous Trademark in the PRC" in early 2014. In July 2014, the Group's logo was nominated as "Important international brand for fostering and development in Jiangsu Province." (江蘇省重點培育和發展的國際知名品牌) by the Department of Commerce in Jiangsu Province. A series of trademark strategy work is beneficial to the Group in terms of enhancing the image of the Changmao trademark as well as improving brand awareness and brand influence. It also provides a solid backing for the Group to continue improving competitiveness in both domestic and international markets.

In 2014, the Group has upgraded the ERP financial management system by adopting more new modules, and rearranged the information of the existing management model with the information technology platform. Use of ERP systems can optimise the supply chain management, improve customer service levels, reduce operating costs and improve management standards, which helped the Group to achieve a greater competitive advantage amongst its peers.

RESEARCH AND DEVELOPMENT

1. **Natural Organic Acids Project**

   The development project on "natural four-carbon series of edible organic acid" (produced from raw materials such as soybean dreg, corn and other renewable resources) has been in progress smoothly and obtained acceptance by the Jiangsu Provincial Science and Technology Department in August 2014. The Group also obtained two patents related to the production technologies of natural fumaric acid. The Group continued carrying out the trial production of natural malic acid and actively proceeded with marketing promotion. Currently, several natural malic acid products have been introduced to the United States and European markets, and positive feedbacks from customers were received. The expansion of scale in the sales of natural organic acid will open the door for commercial production in 2015.

CHAIRMAN'S STATEMENT

The development of natural edible organic acid conforms to the idea of "living a natural and healthy life" promoted around the world. It is also the mainstream of the food additive market trend in the future, both domestically and overseas. Natural edible organic acid will definitely contribute to the growth of the Group.

2. **New Vitamin PQQ Project**

In 2014, the Group has continued carrying out the research work on the application on using new vitamin PQQ as a new feed additive and research work on related medium scale production. The study has indicated that, as chicken feed additives, PQQ can improve the egg-laying rate of laying hens, and accelerate the growth of broiler chickens. The safety evaluation tests of PQQ, as well as the effectiveness experiments of PQQ as a new feed additive have been completed. Together with its cooperated research institute, the Group has commenced experimental study to evaluate the effect of PQQ on the effectiveness and tolerability of weaned piglets. The Group is actively preparing and improving the reporting details for submission to the Ministry of Agriculture for the application of using PQQ as a new feed additive. In 2015, the Group will continue to perfect the above work and strive for obtaining the approval for the new feed additive as soon as possible.

3. **Pharmaceutical Adjuvant Project**

To extend its product chain and enhance added value of products, the Group actively carried out the development project of pharmaceutical adjuvant. The product breadth has extended from food additives to pharmaceutical adjuvant, and the Group has obtained the manufacture license to produce pharmaceutical adjuvant. Currently the samples of pharmaceutical adjuvants of DL-malic acid, L-malic acid and aspartame and active pharmaceutical ingredient of sodium pantothenate are being examined by Jiangsu Institute of Food and Drug Control. These products have already attracted the attention of some international pharmaceutical manufacturers, who reviewed the Group's pharmaceutical adjuvant and planned to include the Group into their lists of suppliers. The Group expected that the application procedures of pharmaceutical adjuvants of DL-malic acid, L-malic acid and aspartame will be completed in 2015 and will commence a small amount of sales. The Group will further increase the investment in research and development, and extend the scope of product portfolios, marking it the new growth point of the Group's future economic benefits.

4. **Pharmaceutical Intermediaries**

   The development of pharmaceutical intermediates is also a major project of the Group. The products mainly include S-3- hydroxytetrahydrofuran and R-3- hydroxytetrahydrofuran. In the past two years, some new types of anticancer drugs and diabetes drugs have been approved for sale in the market, the market of pharmaceutical intermediaries, as a side chain of these drugs, also gradually opens. In 2014, the Group has launched a series of work in the domestic market of pharmaceutical intermediaries, including amending the business license to include products such as pharmaceutical adjuvant and pharmaceutical intermediates into the normal business scope of the Group.

OUTLOOK AND PROSPECT

Despite the uncertain economic situations and intense market competition at home and abroad, the Group is committed to improving the competiveness of its core products. With the advantage of economies of scale and strong research and marketing capabilities, the Group will continue to explore new markets and get hold of new development opportunities through active development of new products and accelerated adjustments of product chain. The Group will continue to put efforts into the following areas:

1. **A wholly owned subsidiary of the Group – Changmao Biochemical Lianyungang Limited (常茂生物連雲港有限公司)**

   Changmao Biochemical Lianyungang Limited is a major development project of the Group in the next few years. Lianyungang has an excellent investment environment. It is suitable for large scale production of food additives and has better production cost advantages as compared to Changzhou. The construction of the new production plant in Lianyungang has a strategic goal in developing high value-added food additives and further improving the food additive series including acidulant and sweeteners. It will further improve the Group's advantages in large-scale production and promote the updating and upgrading of the existing product chain. The project will provide supporting materials to high-end and end-user food manufacturers, bring in new dynamics to the Group, improve its overall competiveness and become a new profit centre of the Group.

   In 2014, the Group has completed the construction of the first sets of maleic anhydride production line using butane as a raw material and L-aspartic acid production line. It is expected that the L-aspactic acid production line will commence production in 2015. The Group is also trying to perfect the work of obtaining government approval of the maleic anhydride production line using butane as a raw material, and to ensure the smooth progress of the project.

CHAIRMAN'S STATEMENT

2. **Commencement of transforming the production lines to use butane to manufacture maleic anhydride in the Changzhou headquarter**
The Group has commenced transforming the production lines to use butane to manufacture maleic anhydride with a current annual production capacity of 20,000 tonnes in the Changzhou headquarter. Using butane instead of benzene as a raw material to manufacture maleic anhydride will significantly reduce costs and improve the competitiveness of downstream products. Based on the raw material conversion rate, using butane instead of benzene as a raw material to manufacture maleic anhydride will consume fewer raw material per tonne, reflecting a very obvious cost advantage. Moreover, the manufacturing process of maleic anhydride using butane is cleaner and more environmental friendly as the emission of carbon dioxide can be largely reduced, which is in line with the trend of international food additives manufacturing. Market advantage can be achieved by using butane as a raw material for the production of fumaric acid, malic acid and other products, which is highly regarded by international food manufacturers. The Group focuses on its long-term benefit, with an aim to improve the gross margin of its downstream products and uplift the market competitiveness of existing products by reducing the raw material costs.

3. **Accelerating technology innovation and promoting product upgrade**
The Group will put more efforts into technology innovation to consolidate its existing resources and research team, build a more optimised product mix through cultivating new products like natural food additives and PQQ with strong competitiveness as planned. Moreover, it will optimise its product structure, extend its product chain and enhance the added value of products to meet the trend of the pursuit of human health and natural, and enhance the Group's competitiveness in the high-end product market, and to seek new profit source of the Group.

4. **Adjusting sales strategies and attracting high-end customers**
The Group will strive to attract major customers and end-customers by optimising its sales structure, tapping the market potential, and developing a steady, sustainable market for its products. This will help open new international sales aspects, enable direct access by end customers and expand international sales networks. It will also facilitate steady growth in sales, and constantly improve the economic efficiency. For new products, the Group will set up a marketing team, to promote new product development and market expansion.

APPRECIATION

On behalf of the Board I would like to thank the continuing concern and assistance from peers and business partners from all circles. I would also like to express my appreciation to the full support to all projects of the Group by all shareholders and a great deal of thanks goes out to our staff for their hard work. Let's hold hands together and create a brighter Changmao Group.

Rui Xin Sheng
Chairman

The PRC, 16 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit margin

The Group recorded a turnover of Rmb561,669,000 for the year ended 31 December 2014, which has decreased by approximately 20% as compared to that for the year ended 31 December 2013. The sales volume and average selling price of major products, including L(+)–tartaric acid and L-malic acid had decreased as compared to that of last year. The Group is committed to optimise the production process in order to increase production efficiency. Coupled with decrease in prices of major raw materials compared to that of 2013, the unit cost of production decreased slightly compared with that in 2013. As changes in product prices were faster than the changes in production costs, overall gross profit margin has decreased by 4.2% as compared to that of last year.

Expenses

Selling and administrative expenses in 2014 reduced as compared to that of 2013 due to the decrease in sales activities and effective cost-saving measures implemented in 2014.

Other income

Other income increased in 2014 mainly because of the increase in government subsidies that met the income recognisition criteria.

Finance costs, net

Finances costs (net) in 2014 reduced over last year, mainly because the Group has capatalised some of the interest expense on qualifying assets.

Income tax

The Company is entitled to a preferential CIT rate of 15% for year ended 31 December 2014. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

Net profit

Due to the changes in organic acid market, the Group recorded a net profit of approximately Rmb37,223,000 (2013: Rmb69,992,000) for the year ended 31 December 2014, which represented a decrease of approximately 47% as compared to that of last year.

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. As expressed as a percentage of turnover, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 53% (2013: 54%) of the Group's turnover while domestic sales in the PRC accounted for approximately 47% (2013: 46%) of turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

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. During the year, the Group has used forward contracts to hedge certain of its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had total outstanding bank borrowings of Rmb90,000,000 (2013: Rmb105,000,000). The outstanding bank borrowings as at 31 December 2014 were unsecured and were all repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The average effective interest rate of all the outstanding bank loans as at 31 December 2014 was approximately 5.5% (2013: 6.0%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2014 and 2013, the Group did not have any committed borrowing facilities.

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

As at 31 December 2014, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb14,015,000 (2013: Rmb28,465,000). These capital commitments are mainly used for the building of new factory in Lianyungang. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2014. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 22.6% (2013: 23.3%) as at 31 December 2014. As at 31 December 2014, the Group's cash and cash equivalents amounted to Rmb57,503,000 (2013: Rmb63,190,000). The Directors believe that the Group is in a healthy financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2014, the Group employed a total of 567 employees (2013: 536 employees). Employees are remunerated in accordance with the nature of the job and also on individual merit. Total amount of staff costs for the year ended 31 December 2014 was approximately Rmb56,367,000 (2013: Rmb59,781,000). Decrease in staff costs was mainly because there was no bonus to Directors and employees under the staff incentive scheme for the year ended 31 December 2014 (2013: Rmb5,156,000).

Under the staff incentive scheme for each of the three years ended 31 December 2016, 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 Rmb 40 million (the "Target Profit"):

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

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

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

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2014 and 2013.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

Chang Mao International Ltd., a wholly-owned subsidiary incorporated in Canada with registered capital of USD200,000, was certified for dissolution on 9 October 2014. Save for that, there are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2014.

CONTINGENT LIABILITIES

As at 31 December 2014 and 31 December 2013, 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 58, 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. Mr. Rui graduated from Jiangsu Institute of Technology (江蘇化工學院) with a bachelor degree in organic synthesis in 1982. He obtained an executive master of business administration in the Nanjing University (南京大學) in 2005. He is the vice chairman of the Committee of Biochemical Engineering of the Chemical Industry and Engineering Society of China (中國化工學會生物化工專業委員會), the deputy managing director of the Association of Biochemistry of China (中國生物化工協會), the deputy managing director of Jiangsu Commission of Biotechnology (江蘇省生物技術協會) and a part-time professor at the Nanjing University of Technology (南京工業大學). Owing to his significant achievement in the field of biochemistry, Mr. Rui received numerous awards including the First Class Award of Scientific Development and Technology Improvement in Changzhou (常州市技術改造一等獎) and the Second Prize of Changzhou City Scientific and Technological Achievement (常州市科技進步二等獎) in 1997. The Concurrent Production Technology invented by Mr. Rui, Ms. Leng Yi Xin and Mr. Jiang Jun Jie obtained patent in the PRC in 1998. Other awards obtained by Mr. Rui include the Fourth Annual Excellent Scientists of Changzhou City (常州市第四屆傑出科技人員) in 1999, DuPont Innovation Award and Youth Expert with Excellent Contribution in Jiangsu Province (江蘇省有突出貢獻的中青年專家) in 2000, the First Class Award of State Technological Achievement (國家科技進步一等獎) in 2001, Innovative Entrepreneur of Jiangsu Province (江蘇省創新創業人才獎), the Second Class Award of Petrol Chemical Industry Technological Achievement in the PRC (中國石油化學工業行業科技進步二等獎) in 2003 and the First Class Award of Jiangsu Province Technological Achievement (江蘇省科學技術進步一等獎) in 2005. He is currently a director of Shuguang Factory. Mr. Rui is the spouse of Ms. Leng Yi Xin (a non-executive Director).

Mr. Pan Chun (潘春), aged 45, is an executive Director and the general manager. Mr. Pan has been promoted from a deputy general manager of the Company to the general manager of the Company since 1 April 2014. 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 72, 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 is currently a director of Shuguang Factory. Mr. Zeng joined the Company in December 1992.

Mr. Yu Xiao Ping (虞小平), aged 59, 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 53, is a non-executive Director. 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 53, is a non-executive Director. He graduated from Shanghai Jiao Tong University (上海交通大學) with a bachelor of engineering degree in 1983 and subsequently obtained a master of engineering degree from Shanghai Jiao Tong University (上海交通大學) in 1986. Mr. Wang is currently a general manager of Shanghai Technology Entrepreneur Investment Company Limited (上海科技創業投資股份有限公司). Mr. Wang has been a director of the 704 Research Centre of the Seventh Institute of the China Shipping Company (中國船舶總公司七院704研究所) and a visiting scholar of the department of energy in the University of Leeds. Mr. Wang was first appointed as a non-executive Director in June 2007.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Independent non-executive Directors

Prof. Ouyang Ping Kai (歐陽平凱), aged 69, is an independent non-executive Director. He graduated from Tsinghua University (清華大學) with a bachelor degree in 1968 and subsequently obtained a master degree in chemistry research from the same university in 1981. From 1985 to 1987, he was a visiting scholar of the University of Waterloo, Ontario, Canada. Prof. Ouyang is an academician of the Chinese Academy of Engineering (中國工程院). He was the President of Nanjing University of Technology (南京工業大學) and instructed dozens of master and doctorate students. He also holds memberships and positions in various science and academic institutions. Prof. Ouyang obtained various awards including the First Prize of the State Technological Achievement (國家科技進一等獎) in 2001, the Technology Achievement Award from the Ho Leung Ho Lee Foundation, Dupont Innovation Award and several other awards of national level. Prof. Ouyang published more than 180 theses and two publications. Prof. Ouyang was first appointed as an independent non-executive Director in June 2001.

Prof. Yang Sheng Li (楊勝利), aged 74, is an independent non-executive Director. Prof. Yang is a researcher of Shanghai Research Center of Biotechnology Chinese Academy of Science (中國科學院上海生物工程研究中心). In 1997, he became the academician of the Chinese Academy of Engineering (中國工程院). Prof. Yang has long been engaging in research relating to genetic function and structure and genetic engineering. He instructed dozens of master students and doctorate students and published more than 80 theses. Prof. Yang received the First Class Award of Technological Achievement (科技進步一等獎) from the Chinese Academy of Science (中國科學院) in 1988, the Second Prize of Yilide Technology (第二屆億利達科技獎) from the Chinese Academy of Science (中國科學院) in 1989, and the First Prize of Innovative Worker (先進工作者一等獎) from the Committee of the Ministry of Science and Technology of the PRC (中國科技部委員會). Prof. Yang was first appointed as an independent non-executive Director in June 2001.

Ms. Wei Xin (衛新), aged 47, is an independent non-executive Director. Ms. Wei is a certified public accountant in the PRC. She graduated from Soochow University (蘇州大學) in accountancy in 1989. She has over fifteen years of experience in auditing and accounting. Ms. Wei is currently the partner of a certified public accounting firm in the PRC. Ms. Wei was first appointed as an independent non-executive Director in September 2004.

Ms. Au Fung Lan (歐鳳蘭), aged 40, is an independent non-executive Director. Ms. Au has over 12 years of experience in investment banking in Hong Kong. Ms. Au holds a bachelor degree of commerce from the University of Toronto in 1997. Ms. Au is currently the executive director of an investment bank in Hong Kong. Ms. Au was first appointed as an independent non-executive Director in June 2013.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Supervisors nominated by Shareholders

Ms. Zhou Rui Juan (周瑞娟), aged 60, is a Supervisor and the chairman of the supervisory committee of the Company. She graduated from Changzhou Light Industrial School (常州輕工學校) majoring in corporate management in 1988. Ms. Zhou passed the State Examination for Assistant Accountant in 1997. She was a financial accountant, the vice manager of the labour department and the director of the administrative department of the Company. Ms. Zhou was recognised as an activist of the labour union (工會積極分子) and an advanced worker (先進生產者) of the Company. She joined the Company in January 1993.

Mr. Lu He Xing (陸和興), aged 70, is a Supervisor. Mr. Lu was recognised as an Advanced Manufacturer of the Bureau of Chemical Industry (化工局先進生產者), a Model Worker of Changzhou and Jiangsu (江蘇省及常州市勞動模範) and one of the Ten Best Leaders from Changzhou City of Chemical Commission (常州市化學委員會的十佳領導幹部). Mr. Lu joined the Company in December 1992.

Supervisor nominated by employees

Mr. Zhang Jun Peng (張俊朋), aged 41, 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

SUPERVISORS (Continued)

Independent Supervisors nominated by Shareholders

Prof. Jiang Yao Zhong (蔣耀忠), aged 78, is an independent Supervisor. He graduated from the department of chemistry of Peking University (北京大學) in 1957. He has been the vice president of the Chengdu branch of the Chinese Academy of Sciences (中國科學院成都分院) during 1990 to 1994. He was also the president of Chengdu Institute of Organic Chemistry, the Chinese Academy of Sciences (中國科學院成都有機化學研究所) during 1992 to 1997 and the scientific consultant of the Government of Sichuan Province from 1988 to 1998. He was a committee member of the Chemistry Society of China (中國化學會), a deputy director of the Committee of the Organic Chemistry (有機化學委員會), a chairman of the board of Sichuan Institute of Chemistry and Chemical Engineering (四川省化學化工學會), a member of the review panel of Department of Chemical Science of National Natural Science Foundation of China (國家自然科學基金委員會化學部評審組成員) and a foreign member of the American Chemical Society and the chief editor of Synthetic Chemistry (合成化學) from 1998 to 2002. He is a researcher and an instructor of doctorate students in Organic Chemistry, the Chinese Academy of Sciences (中國科學院成都有機化學研究所). Prof. Jiang was recognised as the Leader of Academy and Technology in Sichuan (四川省學術和技術帶頭人) in 1998 and awarded the Prize of Creation in Organic Synthesis by the Chemistry Society of China (中國化學會有機合成創造獎) in 2000. He also received the Second Class Award of National Natural Science Award (國家自然科學二等獎) in 2005, the Thomson Reuters Research Front Award in 2008, and Educator with Outstanding Contributions (傑出貢獻教師) from the Graduate University of the Chinese Academy of Sciences (中國科學院研究生院) in 2008. Prof. Jiang was first appointed as an independent Supervisor in June 2004.

Mr. Geng Gang (耿剛), aged 54, is an independent Supervisor. He graduated from Jingsu Institute of Chemistry (江蘇化工學院) in 1982. He possesses over 20 years of experience in the field of chemical industry. Mr. Geng is recognised as a senior engineer by the Jiangsu Provincial Personnel Department (江蘇省人事廳). Mr. Geng is currently a deputy chief engineer, a director of laboratory and senior engineer of a chemical company and the vice chairman of the Technical Committee of China Cellulose Association (中國纖維素協會技術委員會). He obtained the Third Class Award of Jiangsu Science and Technology Progress (江蘇省科技進步三等獎) and the Second Class Award of Wuxi Science and Technology Progress (無錫市科技進步二等獎) for his research on the pilot-scale project of making viscose-styrene grafting fiber in 1990. He obtained the award of Wuxi Excellent Scientific Workers (無錫市優秀科技工作者稱號) in 1991 and the award of Wuxi Top Youth Expert (無錫市中青年專業技術拔尖人才) in 1992. Mr. Geng was first appointed as an independent Supervisor in June 2010.

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 41, is the debuty general manager of the Company. Mr. Wan is recognised as an engineer by the Bureau of Personel of Chang Zhou Municipality (常州市人事局). 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. Wan, Pui Ling Alice (溫珮玲) (CPA), aged 43, is the financial controller and company secretary of the Company. She has over twenty years of experience in auditing, accounting and financial management in Hong Kong and the PRC. Ms. Wan holds a bachelor degree in business administration and a master of science degree in finance from the Chinese University of Hong Kong, and is an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Wan joined the Company in June 2001.

Ms. Zhang Qin Ying (張琴英), aged 46, is the chairman of the labor union of the Company. 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 Jiangsu Provincial Party School 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).

Mr. Lu A Xing (陸阿興), aged 46, is a manager of the sales department of the Company. He obtained a diploma from Changzhou Chemical Worker's School (常州市化工職工學校) in 1988 and continued his studies at Changzhou Party School. Mr. Lu has over 20 years' experience in sales and marketing. Mr. Lu joined the Company in January 1993.

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 ON THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2014, the Company complied the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 14 to the Listing Rules, with the exception of Code Provisions A.2.1 (separation of roles of chairman and chief executives) and A.6.7 (directors attending general meetings).

Code provision A.2.1 of CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. During the period from 1 January 2014 to 31 March 2014, Mr. Rui Xin Sheng, the chairman of the Board, also acted as the general manager (chief executive officer) of the Company. Since Mr. Rui Xin Sheng is well aware of the Group's business and operation, the Company considers that it is in the best interest of the Company for Mr. Rui Xin Sheng to act as the general manager of the Company during that period. Mr. Pan Chun was appointed as the general manager (chief executive officer) of the Company on 1 April 2014 and the Company has complied with CG Code A.2.1 since then.

Code provision A.6.7 of CG Code stipulates that independent non-executive Directors and non-executive Directors should attend general meetings. Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Mr. Wang Jian Ping were unable to attend the annual general meeting held on 12 May 2014, and the extraordinary general meeting of the Company that held on 11 August 2014 due to prior business commitments. Mr. Pan Chun, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Ms. Wei Xin and Ms. Au Fung Lan were unable to attend the extraordinary general meeting held on 11 August 2014 due to prior business commitments.

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

CORPORATE GOVERNANCE REPORT

THE BOARD

The major responsibilities of the Board include the formation of the Group's overall strategies, setting business plans and the supervision of the performance of the management. The Directors 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.

The Board comprises two executive Directors, namely, Mr. Rui Xin Sheng (Chairman) and Mr. Pan Chun, four non-executive Directors, namely, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Ms. Leng Yi Xin and Mr. Wang Jian Ping and four independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan.

The Board meets regularly, and had met four times for the year ended 31 December 2014. Attendance of individual members of the Board meeting for the year ended 31 December 2014 is as follows:

	Name of Director	**Attended/ Eligible to attend**
Executive Directors	Rui Xin Sheng *(Chairman)*	4/4
	Pan Chun	4/4
Non-executive Directors	Zeng Xian Biao	4/4
	Yu Xiao Ping	4/4
	Leng Yi Xin	4/4
	Wang Jian Ping	4/4
Independent Non-executive Directors	Ouyang Ping Kai	1/4
	Yang Sheng Li	1/4
	Wei Xin	4/4
	Au Fung Lan	3/4

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

Board Diversity Policy

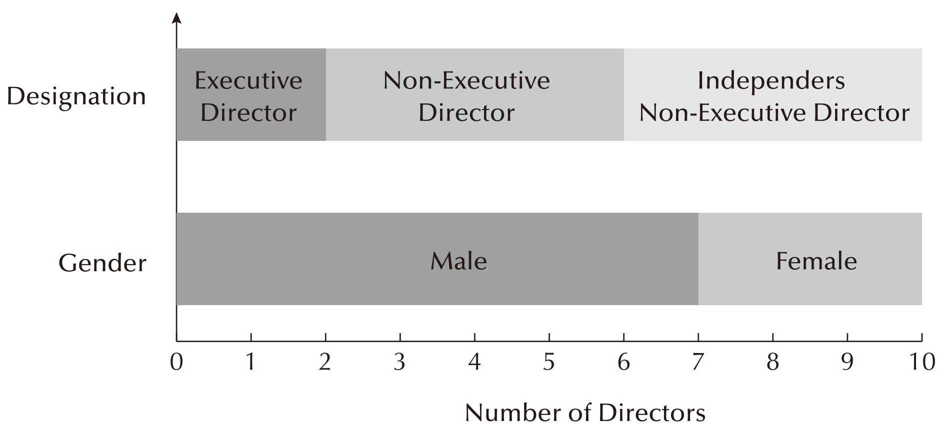
The Group has adopted a board diversity policy (the "Board Diversity Policy"). A summary, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

CORPORATE GOVERNANCE REPORT

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

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

Board Diversity



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 and the Company was not aware of any non-compliance with the Model Code for the year ended 31 December 2014.

CORPORATE GOVERNANCE REPORT

Appointments of Directors

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

Each of Mr. Rui Xin Sheng and Mr. Pan Chun has entered into a service agreement with the Company. All the other Directors have not entered into any service agreement with the Company. The terms of each Director is not more than three years and will be expired on 17 June 2016.

Nomination of candidate for re-election of Independent Non-executive Director

The terms of Ms. Au Fung Lan, an independent non-executive Director, was expired on the conclusion of the annual general meeting of the Company in 2014. On 6 March 2014, the Nomination Committee, taking into accounts Ms. Au's performance evaluation for the 2013, confirmed that Ms. Au has contributed effectively and is committed to her roles. The Nomination Committee is of the opinion that Ms. Au remains independent and it believed that her valuable knowledge and experience in the Group's business and her general business acumen will continue to generate significant contribution to the Company. Accordingly, the Nomination Committee, in accordance with the Nomination Policy and the Board Diversity Policy, nominated Ms. Au to stand for election by Shareholders at the Annual General Meeting to be held in 2014. On 10 March 2014, the said nomination was accepted by the Board with Ms. Au abstaining from voting on the proposition of herself for election by Shareholders. Ms. Au does not have any service contract with any member of the Group that is not determinable by the Group within 1 year without compensation (other than statutory compensation). The term of office of Ms. Au will be from the date of the Annual General Meeting to be held in 2014 to the expiry date of the term of office of the fifth session of the Board, which is 17 June 2016. Her particulars are set out in the "Profile of Directors, Supervisors and Senior Management".

Independent Non-executive Directors

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

CORPORATE GOVERNANCE REPORT

Continuous Professional Development

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

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

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

A: attending seminars provided by external parties

B: reading materials in relation to regulatory update

C: attending internal training sessions provided by the Company

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee was established to ensure there are formal and transparent procedures for developing and overseeing the Company's policies on the remuneration of its directors and senior management. The Remuneration Committee comprises four independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms.Wei Xin and Ms. Au Fung Lan and an executive Director, Mr. Rui Xin Sheng. The Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee held one meeting in 2014 to assess the performance of the executive Directors and review the policy for the remuneration of the Directors and how the Group complied with the staff incentive bonus scheme as stated below. The attendance rate of individual members for the year ended 31 December 2014 was as follows:

CORPORATE GOVERNANCE REPORT

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

The remunerations of Directors and senior management are based on the skill, knowledge and involvement in the Company's affair of each Director or senior management and are also determined with reference to the performance and profitability of the Company. 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. The Audit Committee comprises four independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan.

The primary duties of the Audit Committee are to review and to provide supervision over the financial reporting process and internal control system of the Group, to review the Group's financial information and to review the audit plan, audit findings and independence of the auditors of the Company. The Audit Committee held four meetings for the year ended 31 December 2014, two of which were with the attendance of the external auditor. The attendance rate of individual members for the year ended 31 December 2014 was as follows:

Name of committee member	Attended/Eligible to attend
Ouyang Ping Kai	3/4
Yang Sheng Li	4/4
Wei Xin	4/4
Au Fung Lan	4/4

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, internal controls and risk management systems, 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. The Nomination Committee comprises four independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan and an executive Director, Mr. Rui Xin Sheng.

The Nomination Committee held one meeting in 2014 to review the structure, size and composition of the Board, to assess the independence of independent non-executive Directors and nominated candidate for re-election of the independent non-executive Director. The attendance rate of individual members for the year ended 31 December 2014 was as follows:

CORPORATE GOVERNANCE REPORT

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

THE SUPERVISORY COMMITTEE

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

The supervisory committee comprises two supervisors nominated by shareholders, Ms. Zhou Rui Juan and Mr. Lu He Xing, a supervisor nominated by employees, Mr. Zhang Jun Peng and two independent supervisors nominated by shareholders, Prof. Jiang Yao Zhong. and Mr. Geng Gang. Each of Ms. Zhou Rui Juan and Mr. Zhang Jun Peng has entered into a service agreement with the Company. Mr. Lu He Xing, Prof. Jiang Yao Zhong and Mr. Geng Gang have not entered into any service agreement with the Company. The terms of each supervisor is not more than three years and will be expired on 17 June 2016.

The supervisory committee held two meetings for the year ended 31 December 2014 with attendance rate of 100%.

COMPANY SECRETARY

The Company Secretary, Ms Wan, Pui Ling Alice , is responsible for facilitating the Board process, as well as communications among Board members, with shareholders and management. She reports to the Board Chairman and the general manager of the Company. The Company Secretary's biography is set out in the "Profiles of Directors, Supervisors and Senior Management" section of this Annual Report. During 2014, 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 2014, which give a true and fair view of the state of affairs of the Company and 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 financial statements of the Company is set out in the Independent Auditor's Report on pages 46 and 47.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that the Group has a sound and effective internal control system. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's operation and performance by the Audit Committee and the Board. The internal control system is reviewed on an ongoing basis by the Board to ensure it is effective. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory. The Board has conducted review of the effectiveness of the system of internal controls and is of the view that the system of internal controls adopted for the year ended 31 December 2014 is sound and effective. The Group does not have an internal audit function and the Board is of the view that there is currently no need for the Group to have this function.

AUDITOR'S REMUNERATION

PricewaterhouseCoopers have been re-appointed as the Company's international external auditor by the shareholders at the 2014 annual general meeting. They are primarily responsible for providing audit services in connection with the Company's annual financial statements.

During the year, the total remuneration in respect of audit services provided by the external auditor amounted to HK$1,320,000 (approximately equivalent to Rmb1,041,000) (2013: HK$1,265,000 (approximately equivalent to Rmb994,000)).

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 of Directors 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 5% 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 30 days from the issue of the notice of the meeting.

CORPORATE GOVERNANCE REPORT

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

The Company has revised the Articles of Association to the Company once during the year ended 31 December 2014.

An extraordinary general meeting was held by the Company on 11 August 2014 to amend the Articles of Association to reflect the plans of the Company to extend the application of the Group's products to pharmaceutical adjuvants. For details of the amendments in the Articles of Association, please refer to the circular of the Company dated 19 June 2014.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 16 March 2015

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 2014.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are the production and sale of organic acids. The activities of the subsidiaries are set out in note 19 to the consolidated financial statements.

An analysis of the Group's turnover 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 48.

No interim dividend was declared during the year (2013: Nil). The Directors recommend the payment of a final dividend of Rmb0.022 (2013: Rmb0.040) (inclusive of tax) per share for the year ended 31 December 2014, totalling approximately Rmb11,653,000 (2013: Rmb21,188,000).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to Rmb140,000 (2013: Rmb140,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the distributable reserves of the Company were approximately Rmb290,868,000 (2013: Rmb281,401,000) 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.

REPORT OF THE DIRECTORS

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 114 of the annual report.

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 2014.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

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

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

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

Supervisors nominated by shareholders
Ms. Zhou Rui Juan
Mr. Lu He Xing

Supervisor nominated by employees
Mr. Zhang Jun Peng

Independent Supervisors nominated by shareholders
Prof. Jiang Yao Zhong
Mr. Geng Gang

DIRECTORS AND SUPERVISORS (Continued)

The terms of each of the Directors and Supervisors will be expired on 17 June 2016. In accordance with Article 97, 116 and 117 of the Company's Articles of Association, Directors and Supervisors nominated by shareholders shall be elected at the shareholders' general meeting for a term of three years. Supervisor who is a representative of employees shall be elected by the employees of the Company for a term of three years. A Director or Supervisor may serve consecutive terms if re-elected upon the expiration of the terms.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

Save as above, no Director or Supervisor has entered into any service contract with the Company which may not be terminated by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Apart from the Directors' and Supervisors' service contracts disclosed above and the connected transactions as disclosed in the section headed "Connected Transactions" below, no 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 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 AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2014, 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 and its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

Director	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (l))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (m))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (n))
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian (Note (a))	2,500,000	100%	135,000,000	39.30%	136,000	0.07%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	100%	135,000,000	39.30%	136,000	0.07%
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%	–	–

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

Long positions in shares: (Continued)

Director	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (l))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (m))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (n))
Prof. Ouyang Ping Kai	(Note (f))	–	–	(Note (f))	(Note (f))	–	–
Prof. Yang Sheng Li	(Note (g))	–	–	(Note (g))	(Note (g))	–	–
Supervisor							
Ms. Zhou Rui Juan	(Note (h))	–	–	(Note (h))	(Note (h))	–	–
Mr. Lu He Xing	(Note (i))	–	–	(Note (i))	(Note (i))	–	–
Mr. Zhang Jun Peng	(Note (j))	–	–	(Note (j))	(Note (j))	–	–
Prof. Jiang Yao Zhong	(Note (k))	–	–	(Note (k))	(Note (k))	–	–

Notes:

(a) The 135,000,000 Foreign Shares are held by HK Xinsheng Ltd, the 2,500,000 Domestic Shares are held by Changzhou Xinsheng and the 136,000 H Shares are held by Bonus Sky Investments Limited. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Mr. Rui is the beneficial owner of 100% of the issued share capital of Bonus Sky Investments Limited. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

(b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd, Changzhou Xinsheng and Bonus Sky Investments Limited, details of which are set out in Note (a) above.

(c) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. He is also the registered holder and beneficial owner of 200,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

(d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.

(e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares.

(f) Prof. Ouyang is the registered holder and beneficial owner of 4,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.

(g) Prof. Yang is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.

(h) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

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 AND ITS ASSOCIATED CORPORATIONS (Continued)

(i) Mr. Lu is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

(j) Mr. Zhang is the registered holder and beneficial owner of 800 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Zhang is the registered holder and beneficial owner of 120,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

(k) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.

(l) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 31 December 2014.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2014.

(n) The percentage is calculated based on the 183,700,000 Foreign Shares in issue at 31 December 2014.

Save as disclosed above, as at 31 December 2014, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its 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, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

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

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

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 2014, 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 (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%
Union Top Development Limited	Interest of controlled corporation	67,500,000 (Note (a))	19.65%
Ms. Rakchanok Sae-lao	Interest of controlled corporation	67,500,000 (Note (b))	19.65%

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 (f))
Jomo Limited	Beneficial owner	66,000,000	19.21%
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	66,000,000 (Note (c))	19.21%
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 Technology Entrepreneur Investment Company Limited, formerly上海科技投資股份有限公司)	Interest of controlled corporation	62,500,000 (Note (d))	18.20%
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (e))	18.20%

Notes:

(a) Union Top Development Limited is the beneficial owner of 37.03% of the issued share capital of HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares.

(b) Ms. Rakchanok Sae-lao is the beneficial owner of 100% of the issued share capital of Union Top Development Limited, which is the is the beneficial owner of 37.03% of the issued share capital of HK Biochem Ltd. HK Biochem Ltd is the registered holder and beneficial owner of 67,500,000 Foreign Shares.

(c) 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.

(d) Shanghai Technology Entrepreneur 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.

(e) Shanghai Technology Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai Technology Entrepreneur 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.

(f) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2014.

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)

Save as disclosed above, as at 31 December 2014, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MANAGEMENT CONTRACTS

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

EMOLUMENT POLICY

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

	2014	2013
– the largest supplier	**11%**	13%
– five largest suppliers combined	**43%**	36%

Sales

	2014	2013
– the largest customer	**11%**	9%
– five largest customers combined	**23%**	25%

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.

CONNECTED TRANSACTIONS

On 29 June 2010, Shanghai Life Science, a subsidiary of the Company entered into a cooperation agreement ("Cooperative Agreement") with Lanling Pharm, a connected person of the Company, in relation to the joint research and development of the new drug products with patent of lentinan hexaose owned by Shanghai Life Science. Lanling Pharm is an associate of Mr. Yu Xiao Ping, being a non-executive Director, after taking into account an aggregate 32% interest in Lanling Pharm held by Mr. Yu Xiao Ping and his associates at the time when the Cooperative Agreement was signed. Lanling Pharm was therefore a connected person of the Company. Mr. Yu Xiao Ping is therefore interested in the transaction in relation to the Cooperative Agreement.

The Cooperation Agreement is unconditional and valid for a term of three years commencing from 29 June 2010. For details of the transaction in relation to the Cooperative Agreement, please refer to the announcement issued by the Company on 29 June 2010.

After over 2 years of research and development under the Cooperative Agreement, Shanghai Life Science and Lanling Pharm mutually agreed to terminate the Cooperation Agreement on 24 January 2013 in view of the relatively slow progress of the research and development and the uncertain commercial viability of the new drug products under the Cooperative Agreement. They also agreed to transfer the patents of lentinan hexaose from Shanghai Life Science to Lanling Pharm at a consideration of Rmb1 million. The Company has made an announcement in this regard. For details, please refer to the announcement published by the Company on 24 January 2013. The Group has received Rmb500,000 from Lanling Pharm in respect of the disposal of the patent for the year ended 31 December 2013. The remaining Rmb500,000 was received in the year ended 31 December 2014 upon completion of this patent disposal contract.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2014, the category of the issued shares of the Company is as follows:

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

Notes:

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

(b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in Rmb and issued to the promoters of the Company.

(c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

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

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

SHARE CAPITAL STRUCTURE (Continued)

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

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

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

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

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

PUBLIC FLOAT

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

RETIREMENT SCHEMES

Details of the retirement schemes are set out in notes 2.23(a) and 13 to the consolidated financial statements.

REPORT OF THE DIRECTORS

AUDITOR

The 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, 16 March 2015

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2014, the supervisory committee of Changmao Biochemical Engineering Company Limited (the "Supervisory Committee"), exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of trustworthiness, honestly carried out the duties of supervisors and worked cautiously and diligently, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company for their accountability to the shareholders.

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

After the examination, the Supervisory Committee concluded that:

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

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

REPORT OF THE SUPERVISORY COMMITTEE

3. the consolidated financial statements of the Group for the year ended 31 December 2014, which have been audited by PricewaterhouseCoopers, reflected truly and fairly the operating results and financial position of the Company and its subsidiaries. The connected transactions were in compliance with the Listing Rules and were fair and reasonable and had not infringed upon the interest of the Company and the shareholders.

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

By order of the Supervisory Committee

Zhou Rui Juan
Chairman of the Supervisory Committee

The PRC, 16 March 2015

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Changmao Biochemical Engineering Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 113, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 December 2014

	Note	2014 Rmb'000	2013 Rmb'000
Turnover	5	561,669	703,032
Cost of sales	7	(450,340)	(534,023)
Gross profit		111,329	169,009
Other income	6	6,943	2,188
Other (losses)/gains, net	6	(44)	1,821
Selling expenses	7	(14,196)	(15,348)
Administrative expenses	7	(58,965)	(69,109)
Operating profit		45,067	88,561
Finance income		1,405	555
Finance costs		(4,557)	(7,513)
Finance costs, net	8	(3,152)	(6,958)
Profit before income tax		41,915	81,603
Income tax expense	9	(4,497)	(11,275)
Profit for the year	10	37,418	70,328
Other comprehensive income			
Item that may be reclassified to profit or loss –			
currency translation difference		29	106
Total comprehensive income for the year		37,447	70,434
Profit for the year attributable to:			
Equity holders of the Company		37,223	69,992
Non-controlling interests		195	336
		37,418	70,328
Total comprehensive income for the year attributable to:			
Equity holders of the Company		37,252	70,098
Non-controlling interests		195	336
		37,447	70,434
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	11	Rmb0.070	Rmb0.132

The notes on pages 55 to 113 are an integral part of these consolidated financial statements.

	Note	2014 Rmb'000	2013 Rmb'000
Dividends	12	11,653	21,188

CONSOLIDATED BALANCE SHEET

AS AT 31 December 2014

	Note	2014 Rmb'000	2013 Rmb'000
ASSETS			
Non-current assets			
Patents	15	2,314	3,503
Property, plant and equipment	16	283,926	247,627
Land use rights	17	28,744	21,377
Construction in progress	18	89,483	84,615
Prepayments		–	15,233
Deferred income tax assets	29	1,030	1,058
		405,497	373,413
Current assets			
Inventories	21	125,004	135,946
Trade and bills receivables	22	75,759	79,004
Other receivables and prepayments		16,315	17,629
Derivative financial instruments	23	–	2,554
Income tax recoverable		293	–
Pledged bank balances	24	7,724	4,442
Cash and bank balances	24	61,703	64,790
		286,798	304,365
Total assets		692,295	677,778
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	52,970	52,970
Reserves	26	480,568	464,504
		533,538	517,474
Non-controlling interests		2,276	2,081
Total equity		535,814	519,555

The notes on pages 55 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 31 December 2014

	Note	2014 Rmb'000	2013 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	343	473
Current liabilities			
Trade and bills payables	27	39,771	18,410
Other payables and accrued charges		26,125	32,536
Derivative financial instruments	23	242	–
Income tax payable		–	1,804
Bank borrowings	28	90,000	105,000
		156,138	157,750
Total liabilities		156,481	158,223
Total equity and liabilities		692,295	677,778
Net current assets		130,660	146,615
Total assets less current liabilities		536,157	520,028

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 55 to 113 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2014

	Note	2014 Rmb'000	2013 Rmb'000
ASSETS			
Non-current assets			
Patents	15	944	1,611
Property, plant and equipment	16	263,707	236,911
Land use rights	17	8,895	9,136
Construction in progress	18	2,100	56,976
Investments in subsidiaries	19	72,794	74,149
Deferred income tax assets	29	605	740
		349,045	379,523
Current assets			
Inventories	21	119,312	135,718
Trade and bills receivables	22	75,702	74,895
Other receivables and prepayments		9,519	15,071
Amounts due from subsidiaries	19	2,951	8,873
Loans to a subsidiary	19	70,000	–
Derivative financial instruments	23	–	2,554
Income tax recoverable		293	–
Pledged bank balances	24	7,724	–
Cash and bank balances	24	51,072	59,914
		336,573	297,025
Total assets		685,618	676,548
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	52,970	52,970
Reserves	26	480,656	467,243
Total equity		533,626	520,213

The notes on pages 55 to 113 are an integral part of these financial statements.

BALANCE SHEET (Continued)

AS AT 31 DECEMBER 2014

	Note	2014 Rmb'000	2013 Rmb'000
LIABILITIES			
Current liabilities			
Trade and bills payables	27	39,771	18,410
Other payables and accrued charges		21,979	31,397
Derivative financial instruments	23	242	–
Income tax payable		–	1,528
Bank borrowings	28	90,000	105,000
		151,992	156,335
Total equity and liabilities		685,618	676,548
Net current assets		184,581	140,690
Total assets less current liabilities		533,626	520,213

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 55 to 113 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 December 2014

		Attributable to equity holders of the Company					
	Note	Share capital Rmb'000	Other reserves Rmb'000	Retained earnings Rmb'000	Total Rmb'000	Non-controlling interests Rmb'000	Total Rmb'000
Balance at 1 January 2013		52,970	161,768	247,470	462,208	1,745	463,953
Transfer of profit to statutory reserve	26	–	6,995	(6,995)	–	–	–
Profit for the year		–	–	69,992	69,992	336	70,328
Other comprehensive income – currency translation difference – Group		–	106	–	106	–	106
Final dividend for the year ended 31 December 2012		–	–	(14,832)	(14,832)	–	(14,832)
Balance at 31 December 2013		52,970	168,869	295,635	517,474	2,081	519,555
Balance at 1 January 2014		52,970	168,869	295,635	517,474	2,081	519,555
Transfer of profit to statutory reserve	26	–	3,406	(3,406)	–	–	–
Profit for the year		–	–	37,223	37,223	195	37,418
Other comprehensive income – currency translation difference – Group		–	29	–	29	–	29
Final dividend for the year ended 31 December 2013		–	–	(21,188)	(21,188)	–	(21,188)
Balance at 31 December 2014		52,970	172,304	308,264	533,538	2,276	535,814

The notes on pages 55 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 December 2014

	Note	2014 Rmb'000	2013 Rmb'000
Cash flows from operating activities			
Cash generated from operations	30(a)	110,940	88,260
Interest paid		(6,851)	(7,494)
Income tax paid		(6,696)	(12,182)
Net cash generated from operating activities		97,393	68,584
Cash flows from investing activities			
Proceeds from disposal of patents		2,500	500
Purchase of property, plant and equipment		(361)	(319)
Proceeds from disposal of property, plant and equipment		10	8
Additions of land use rights		(984)	–
Additions of construction in progress		(63,580)	(56,838)
Prepayment for purchase of properties		–	(1,242)
Increase in pledged bank balances		(3,282)	(348)
Increase in short-term bank deposits with maturities of over 3 months		(2,600)	–
Interest received		1,405	555
Net cash used in investing activities		(66,892)	(57,684)
Cash flows from financing activities			
New bank borrowings	30(b)	215,700	155,000
Repayment of bank borrowings	30(b)	(230,700)	(194,456)
Dividends paid	30(b)	(21,188)	(14,832)
Net cash used in financing activities		(36,188)	(54,288)
Net decrease in cash and cash equivalents		(5,687)	(43,388)
Cash and cash equivalents at 1 January		63,190	106,578
Cash and cash equivalents at 31 December	24	57,503	63,190

The notes on pages 55 to 113 are an integral part of these consolidated financial statements.

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 listed its H shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("SEHK") on 28 June 2002 and the listing of its H shares was 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 sale of organic acids.

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 16 March 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Changmao Biochemical Engineering Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by derivative financial instruments which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of 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 are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

(a) *New and amended standards and interpretations adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014.

Amendment to HKAS 32, 'Financial Instruments: Presentation' on Offsetting Financial Assets and Financial Liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment does not have any impact on the Group financial statements.

Amendment to HKAS 36, 'Impairment of Assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment does not have significant impact on the Group financial statements.

Amendment to HKAS 39, 'Financial Instruments: Recognition and Measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment does not have a significant impact on the Group financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(a) *New and amended standards and interpretations adopted by the Group (Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011), 'Investment Entities', introduce an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with HKFRS 9 'Financial instruments' instead of consolidating those subsidiaries in its consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirement related to investment entities in HKFRS 12 'Disclosure of interests in other entities' and HKAS 27 (2011) 'Separate financial statements'. The amendments do not have significant impact on the Group financial statements.

HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so there is no impact on the Group financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(b) New and amended standards and interpretations that have been issued but are not yet effective for annual periods beginning after 1 January 2014 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
HKAS 1 Amendment	Disclosure Initiative	1 January 2016
HKAS 16 and HKAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKAS 16 and HKAS 41 Amendment	Agriculture: Bearer Plants	1 January 2016
HKAS 19 (2011) Amendment	Defined Benefit Plans: Employee Contributions	1 July 2014
HKAS 27 Amendment	Equity Method in Separate Financial Statements	1 January 2016
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10, HKFRS 12 and HKAS 28 Amendment	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
HKFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017
Annual Improvements Project	Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2011-2013 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2012-2014 Cycle	1 January 2016

The directors believe that none of these is expected to have a significant effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(c) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Subsidiaries

(a) *Consolidation*

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2014.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

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

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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 the income statement.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 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.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(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 the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and bank balances are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the income statement 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

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

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

2.5 Patents

Patents are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Patents are amortised using the straight-line method over their estimated useful lives as follows:

Acid patent	15 years
Nutraceutical patent	19 years

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

2.6 Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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	20-50 years
Plant and machinery	10 years
Equipment and motor vehicles	5 years

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

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

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

2.7 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Land use rights are amortised using the straight-line method over their estimated useful lives of 50 years.

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

2.8 Construction in progress

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of investments in subsidiaries and 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 amount 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 fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "pledged bank balances" and "cash and bank balances" in the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "Other (losses)/gains, net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.11 Offsetting financial instruments

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

2.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of financial assets (Continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.13 Government grants

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

Government grants relating to costs are deferred and recognised in the income statement 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 the income statement on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Inventories

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

2.15 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank deposits with original maturities of more than three months are excluded from cash and cash equivalents.

2.17 Derivative financial instruments

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

The Group designates its forward foreign exchange contracts as derivatives financial instruments and they are accounted for at fair value through profit or loss, Changes in the fair value of these derivative instruments are recognised immediately in the income statement within "other (losses)/gains, net".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Share capital

Ordinary shares are classified as equity.

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

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

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

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

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, 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 Company's subsidiaries and associates operate and generate 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*

Inside basis differences

Deferred income tax is recognised, 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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 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.

2.24 Provisions

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

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

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

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from sales of goods is recognised when goods are delivered to customers and title has passed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Interest income

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

2.27 Research and development costs

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

2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.29 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance. The Group uses derivative financial instruments to manage certain foreign exchange risk exposures. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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 its foreign currency exposure in USD.

At 31 December 2014, if Rmb had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would have been approximately Rmb2,422,000 (2013: Rmb2,773,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables and USD-denominated bank deposits.

(b) *Credit risk*

The carrying amounts of trade and other receivables and cash at bank represent the Group's maximum exposure to credit risk in relation to financial assets.

Substantially all of the Group's bank balances are deposited in major financial institutions located in the PRC, which management believes are of high credit quality. Management does not expect any losses from non-performance by these banks.

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. No single customer accounted for more than 11% of the Group's total revenue during the year.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk*

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

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

As at 31 December 2014 and 2013, all of the Group's trade and bills payables, other payables and bank borrowings were all due for settlement contractually within 1 year.

The table below summarises the contractual undiscounted cash flows in relation to the Group's and the Company's financial liabilities.

	Group	**Company**
	Rmb'000	Rmb'000
At 31 December 2014		
Trade and bills payables	39,771	39,771
Other payables	11,101	7,836
Bank borrowings and interest thereon	91,864	91,864
At 31 December 2013		
Trade and bills payables	18,410	18,410
Other payables	12,526	12,035
Bank borrowings and interest thereon	108,148	108,148

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 short-term 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 2014, if the interest rates on borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately Rmb90,000 (2013: Rmb105,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3.2 Capital risk management

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

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

The liabilities-to-assets ratio at 31 December 2014 and 2013 was as follows:

	2014 Rmb'000	2013 Rmb'000
Total liabilities	156,481	158,223
Total assets	692,295	677,778
Liabilities-to-assets ratio	22.6%	23.3%

3.3 Fair value estimation

Financial instruments carried at fair value are analysed by valuation method below. Different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 31 December 2014, the Group had several foreign exchange forward contracts liabilities of carrying amounts of Rmb242,000 (2013: assets of Rmb2,554,000), which were measured by level 2 of the fair value measurement hierarchy.

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

3.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2014 and 2013.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

(a) Useful lives of property, plant and equipment

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

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

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on fair value less cost to sell calculations or market valuations. 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 fair value less costs to sell or 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 preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Patents

Management determines the estimated useful lives and the related amortisation charges for the Group's patents. Management will revise the amortisation charge where the useful life is different from previously estimated, or it will write-off or write-down the carrying value of the patents to their recoverable amounts where there are impairments of the assets.

(d) Estimated write-downs of inventories to net realisable value

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.

(e) Impairment of investments in subsidiaries, amounts due from subsidiaries and loans to a subsidiary

The Company makes provision for impairment of investments in subsidiaries, amounts due from subsidiaries and loans to a subsidiary based on an assessment of the future economic benefits of the investments which will flow to the Company and the collectability of the amounts due from subsidiaries and loans to a subsidiary. Where the expectation is different from the original estimate, such difference will impact the carrying value of investments in subsidiaries, amounts due from subsidiaries and loans to a subsidiary in the period in which such estimate has been changed.

(f) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(g) 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.

(h) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset when the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits.

Significant judgement is required in determining the capitalisation of development costs. Development costs that are recognised as assets are amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred.

5 TURNOVER AND SEGMENT INFORMATION

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

The Group is engaged in the production and sale of organic acids. 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.

	2014 Rmb'000	2013 Rmb'000
Turnover		
Sales of goods	561,669	703,032

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

	2014 Rmb'000	2013 Rmb'000
Mainland China	265,404	319,902
Europe	117,888	167,638
Asia Pacific	104,385	137,316
America	55,726	61,587
Others	18,266	16,589
	561,669	703,032

Asia Pacific region includes Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 TURNOVER AND SEGMENT INFORMATION (Continued)

The total of the Group's assets located in Mainland China is Rmb692,295,000 (2013: Rmb676,224,000), and the total of the Group's assets located in other country is Nil (2013: Rmb1,554,000).

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

	2014 Rmb'000	2013 Rmb'000
Other income		
Sales of scrap materials	313	546
Government grants	5,747	1,035
Income from joint research and development of a patent	–	400
Others	883	207
	6,943	2,188

	2014 Rmb'000	2013 Rmb'000
Other (losses)/gains, net		
Gain on disposal of patents	2,113	1,942
Loss on disposal of property, plant and equipment	(676)	(75)
Fair value (losses)/gains on derivative financial instruments	(2,796)	2,047
Net exchange gain/(loss)	1,315	(2,093)
	(44)	1,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2014 Rmb'000	2013 Rmb'000
Cost of inventories sold	293,175	356,967
Amortisation of patents (Note 15)	802	838
Amortisation of land use rights (Note 17)	617	526
Auditors' remuneration	1,041	994
Depreciation (Note 16)	32,348	33,769
Operating lease rentals in respect of land and buildings	480	489
Research and development costs	8,485	16,005
Staff costs (including emoluments of Directors and Supervisors) (Note 13)	56,367	59,781
Other expenses	130,186	149,111
Total cost of sales, selling expenses and administrative expenses	523,501	618,480

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

8 FINANCE COSTS, NET

	2014 Rmb'000	2013 Rmb'000
Interest on bank borrowings – wholly repayable within five years	7,081	7,513
Less: amounts capitalised on qualifying assets	(2,524)	–
	4,557	7,513
Interest income on bank deposits	(1,405)	(555)
Net finance costs	3,152	6,958

9 INCOME TAX EXPENSE

PRC Corporate Income Tax ("CIT") is provided for on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being registered as a New and High Technology Enterprise since 2008, is entitled to a preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INCOME TAX EXPENSE (Continued)

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

	2014 Rmb'000	2013 Rmb'000
Current income tax		
– Provision for CIT	4,710	11,379
– (Over)/under-provision in prior year	(111)	259
Deferred income tax (Note 29)	(102)	(363)
	4,497	11,275

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

	2014 Rmb'000	2013 Rmb'000
Profit before income tax	41,915	81,603
Calculated at the tax rates applicable to results of the respective consolidated entities	6,322	12,425
Income not subject to tax	(945)	(307)
Expenses not deductible for tax purposes	954	370
Tax losses for which no deferred income tax asset was recognised	115	425
Utilisation of tax losses for which no deferred income tax asset was recognised	(20)	(334)
Tax incentives for research and development expenses	(1,544)	(1,869)
(Over)/under-provision in prior year	(111)	259
Others	(274)	306
Income tax expense	4,497	11,275

The tax incentives for research and development expenses represents the tax incentive that enables the Company to claim an additional tax deduction amounting to 50% of the eligible research and development expenses incurred during the year.

10 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately Rmb34,601,000 (2013: Rmb68,719,000).

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the profit attributable to the equity holders of the Company of Rmb37,223,000 (2013: Rmb69,992,000) and 529,700,000 (2013: 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 (2013: Nil).

12 DIVIDENDS

No interim dividend was declared during the year (2013: Nil). The dividends paid in 2014 and 2013 were Rmb21,188,000 (Rmb0.04 per share) and Rmb14,832,000 (Rmb0.028 per share) respectively. A final dividend in respect of the year ended 31 December 2014 of Rmb0.022 per share, totalling Rmb11,653,000 is to be proposed at the Annual General Meeting on 8 May 2015. These financial statements do not reflect this dividend payable.

	2014 Rmb'000	2013 Rmb'000
Final, proposed, of Rmb0.022 (2013: Rmb0.04) per share	11,653	21,188

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

13 STAFF COSTS

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

	2014 Rmb'000	2013 Rmb'000
Salaries, wages and related welfare	44,807	48,837
Social security costs	5,768	5,779
Contribution to defined contribution retirement schemes (Note)	5,792	5,165
	56,367	59,781

13 STAFF COSTS (Continued)

Note: 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 21% (2013: 21%) of the total salaries and allowances of the PRC based employees, subject to a ceiling, and the Group has no further retirement benefit obligations to all its existing and future retired PRC based employees.

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the Directors of the Company for the year ended 31 December 2014 is set out as follows:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Executive director					
Mr. Rui Xin Sheng (Note (i))	319	516	–	32	867
Mr. Pan Chun (Note (ii))	100	448	–	32	580
Non-executive director					
Mr. Zeng Xian Biao	50	–	–	–	50
Mr. Yu Xiao Ping	50	–	–	–	50
Ms. Leng Yi Xin	50	–	–	–	50
Mr. Wang Jian Ping	50	–	–	–	50
Independent non-executive director					
Prof. Ouyang Ping Kai	60	–	–	–	60
Prof. Yang Sheng Li	60	–	–	–	60
Ms. Wei Xin	60	–	–	–	60
Ms. Au Fung Lan	60	–	–	–	60

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(a) (Continued)

The remuneration of each of the Directors of the Company for the year ended 31 December 2013 is set out as follows:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Executive director					
Mr. Rui Xin Sheng (Note (i))	320	513	1,719	30	2,582
Mr. Pan Chun	100	183	573	30	886
Non-executive director					
Mr. Zeng Xian Biao	50	–	286	–	336
Mr. Yu Xiao Ping	50	–	286	–	336
Ms. Leng Yi Xin	50	–	286	–	336
Mr. Wang Jian Ping	50	–	286	–	336
Independent non-executive director					
Prof. Ouyang Ping Kai	60	–	–	–	60
Prof. Yang Sheng Li	60	–	–	–	60
Ms. Wei Xin	60	–	–	–	60
Ms. Au Fung Lan	33	–	–	–	33

Notes:

(i) Mr. Rui is also the chief executive officer of the Company for the period from 1 January 2013 to 31 March 2014.

(ii) Mr. Pan is also the chief executive officer of the Company for the period from 1 April 2014 to 31 December 2014.

None of the Directors waived any emoluments during the years ended 31 December 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(b) The remuneration of each of the Supervisors of the Company for the year ended 31 December 2014 is set out as follows:

Name of Supervisor	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Juan	15	43	–	–	58
Mr. Lu He Xing	6	–	–	–	6
Mr. Zhang Jun Peng	6	213	–	18	237
Prof. Jiang Yao Zhong	15	–	–	–	15
Mr. Geng Gang	15	–	–	–	15

The remuneration of each of the Supervisors of the Company for the year ended 31 December 2013 is set out as follows:

Name of Supervisor	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Juan	15	41	–	–	56
Mr. Lu He Xing	6	–	–	–	6
Mr. Zhang Jun Peng	5	87	–	12	104
Mr. Wan Yi Dong	2	72	–	7	81
Prof. Jiang Yao Zhong	15	–	–	–	15
Mr. Geng Gang	15	–	–	–	15

None of the Supervisors waived any emoluments during the years ended 31 December 2014 and 2013.

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(c) Five highest paid individuals

Among the five highest paid individuals, two (2013: two) of them are Directors of the Company and the details of their remuneration are disclosed in the preceding paragraph. The emoluments of the remaining three highest paid individual are as follows:

	2014 Rmb'000	2013 Rmb'000
Basic salaries, allowances and benefits in kind	1,374	1,279
Discretionary bonus	–	645
Retirement benefit contributions	62	72
	1,436	1,996

The emoluments of the above 3 employees fell within the following bands:

	2014	2013
Emolument bands (in HK dollar)		
Less than HK$1,000,000	3	2
HK$1,000,001 – HK$1,500,000	–	1

(d) Senior management remuneration by band

All senior management's (who are not Directors nor Supervisors) emolument did not exceed HK$1,000,000.

(e) During the year, no emoluments had been paid to the Directors and Supervisors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office.

15 PATENTS

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Net book amount, at 1 January	3,503	4,899	1,611	2,278
Disposal	(387)	(558)	–	–
Amortisation charge (Note 7)	(802)	(838)	(667)	(667)
Net book amount, at 31 December	2,314	3,503	944	1,611

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
At cost	12,200	12,800	10,000	10,000
Accumulated amortisation	(9,886)	(9,297)	(9,056)	(8,389)
Net book amount, at 31 December	2,314	3,503	944	1,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT

	Group			
	Buildings	**Plant and machinery**	**Equipment and motor vehicles**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2013				
Cost	122,070	297,830	33,768	453,668
Accumulated depreciation	(31,289)	(140,696)	(22,422)	(194,407)
Net book amount	90,781	157,134	11,346	259,261
Year ended 31 December 2013				
Opening net book amount	90,781	157,134	11,346	259,261
Additions	–	145	174	319
Transfer from construction in progress (Note 18)	2,182	18,975	742	21,899
Disposals	–	(39)	(44)	(83)
Depreciation (Note 7)	(5,367)	(25,153)	(3,249)	(33,769)
Closing net book amount	87,596	151,062	8,969	247,627
At 31 December 2013				
Cost	124,252	316,566	34,314	475,132
Accumulated depreciation	(36,656)	(165,504)	(25,345)	(227,505)
Net book amount	87,596	151,062	8,969	247,627
Year ended 31 December 2014				
Opening net book amount	87,596	151,062	8,969	247,627
Additions	8,233	–	361	8,594
Transfer from construction in progress (Note 18)	19,354	39,062	2,323	60,739
Disposals	–	(595)	(91)	(686)
Depreciation (Note 7)	(6,719)	(22,609)	(3,020)	(32,348)
Closing net book amount	108,464	166,920	8,542	283,926
At 31 December 2014				
Cost	151,839	349,681	36,092	537,612
Accumulated depreciation	(43,375)	(182,761)	(27,550)	(253,686)
Net book amount	108,464	166,920	8,542	283,926

Depreciation expense of Rmb25,759,000 (2013: Rmb28,203,000) and Rmb6,589,000 (2013: Rmb5,566,000) had been charged in "cost of sales" and "administrative expenses" respectively in 2014.

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Company			
	Buildings	**Plant and machinery**	**Equipment and motor vehicles**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2013				
Cost	111,621	296,655	30,876	439,152
Accumulated depreciation	(30,411)	(139,624)	(20,827)	(190,862)
Net book amount	81,210	157,031	10,049	248,290
Year ended 31 December 2013				
Opening net book amount	81,210	157,031	10,049	248,290
Transfer from construction in progress (Note 18)	2,182	18,975	742	21,899
Disposals	–	(39)	(44)	(83)
Depreciation	(5,159)	(25,098)	(2,938)	(33,195)
Closing net book amount	78,233	150,869	7,809	236,911
At 31 December 2013				
Cost	113,803	315,246	31,248	460,297
Accumulated depreciation	(35,570)	(164,377)	(23,439)	(223,386)
Net book amount	78,233	150,869	7,809	236,911
Year ended 31 December 2014				
Opening net book amount	78,233	150,869	7,809	236,911
Transfer from construction in progress (Note 18)	17,496	39,062	2,323	58,881
Disposals	–	(595)	(89)	(684)
Depreciation	(6,116)	(22,597)	(2,688)	(31,401)
Closing net book amount	89,613	166,739	7,355	263,707
At 31 December 2014				
Cost	131,299	348,362	32,679	512,340
Accumulated depreciation	(41,686)	(181,623)	(25,324)	(248,633)
Net book amount	89,613	166,739	7,355	263,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land use rights on four (2013: three) pieces of land located in Mainland China with remaining lease terms between 10 to 50 years.

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Net book amount, at 1 January	21,377	21,903	9,136	9,376
Addition	7,984	–	–	–
Amortisation charge (Note 7)	(617)	(526)	(241)	(240)
Net book amount, at 31 December	28,744	21,377	8,895	9,136

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
At cost	34,259	26,275	12,040	12,040
Accumulated amortisation	(5,515)	(4,898)	(3,145)	(2,904)
Net book amount, at 31 December	28,744	21,377	8,895	9,136

18 CONSTRUCTION IN PROGRESS

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
At 1 January	84,615	50,920	56,976	50,920
Additions	65,607	55,594	4,005	27,955
Transfer to property, plant and equipment (Note 16)	(60,739)	(21,899)	(58,881)	(21,899)
At 31 December	89,483	84,615	2,100	56,976

During the year, the Group capitalised borrowing costs amounting to Rmb2,524,000 (2013: Nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 6%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN SUBSIDIARIES, AMOUNTS DUE FROM SUBSIDIARIES AND LOANS TO A SUBSIDIARY – COMPANY

(a) Investments in subsidiaries

	2014 Rmb'000	2013 Rmb'000
Unlisted equity investments, at cost, at 1 January	74,149	74,149
Less: dissolution of a subsidiary (Note a)	(1,355)	–
Unlisted equity investments, at cost, at 31 December	72,794	74,149

Details of the subsidiaries at 31 December 2014 are as follows:

Name	Place of establishment, operations and kind of legal entity	Particulars of registered capital	Interest directly 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 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 b)	PRC, limited liability company	Rmb15,384,600	57.44%	Research and development of medicine and nutraceutical products
常茂生物連雲港有限公司 (Changmao Biochemical Lianyungang Company Limited)	PRC, limited liability company	Rmb50,000,000	100%	Sales and production of food additives

Note a: Chang Mao International Ltd., a wholly-owned subsidiary incorporated in Canada with registered capital of USD200,000, was certified for dissolution on 9 October 2014.

Note b: 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.

19 INVESTMENTS IN SUBSIDIARIES, AMOUNTS DUE FROM SUBSIDIARIES AND LOANS TO A SUBSIDIARY – COMPANY (Continued)

(b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest free, repayable on demand and are denominated in Rmb.

The carrying values of the amounts due from subsidiaries approximate their fair values and represent the maximum exposure to credit risk at 31 December 2014.

(c) Loans to a subsidiary

The loans to a subsidiary are unsecured and interest bearing at fixed rates ranging from 5.6% to 6.1% per annum. The loans to a subsidiary are denominated in Rmb with original maturity within 1 year.

The carrying values of the loans to a subsidiary approximate their fair values and represent the maximum exposure to credit risk at 31 December 2014.

20 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

Group

	Loans and receivables Rmb'000	Assets at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2014			
Assets as per balance sheet			
Trade and other receivables excluding prepayments	82,467	–	82,467
Pledged bank balances	7,724	–	7,724
Cash and bank balances	61,703	–	61,703
Total	151,894	–	151,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (Continued)

Group (Continued)

	Other financial liabilities at amortised cost Rmb'000	Liabilities at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2014			
Liabilities as per balance sheet			
Bank borrowings	90,000	–	90,000
Derivative financial instruments	–	242	242
Trade, bills and other payables excluding non-financial liabilities	50,872	–	50,872
Total	140,872	242	141,114

	Loans and receivables Rmb'000	Assets at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2013			
Assets as per balance sheet			
Trade and other receivables excluding prepayments	83,819	–	83,819
Derivative financial instruments	–	2,554	2,554
Pledged bank balances	4,442	–	4,442
Cash and bank balances	64,790	–	64,790
Total	153,051	2,554	155,605

20 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (Continued)

Group (Continued)

	Other financial liabilities at amortised cost Rmb'000	Liabilities at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2013			
Liabilities as per balance sheet			
Bank borrowings	105,000	–	105,000
Trade, bills and other payables excluding non-financial liabilities	30,936	–	30,936
Total	135,936	–	135,936

Company

	Loans and receivables Rmb'000	Assets at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2014			
Assets as per balance sheet			
Trade and other receivables excluding prepayments	76,015	–	76,015
Amounts due from subsidiaries	2,951	–	2,951
Loans to a subsidiary	70,000	–	70,000
Pledged bank balances	7,724	–	7,724
Cash and bank balances	51,072	–	51,072
Total	207,762	–	207,762

20 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (Continued)

Company (Continued)

	Other financial liabilities at amortised cost Rmb'000	Liabilities at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2014			
Liabilities as per balance sheet			
Bank borrowings	90,000	–	90,000
Derivative financial instruments	–	242	242
Trade, bills and other payables excluding non-financial liabilities	47,607	–	47,607
Total	137,607	242	137,849

	Loans and receivables Rmb'000	Assets at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2013			
Assets as per balance sheet			
Trade and other receivables excluding prepayments	77,430	–	77,430
Amounts due from subsidiaries	15,071	–	15,071
Derivative financial instruments	–	2,554	2,554
Cash and bank balances	59,914	–	59,914
Total	152,415	2,554	154,969

20 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (Continued)

Company (Continued)

	Other financial liabilities at amortised cost Rmb'000	Liabilities at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2013			
Liabilities as per balance sheet			
Bank borrowings	105,000	–	105,000
Trade, bills and other payables excluding non-financial liabilities	30,445	–	30,445
Total	135,445	–	135,445

21 INVENTORIES

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Raw materials	31,151	34,869	25,704	34,835
Work-in-progress	11,938	19,845	11,938	19,845
Finished goods	81,915	81,232	81,670	81,038
	125,004	135,946	119,312	135,718

The cost of inventories recognised as expense and included in "cost of sales" amounted to Rmb293,175,000 (2013: Rmb356,967,000), which included reversal of provision for inventories to net realisable value of Rmb1,191,000 (2013: provision for inventories to net realisable value of Rmb1,191,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 TRADE AND BILLS RECEIVABLES

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Trade receivables	75,759	78,304	75,702	74,895
Bills receivables	–	700	–	–
	75,759	79,004	75,702	74,895

(a) The credit terms of trade receivables range from 30 to 90 days and the ageing analysis which is based on the invoice date of trade receivables is as follows:

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
0 to 3 months	71,883	75,750	71,826	73,094
4 to 6 months	3,676	2,135	3,676	1,382
Over 6 months	693	820	693	820
	76,252	78,705	76,195	75,296
Less: Provision for impairment of trade receivables	(493)	(401)	(493)	(401)
	75,759	78,304	75,702	74,895

(b) The maturity dates of bills receivable are normally within 30 days.

22 TRADE AND BILLS RECEIVABLES (Continued)

(c) As at 31 December 2014, trade receivables of approximately Rmb3,032,000 (2013: Rmb1,801,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	Group and Company	
	2014	2013
	Rmb'000	Rmb'000
4 to 6 months	2,832	1,382
Over 6 months	200	419
	3,032	1,801

(d) The credit quality of trade and bills receivables neither past due nor impaired has been assessed with reference to historical information about the counterparty default rates.

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

	Group		Company	
	2014	2013	2014	2013
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Rmb	25,403	23,354	25,346	21,482
USD	50,356	54,950	50,356	53,413
	75,759	78,304	75,702	74,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 TRADE AND BILLS RECEIVABLES (Continued)

(f) As at 31 December 2014, trade receivables of approximately Rmb493,000 (2013: Rmb401,000) were impaired and full provision was made. Movements on the provision for impairment of trade receivables are as follows:

	Group and Company	
	2014	2013
	Rmb'000	Rmb'000
At 1 January	401	416
Provision for/(write-back of) impairment of trade receivables	92	(15)
At 31 December	493	401

Any impairment of trade receivables is included in "administrative expenses" in the consolidated statement of comprehensive income. The amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(g) 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.

23 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2014, 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 2014 are approximately Rmb79,852,000 (2013: Rmb86,783,000). These foreign exchange forward contracts held for trading are expected to be settled within 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Short-term bank deposits with original maturities of over 3 months	4,200	1,600	–	–
Cash and cash equivalents	57,503	63,190	51,072	59,914
Cash and bank balances	61,703	64,790	51,072	59,914
Pledged bank balances	7,724	4,442	7,724	–
Total	69,427	69,232	58,796	59,914

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Denominated in:				
– Rmb	62,757	57,244	52,126	47,937
– USD	6,644	11,957	6,644	11,951
– HKD	26	26	26	26
– CAD	–	5	–	–
	69,427	69,232	58,796	59,914

The effective interest rate on the short-term bank deposits with original maturities of over 3 months are 3% to 3.25% per annum. These deposits have remaining maturities ranged from 1 month to 1 year as at 31 December 2014.

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

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

25 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2014 and 2013	529,700,000	52,970

As at 31 December 2014 and 2013, 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

Group

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2013	102,559	58,883	461	(135)	247,470	409,238
Transfer of profit to statutory reserve	–	6,995	–	–	(6,995)	–
Profit for the year	–	–	–	–	69,992	69,992
Other comprehensive income – currency translation difference – Group	–	–	–	106	–	106
Final dividend for the year ended 31 December 2012	–	–	–	–	(14,832)	(14,832)
At 31 December 2013	102,559	65,878	461	(29)	295,635	464,504
Representing:						
2013 proposed final dividend					21,188	
Others					274,447	
					295,635	

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2014	102,559	65,878	461	(29)	295,635	464,504
Transfer of profit to statutory reserve	–	3,406	–	–	(3,406)	–
Profit for the year	–	–	–	–	37,223	37,223
Other comprehensive income – currency translation difference– Group	–	–	–	29	–	29
Final dividend for the year ended 31 December 2013	–	–	–	–	(21,188)	(21,188)
At 31 December 2014	102,559	69,284	461	–	308,264	480,568
Representing:						
2014 proposed final dividend					11,653	
Others					296,611	
					308,264	

26 RESERVES (Continued)

Company

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2013	102,559	58,883	251,914	413,356
Transfer of profit to statutory reserve	–	6,995	(6,995)	–
Profit and total comprehensive income for the year	–	–	68,719	68,719
Final dividend for the year ended 31 December 2012	–	–	(14,832)	(14,832)
At 31 December 2013	102,559	65,878	298,806	467,243
Representing:				
2013 proposed final dividend			21,188	
Others			277,618	
			298,806	

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2014	102,559	65,878	298,806	467,243
Transfer of profit to statutory reserve	–	3,406	(3,406)	–
Profit and total comprehensive income for the year	–	–	34,601	34,601
Final dividend for the year ended 31 December 2013	–	–	(21,188)	(21,188)
At 31 December 2014	102,559	69,284	308,813	480,656
Representing:				
2014 proposed final dividend			11,653	
Others			297,160	
			308,813	

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

	Group and Company	
	2014	2013
	Rmb'000	Rmb'000
Trade payables	16,587	18,410
Bills payable	23,184	–
	39,771	18,410

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

	Group and Company	
	2014	2013
	Rmb'000	Rmb'000
0 to 6 months	16,306	18,292
7 to 12 months	235	46
Over 12 months	46	72
	16,587	18,410

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

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

28 BANK BORROWINGS

The maturity of borrowings is as follows:

	Group and Company	
	2014 Rmb'000	2013 Rmb'000
Within 1 year	90,000	105,000

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

As at 31 December 2014, the effective interest rates of the bank borrowings were as follows:

	Group and Company	
	2014	2013
Short-term bank borrowings, at fixed rate	5.2%	5.9%
Short-term bank borrowings, at floating rate	5.9%	6.0%

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Deferred tax assets to be recovered within 12 months	1,030	1,058	605	740
Deferred tax liabilities to be settled after more than 12 months	(343)	(473)	–	–
Deferred tax assets – net	687	585	605	740

29 DEFERRED INCOME TAX (Continued)

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

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
At 1 January	585	222	740	538
Credited/(charged) to the statement of comprehensive income (Note 9)	102	363	(135)	202
At 31 December	687	585	605	740

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

Deferred tax assets:

	Group			Company
	Decelerated tax depreciation Rmb'000	Provisions Rmb'000	Total Rmb'000	Provisions Rmb'000
At 1 January 2013	89	788	877	538
(Charged)/credited to the statement of comprehensive income	(13)	194	181	202
At 31 December 2013	76	982	1,058	740
(Charged)/credited to the statement of comprehensive income	(14)	(14)	(28)	(135)
At 31 December 2014	62	968	1,030	605

29 DEFERRED INCOME TAX (Continued)

Deferred tax liabilities – Group:

	Fair value gain on patents Rmb'000
At 1 January 2013	655
Credited to consolidated statement of comprehensive income	(182)
At 31 December 2013	473
Credited to consolidated statement of comprehensive income	(130)
At 31 December 2014	343

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately Rmb311,000 (2013: Rmb1,270,000) in respect of losses amounting to approximately Rmb1,322,000 (2013: Rmb4,885,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	Group	
	2014 Rmb'000	2013 Rmb'000
2015	181	486
2016	–	892
2017	13	614
2018	204	810
2019	924	–
2030	–	297
2031	–	494
2032	–	699
2033	–	593
	1,322	4,885

The Company had no unrecognised deferred tax liabilities as at 31 December 2014 (2013: Nil).

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2014	2013
	Rmb'000	Rmb'000
Profit before income tax	41,915	81,603
Adjustments for:		
Interest income	(1,405)	(555)
Interest expense	4,557	7,513
Amortisation of patents	802	838
Gain on disposal of patents	(2,113)	(1,942)
Depreciation	32,348	33,769
Loss on disposal of property, plant and equipment	676	75
Amortisation of land use rights	617	526
(Write-back of)/provision for impairment of inventory	(1,191)	1,191
Provision for impairment of trade and other receivables	395	260
Fair value losses/(gains) on derivative financial Instruments	2,796	(2,047)
Currency translation difference	29	106
	79,426	121,337
Changes in working capital:		
Inventories	12,133	(28,657)
Trade and bills receivables, other receivables and prepayments	4,164	(5,705)
Trade and bills payables, other payables and accrued charges	15,217	1,285
Cash generated from operations	110,940	88,260

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank borrowings		Dividends payable	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
At 1 January	105,000	144,456	–	–
New bank borrowings	215,700	155,000	–	–
Repayment of bank borrowings	(230,700)	(194,456)	–	–
2013/2012 final dividend	–	–	21,188	14,832
Dividends paid	–	–	(21,188)	(14,832)
At 31 December	90,000	105,000	–	–

31 COMMITMENTS

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

	Group		Company	
	2014 Rmb'000	2013 Rmb'000	2014 Rmb'000	2013 Rmb'000
Authorised but not contracted for	–	–	–	–
Contracted but not provided for	14,015	28,465	1,209	3,101
	14,015	28,465	1,209	3,101

31 COMMITMENTS (Continued)

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2014, the Group and the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group and Company	
	2014	2013
	Rmb'000	Rmb'000
Not later than one year	225	449
Later than one year and not later than five years	–	225
	225	674

32 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exercise significant influence over the other party in marking financial or operating decisions. Parties are also considered to be related if they are both subject to control or joint control by the same entity. If one entity controls or jointly controls a second entity, and the first entity has significant influence over a third party, then the second and third entities are also related to each other. Conversely, if two entities are both subject to significant influence by the same entity, the two entities are not related to each other. Related parties may be individuals or entities.

Key management compensation – Group

	2014	2013
	Rmb'000	Rmb'000
Salaries and other short-term employee benefits	1,383	3,408
Retirement benefit contributions	64	60
	1,447	3,468

FIVE YEAR SUMMARY

	2010 Rmb'000	2011 Rmb'000	2012 Rmb'000	2013 Rmb'000	2014 Rmb'000
Consolidated results					
Turnover	515,574	620,233	653,218	703,032	561,669
Operating profit	83,029	54,462	69,060	88,561	45,067
Finance costs, net	(6,476)	(8,749)	(10,077)	(6,958)	(3,152)
Share of profit of an associate	10,441	739	342	–	–
Profit before income tax	86,994	46,452	59,325	81,603	41,915
Income tax expense	(11,135)	(4,749)	(9,757)	(11,275)	(4,497)
Profit for the year	75,859	41,703	49,568	70,328	37,418
Profit for the year attributable to:					
Equity holders of the Company	75,773	41,105	49,455	69,992	37,223
Non-controlling interest	86	598	113	336	195
Dividends	22,777	12,713	14,832	21,188	11,653
Consolidated assets and liabilities					
Total non-current assets	356,226	377,996	351,851	373,413	405,497
Total current assets	274,870	286,009	310,447	304,365	286,798
Total current liabilities	(221,788)	(235,958)	(197,690)	(157,750)	(156,138)
Net current assets	53,082	50,051	112,757	146,615	130,660
Total assets less current liabilities	409,308	428,047	464,608	520,028	536,157
Total non-current liabilities	(976)	(820)	(655)	(473)	(343)
Net assets	408,332	427,227	463,953	519,555	535,814
Earnings per share					
– basic and diluted	Rmb0.122	Rmb0.078	Rmb0.093	Rmb0.132	Rmb0.070

GLOSSARY

Board	Board of Directors of the Company
CG Code	Code provisions of Corporate Governance Code in appendix 14 of the Listing Rules
Changmao or the Company	Changmao Biochemical Engineering Company Limited
Changzhou Xinsheng	常州新生生化科技開發有限公司
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
ERP	Enterprise Resource Planning
Foreign Shares	foreign shares of the Company
GEM	Growth Enterprise Market of the Exchange
Group	The Company and its subsidiaries
HK Biochem Ltd	Hong Kong Bio-chemical Advanced Technology Company Limited
HK Xinsheng Ltd	Hong Kong Xinsheng Pioneer Investment Company Limited
H Shares	H shares of the Company
Lanling Pharm	Changzhou Lanling Pharmaceutical Production Co., Ltd.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
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

GLOSSARY

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
PRC	The People's Republic of China
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Shanghai Life Sci	Shanghai Medical Life Science Research Centre Limited
Shuguang Factory	Changzhou Shuguang Factory (常州曙光化工廠)
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	Supervisor(s) of the Company
USD	United States Dollars