ANNUAL REPORT 2013

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)

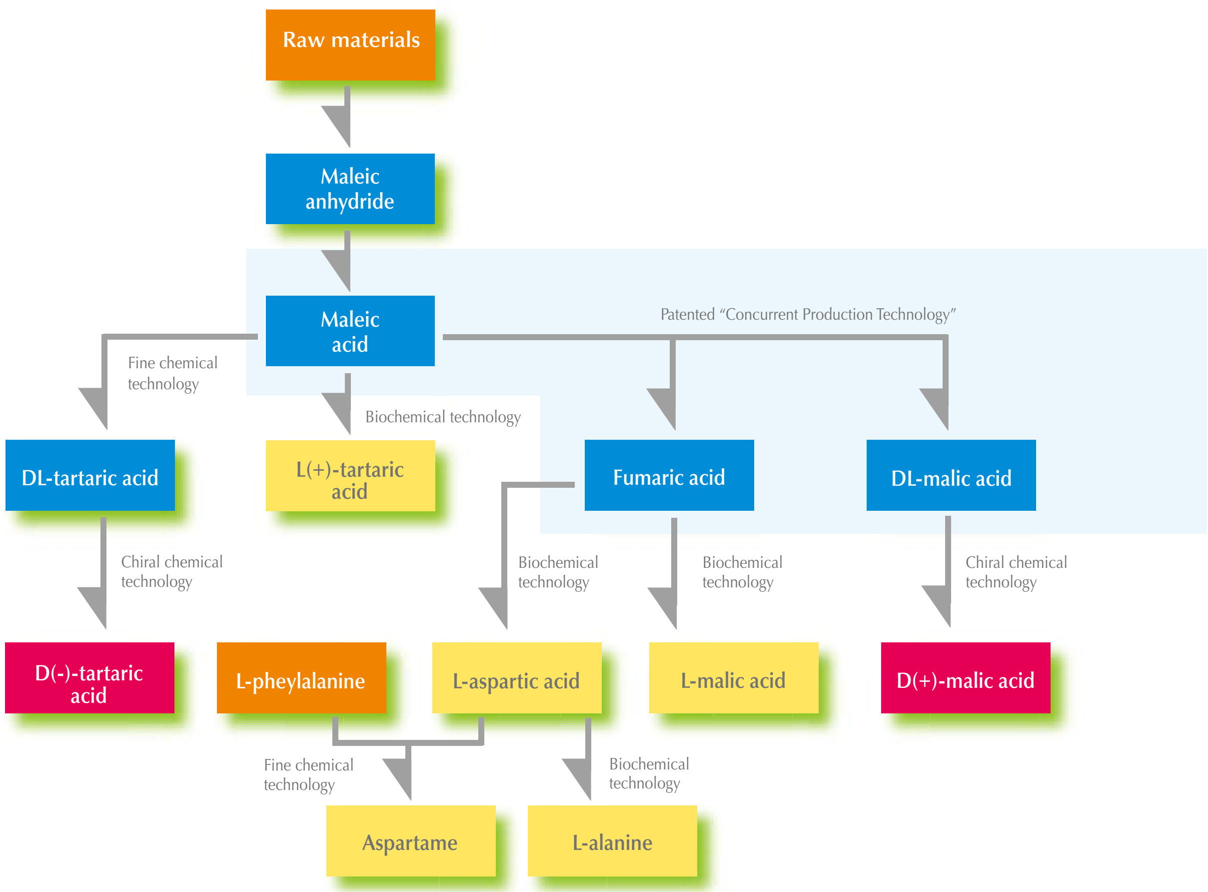
CONTENTS

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

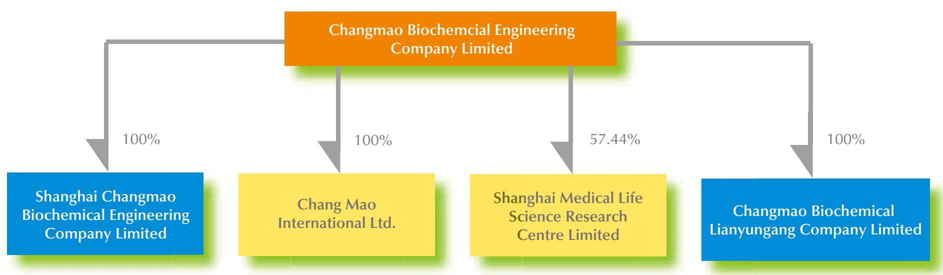


CORPORATE PROFILE

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 技術發明一等獎 (First Prize in Technological Achievement) and 科技進步二等獎 (Second Prize in Scientific Improvement) in 中國石油化工行業 (The Petroleum Chemical Industry in China). 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 and was also recognised as a 江蘇省名牌產品 (Jiangsu Province Top Brand).

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 am pleased to present the annual results of the Company for the year ended 31 December 2013. In 2013, under the concerted efforts of the Board and all the staff, the Group maintained steady production and operation, achieved satisfactory sales performance. 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 health trend in general.

RESULTS FOR THE YEAR

The Group recorded a turnover of Rmb703,032,000 for the year ended 31 December 2013, which represented an increase of approximately 8% as compared to that of last year. Gross margin ratio for the year ended 31 December 2013 was approximately 24%, which represented an increase of approximately 4.5% as compared to that of last year. Net profit was Rmb69,992,000, which represented an increase of approximately 42% as compared to that of last year. In 2013 the Group's good performance was mainly attributable to the growth in the main business of food additives and improvement in gross margin of the main products L(+)-tartaric acid and L-malic acid. Despite the rising costs of production and increased operating costs due to expansion, the Group managed to achieve a continuous growth of sales revenue and net profit, thanks to the effective costs control measures and the excellent market opportunities taken by the Group. Meanwhile, our dedicated employees have contributed their concerted efforts in stabilising production, developing sales network, and optimising management processes.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

1. **Production**

   The Group has made relentless efforts to achieve the annual targets on energy conservation, emission control, and improvements on production capacity and efficiency. With improved processes, the Group has successfully made a breakthrough of production bottleneck and managed to control energy consumption and save production costs on the one hand, while increasing production volume on the other. In the first half of the year, the Group has successfully completed the replacement of catalyst which resulted in reduced raw material consumption and improved production capacity, such that the production of downstream products was secured and the gross margin for the core products was improved. After a series of process improvements and capacity reconstructions, we have achieved improved economic efficiency in the production of the Group's core products such as tartaric acid and malic acid, where there was an increase in production capacity. The sound and stable production capacity that we have maintained for the Group in 2013 has effectively supported the constantly developing market.

2. **Sales Development**

   In face of complex domestic and international market situations in 2013, the Group's outstanding sales team has actively adjusted their sales strategy so as to accelerate the exchange of information and improve our bargaining power in the end-user market. The Group has also made efforts in the market development of core products through improvement of brand awareness and customer awareness. Our core sales team flew repeatedly to Europe and visited our customers directly and opened up new markets through in-depth communication and strengthened cooperation with end customers which have made important contributions to the growth of the Group's return.

CHAIRMAN'S STATEMENT

3. **Management Tasks**

The Group has always been committed to upgrading the quality management system and promoting the internationalisation of management systems. For a long time, we have been constantly improving our internal management and the Group's overall competitiveness through the effective implementation of the Management System ISO9001, Environmental Management System ISO12001 and Food Safety System FSSC22000. 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. An on-site investigation with the Group was conducted by the Provincial Security Department and the Provincial Administration of Work Safety in 2013, in which our work on safety was highly praised and fully recognized. Meanwhile, the Group has also been conscientious in the implementation of environmental protection measures. On top of corporate earnings, our social value is clearly reflected through our strict adherence to the pollutant discharge standards and active fulfillment of corporate social responsibilities.

Trademark strategy has also been a key project under the management tasks of the Group. On the basis of the achievement of the Group's logo as a famous trademark in Jiangsu Province, the application for the well-known trademark in the PRC has now been finalised. The application for well-known trademark is beneficial to the Group in terms of enhancing the image of the Changmao trademark as well as improving brand awareness and brand influence.

4. **Research and Development**

i. 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. In 2013, the Group carried out a trial production of natural malic acid and 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 the future. 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.

CHAIRMAN'S STATEMENT

ii. *New Vitamin PQQ Project*

In 2013, the Group has also carried out the research work and made application on using new vitamin PQQ as a new feed additive. 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. At present, this project is progressing well. 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 institutes, the Group will continue to carry out researches on PQQ as additive in pig feeds, and actively prepare and improve the reporting details for submission to the Ministry of Agriculture for the application of using PQQ as a new feed additive.

iii. *Pharmaceutical Adjuvant Project*

To extend our 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 we have obtained the manufacture license to produce pharmaceutical adjuvant. These products have already attracted the attention of some international pharmaceutical manufacturers, who planned to review the Group's pharmaceutical adjuvant and include the Group into their lists of suppliers. To extend the scope of product portfolios, the Group will further increase the investment in research and development, and strengthen its cooperation with universities, research institutes and pharmaceutical manufacturers, as well as in the development of species in pharmaceutical adjuvant and active pharmaceutical ingredients.

OUTLOOK AND PROSPECT

Despite the intense competition and uncertain economic and market situations 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 chains. The Group will continue to put efforts into the following areas:

(I) 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 Group will take the lead to start the project of manufacturing of maleic anhydride using butane, substituting benzene as a raw material, which will significantly reduce costs and improve the competitiveness of downstream products. Current market price of butane is lower than that of benzene by over Rmb1,000 per tonne, reflecting a very obvious cost advantage. Moreover, the manufacturing process of maleic anhydride

CHAIRMAN'S STATEMENT

using butane is cleaner and more environmental friendly, 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. Production line with annual production capacity of 10,000 tonnes is expected to start operation in the second half of 2014. After the operation in the Lianyungang production base has become smooth and stable, the Group will also substitute the raw material currently used in the manufacturing of maleic anhydride in the Changzhou production base, with an aim to improve the Group's economic efficiency through uplifting of the market competitiveness of existing products.

The construction of the new production plant in Lianyungang will further improve the Group's advantages in large-scale production and promote the updating and upgrading of the existing product chain. With the strategic goal in developing high value-added food additives and further improvement of the food additive series including acidulant and sweeteners, the project will provide supporting materials to high-end food manufacturers, bring in new dynamics to the Group, improve our overall competiveness and become a new profit centre of the Group.

(II) 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.

(III) Adjusting sales strategies and attracting high-end customers

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

(IV) Building brand reputation and registering international trademarks

To increase customer awareness and loyalty, the Group builds its brand name with high product quality, promotes its brand with trademarks and gains customers with its brand name. It will continue to implement a strategic plan for its brand, gradually upgrade the level of its trademarks and register trademarks overseas systematically. The Group will enhance its global brand awareness, continue its brand upgrade, improve its customers' satisfaction with and loyalty to Changmao brand, and increase its market share.

CHAIRMAN'S STATEMENT

There will be opportunities and challenges in the future. The Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application area. At the same time, the Group will capitalise on its research and production strength to develop new functional food additives, natural food additives and nutraceutical products. The Group will continue to extend its production chain, expand its scale and strengthen its power, create new record and achieve new breakthroughs.

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 hardworking staff for their hard work. Let's hold hands together and create a brighter Changmao Group.

Rui Xin Sheng
Chairman

The PRC, 10 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit margin

The Group recorded a turnover of Rmb703,032,000 for the year ended 31 December 2013, which has increased by approximately 8% as compared to that for the year ended 31 December 2012. The sales volume of major products, L(+)-tartaric acid and L-malic acid had increased as compared to last year. Although the price of major raw material and the salary of direct labour both increased, gross margin of major products has increased as compared to that of last year as a result of the increase in product price as well as the effectiveness of the measures on reducing costs and increasing efficiency and enhancement in production management level. The overall gross margin has increased by approximately 4.5% as compared to that of last year. The Group will continue to control its production costs through the refinement in production technology and develop new products with higher gross margin to increase economic efficiency.

Expenses

Selling and administrative expenses in 2013 increased as compared to that of 2012 due to the continuous growth of business and production volume and increase in staff costs, the Group has increased scale of the Group's research and development, and devoted more efforts into marketing and promotion this year.

Other gains, net

Other income (net) reduced in 2013 mainly because the Group has sold its entire equity interest in an associate and recorded a pre-tax gain of approximately Rmb11,231,000 (after-tax net gain of approximately Rmb8,654,000) in 2012.

Income tax

The Company is entitled to a preferential CIT rate of 15% for year ended 31 December 2013. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

Net profit

Due to the growth in major business, the Group recorded a net profit of approximately Rmb69,992,000 (2012: Rmb49,455,000) for the year ended 31 December 2013 which represented an increase of approximately 42% 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 (including sales through import-export agents in the PRC) accounted for approximately 60% (2012: 50%) of the Group's turnover while domestic sales in the PRC accounted for approximately 40% (2012: 50%) of turnover. The increase in the proportion of exports was mainly due to the increase in sales volume of export-oriented L(+)-tartaric acid and L-malic acid over last year.

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 2013, the Group had total outstanding bank borrowings of Rmb105,000,000 (2012: Rmb144,456,000). The outstanding bank borrowings as at 31 December 2013 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 2013 was approximately 6.0% (2012: 5.8%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2013 and 2012, 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 2013, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb28,465,000 (2012: Rmb40,684,000). These capital commitments are mainly used for expansion of production lines and 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 2013. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 23.3% (2012: 29.9%) as at 31 December 2013. As at 31 December 2013, the Group's cash and cash equivalents amounted to Rmb63,190,000 (2012: Rmb106,578,000). Decrease in cash and cash equivalent was mainly due to the increase in capital expenditures for the construction of new factory in Lianyungang. 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 2013, the Group employed a total of 536 employees (2012: 552 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 2013 was approximately Rmb59,781,000 (2012: Rmb50,485,000). Bonus to Directors and employees under the staff incentive scheme for the year ended 31 December 2013 was Rmb5,156,000 (2012: Rmb1,625,000). Excluding the bonus, the amount staff costs including salary, welfare benefits and retirement benefits was approximately Rmb54,625,000 (2012: Rmb48,860,000). Staff costs increased as compared to that of last year mainly because of salary increment.

Under the staff incentive scheme for each of the three years ended 31 December 2013, 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 deputy 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 2013 and 2012.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

There are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2013.

CONTINGENT LIABILITIES

As at 31 December 2013 and 31 December 2012, 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 57, is the chairman of the Board, an executive Director, the general manager 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 44, is an executive Director and a deputy general manager of the Company. 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 71, 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 58, 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 52, 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 52, 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 68, 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 73, 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 46, 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 39, 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 59, 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 69, 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 40, 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 77, 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 53, 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 40, 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 42, is the financial controller and company secretary of the Company. She has over fifteen 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.

Zhang Qin Ying (張琴英), aged 45, 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 45, 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 2013, the Company complied the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 15 to the Rules Governing the Listing of Securities on GEM or Appendix 14 to the Listing Rules (as the case may be), 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. Mr. Rui Xin Sheng, the chairman of the Board, also acts 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.

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, Ms. Wei Xin and Mr. Zeng Xian Biao were unable to attend the annual general meeting and the extraordinary general meeting held on 16 May 2013, and the extraordinary general meeting of the Company that held on 4 November 2013 due to prior business commitments. Mr. Wang Jian Ping was unable to attend the annual general meeting and the extraordinary general meeting held on 16 May 2013 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 seven times for the year ended 31 December 2013. Attendance of individual members of the Board meeting for the year ended 31 December 2013 is as follows:

	Name of Director	**Attended/ Eligible to attend**
Executive Directors	Rui Xin Sheng *(Chairman)*	7/7
	Pan Chun	7/7
Non-executive Directors	Zeng Xian Biao	4/7
	Yu Xiao Ping	7/7
	Leng Yi Xin	7/7
	Wang Jian Ping	7/7
Independent Non-executive Directors	Ouyang Ping Kai	2/7
	Yang Sheng Li	2/7
	Wei Xin	7/7
	Au Fung Lan (appointed on 20 June 2013)	2/3

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 adopted a board diversity policy (the "Board Diversity Policy") on 16 August 2013. A summary, together with the measureable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

CORPORATE GOVERNANCE REPORT

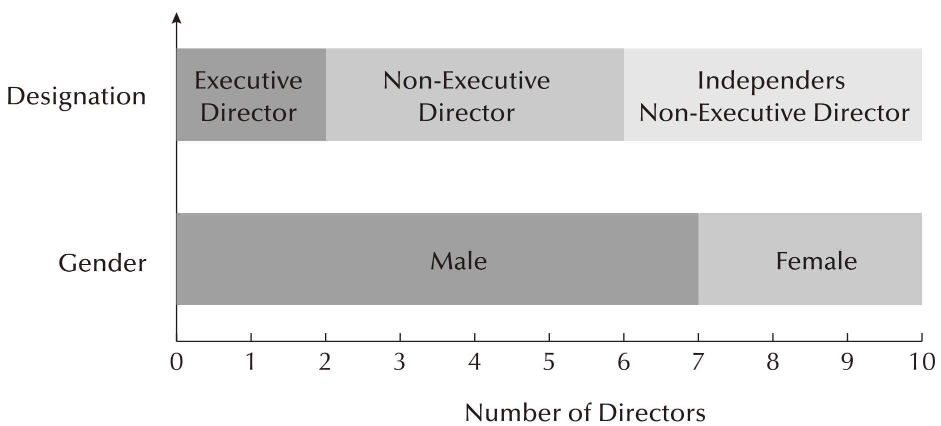
Summary of the Board Diversity Policy and Measurable Objectives

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 strategy 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 2013.

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. Apart from Ms. Au Fung Lan, the terms of each Director is not more than three years and will be expired on 17 June 2016. The term of Ms. Au Fung Lan is one year from 20 June 2013 until the conclusion of the next following annual general meeting of the Company to be held in 2014.

Nomination of candidates for re-election of Directors

On 6 March 2013, the Nomination Committee, taking into account the Board performance evaluation for the 2012, confirmed that all the existing Directors continue to contribute effectively and are committed to their roles. Although Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin have served as independent non-executive Directors for more than 9 years, they meet the independence factors and are not involved in the daily management of the Company, nor in any relationships or circumstances which would interfere with the exercise of their independent judgment. In addition, they continued to demonstrate the attributes of independent non-executive directors and there was no evidence that their tenure have had any impact on their independence. Taking into account the above, the Nomination Committee was of the opinion that Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin remain independent notwithstanding the length of their service and it believed that their valuable knowledge and experience in the Group's business and their general business acumen will continue to generate significant contribution to the Company. Accordingly, the Nomination Committee, in accordance with the Nomination Policy, nominated all the existing Directors to stand for election by Shareholders at the Annual General Meeting held in 2013. On the same day, the said nominations were accepted by the Board with each candidate abstaining from voting on the proposition of himself/herself for election by Shareholders. All the candidates for re-election of Directors do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation). All the Directors were re-elected at the Annual General Meeting held in 2013 with a term expiring on 17 June 2016. Their particulars are set out in the "Profile of Directors, Supervisors and Senior Management".

CORPORATE GOVERNANCE REPORT

Nomination of candidate for additional Independent Non-executive Director

Resolutions were passed respectively at the extraordinary general meeting and the Class Meetings of the Company held on 16 May 2013 to authorise the Board to appoint a person qualified under the PRC laws and regulations, the GEM Listing Rules (if applicable) and Main Board Listing Rules (if applicable) to be a Director to fill a casual vacancy on or as an addition to the Board, and the term of office of any Director so appointed shall expire at the conclusion of the next following annual general meeting of the Company. In view of the Company's transfer of listing from the GEM to the Main Board of the Stock Exchange in June 2013 and pursuant to the above authorisation, the Board appointed Ms. Au Fung Lan, an ordinarily resident in Hong Kong, as the independent non-executive Director on 20 June 2013 in order to comply with the requirements set out under Rule 19A.18(1) of the Listing Rules, which requires that at least one of the independent non-executive Directors must be ordinarily resident in Hong Kong.

On 20 June 2013, the Nomination Committee taking into accounts of Ms. Au's qualification and background, believed that her valuable knowledge and experience and her general business acumen will generate significant contribution to the Company. It was also of the opinion that Ms. Au was independent. Accordingly, the Nomination Committee, in accordance with the Nomination Policy, nominated Ms. Au as a candidate for the independent non-executive Director. On the same day, the said nominations were accepted by the Board and the Board has appointed Ms. Au as the independent non-executive Director with immediate effect. Ms. Au shall hold office until the conclusion of the Annual General Meeting to be held in 2014. She is eligible and will offer herself for re-election at the Annual General Meeting to be held 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 nominations were 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 are 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,C
Independent non-executive Directors	Ouyang Ping Kai	B,C
	Yang Sheng Li	B,C
	Wei Xin	B,C
	Au Fung Lan	A,B

A: attending seminars provided by external parties
B: reading materials in relation to regulatory update
C: attending training sessions provided by the Company's legal advisor

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 2013 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 of individual members for the year ended 31 December 2013 was as follows:

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 (appointed on 20 June 2013)	0/0

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 five meetings for the year ended 31 December 2013, two of which were with the attendance of the external auditor. The attendance rate of individual members for the year ended 31 December 2013 was as follows:

Name of committee member	Attended/Eligible to attend
Ouyang Ping Kai	5/5
Yang Sheng Li	5/5
Wei Xin	5/5
Au Fung Lan (appointed on 20 June 2013)	3/3

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;

CORPORATE GOVERNANCE REPORT

3. reviewed the Group's financial information, monitored the integrity of the Group's financial statements and the annual report and accounts, half-year report and quarterly reports (if applicable), 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 code provision.

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 two meetings in 2013 to review the structure, size and composition of the Board, to assess the independence of independent non-executive Directors and nominated candidates for re-election of the Directors of the fifth session of the Board and the additional independent non-executive Director. The attendance rate was as follows:

Name of committee member	Attended/Eligible to attend
Rui Xin Sheng	2/2
Ouyang Ping Kai	2/2
Yang Sheng Li	2/2
Wei Xin	2/2
Au Fung Lan (appointed on 20 June 2013)	0/0

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 2013 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 2013, 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 2013, 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.

CORPORATE GOVERNANCE REPORT

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 47 and 48.

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 2013 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 2013 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$1,265,000 (approximately equivalent to Rmb994,000) (2012: HK$1,150,000 (approximately equivalent to Rmb933,000)).

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.

Prodecures 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.

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.

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 twice during the year ended 31 December 2013.

The H Shares of the Company was transferred from the GEM to the Main Board ("Transfer of Listing") in June 2013. For the purposes of complying with the requirements of the relevant laws and regulations of the PRC and Hong Kong and the Listing Rules in relation to the Transfer of Listing as well as correcting clerical errors noted in the Articles of Association, an extraordinary general meeting and Class Meetings were held by the Company on 16 May 2013 to amend the Articles of Association. For details of the amendments in the Articles of Association, please refer to the circular of the Company dated 28 March 2013.

An extraordinary general meeting and Class Meetings were held by the Company on 4 November 2013 to amend the Articles of Association. The purposes of amending the Articles of Association, among other things, were to (i) amend the voting requirements in case the Domestic Shares and Foreign Shares that are not listed on any PRC or overseas stock exchange (the "Non-Listed Shares") were transferred to and listed on a publicly tradable stock exchange and specify the criteria for such conversion; (ii) define the rights and obligations attached with the Non-Listed Shares after they were transferred to and listed on a publicly tradable stock exchange; and (iii) adopt other house-keeping improvements to the Articles of Association. For details of the amendments in the Articles of Association, please refer to the circular of the Company dated 19 September 2013.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 10 March 2014

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 2013.

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 49.

No interim dividend was declared during the year (2012: Nil). The Directors recommend the payment of a final dividend of Rmb0.04 (2012: Rmb0.028) (inclusive of tax) per share for the year ended 31 December 2013, totalling approximately Rmb21,188,000 (2012: Rmb14,832,000).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to Rmb140,000 (2012: Rmb210,000).

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 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the distributable reserves of the Company were approximately Rmb281,401,000 (2012: Rmb233,274,000) 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 106 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 2013.

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 (appointed on 20 June 2013)

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

Supervisor nominated by employees
Mr. Wan Yi Dong (resigned on 1 April 2013)
Mr. Zhang Jun Peng (appointed on 1 April 2013)

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

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS (Continued)

Apart from Ms. Au Fung Lan, the terms of each of the Directors and Supervisors will be expired on 17 June 2016. The term of Ms. Au Fung Lan is one year from 20 June 2013 until the conclusion of the next following annual general meeting of the Company to be held in 2014. Mr. Au Fung Lan is eligible and will offer herself for re-election at the forthcoming annual general meeting in 2014. 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.

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 2013, 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%	–	–

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)

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))
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 of HK$1 each and 100,000 Class "B" shares of HK$1 each. 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.

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)

(b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class “A” shares of HK$1 each 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 of HK$1 each and 100,000 Class “B” shares of HK$1 each. 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 of HK$1 each 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 of HK$1 each and 100,000 Class “B” shares of HK$1 each. He is also the registered holder and beneficial owner of 200,000 shares of HK$0.01 each 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 of HK$0.01 each.

(d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares of HK$0.01 each 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 of HK$0.01 each. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class “B” shares of HK$1 each 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 of HK$1 each and 100,000 Class “B” shares of HK$1 each.

(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 of HK$1 each 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 of HK$1 each and 100,000 Class “B” shares of HK$1 each.

(g) Prof. Yang is the registered holder and beneficial owner of 2,000 Class “B” shares of HK$1 each 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 of HK$1 each and 100,000 Class “B” shares of HK$1 each.

(h) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares of HK$0.01 each 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 of HK$0.01 each.

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 of HK$0.01 each 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 of HK$0.01 each.

(j) Mr. Zhang is the registered holder and beneficial owner of 800 Class "B" shares of HK$1 each 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 of HK$1 each and 100,000 Class "B" shares of HK$1 each. Mr. Zhang is the registered holder and beneficial owner of 120,000 shares of HK$0.01 each 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 of HK$0.01 each.

(k) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class "B" shares of HK$1 each 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 of HK$1 each and 100,000 Class "B" shares of HK$1 each.

(l) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 31 December 2013.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2013.

(n) The percentage is calculated based on the 183,700,000 Foreign Shares in issue at 31 December 2013.

Save as disclosed above, as at 31 December 2013, 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 2013, 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%

REPORT OF THE DIRECTORS

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

Long positions in shares:

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 2013.

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 2013, 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

	2013	2012
– the largest supplier	**13%**	18%
– five largest suppliers combined	**36%**	37%

Sales

	2013	2012
– the largest customer	**9%**	7%
– five largest customers combined	**25%**	24%

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

REPORT OF THE DIRECTORS

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.

Income recognised by the Group in relation to the Cooperative Agreement for the year ended 31 December 2013 was Rmb400,000 (2012: Rmb800,000).

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 will be received upon the completion of the contract in relation to the disposal of patents of lentinan hexaose.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2013, 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 2.19(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, 10 March 2014

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2013, 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 2013, 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, 10 March 2014

INDEPENDENT AUDITOR'S REPORT

pwc 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 49 to 105, which comprise the consolidated and company balance sheets as at 31 December 2013, 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

pwc

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 2013, 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, 10 March 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 December 2013

	Note	2013 Rmb'000	2012 Rmb'000
Turnover	5	703,032	653,218
Cost of sales	7	(534,023)	(525,765)
Gross profit		169,009	127,453
Other income	6	2,188	5,834
Other gains, net	6	1,821	13,375
Selling expenses	7	(15,348)	(16,247)
Administrative expenses	7	(69,109)	(61,355)
Operating profit		88,561	69,060
Finance income		555	645
Finance costs		(7,513)	(10,722)
Finance costs, net	8	(6,958)	(10,077)
Share of profit of an associate		–	342
Profit before income tax		81,603	59,325
Income tax expense	9	(11,275)	(9,757)
Profit for the year	10	70,328	49,568
Other comprehensive income			
Item that may be reclassified to profit or loss – currency translation difference		106	(129)
Total comprehensive income for the year		70,434	49,439
Profit for the year attributable to:			
Equity holders of the Company		69,992	49,455
Non-controlling interests		336	113
		70,328	49,568
Total comprehensive income for the year attributable to:			
Equity holders of the Company		70,098	49,326
Non-controlling interests		336	113
		70,434	49,439
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	11	Rmb0.132	Rmb0.093

The notes on pages 56 to 105 are an integral part of these consolidated financial statements.

	Note	2013 Rmb'000	2012 Rmb'000
Dividends	12	21,188	14,832

CONSOLIDATED BALANCE SHEET

AS AT 31 December 2013

	Note	2013 Rmb'000	2012 Rmb'000
ASSETS			
Non-current assets			
Patents	15	3,503	4,899
Property, plant and equipment	16	247,627	259,261
Land use rights	17	21,377	21,903
Construction in progress	18	84,615	50,920
Prepayments		15,233	13,991
Deferred income tax assets	28	1,058	877
		373,413	351,851
Current assets			
Inventories	20	135,946	108,480
Trade and bills receivables	21	79,004	74,550
Other receivables and prepayments		17,629	14,638
Derivative financial instruments	22	2,554	507
Pledged bank balances	23	4,442	4,094
Cash and bank balances	23	64,790	108,178
		304,365	310,447
Total assets		677,778	662,298
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	52,970	52,970
Reserves	25	464,504	409,238
		517,474	462,208
Non-controlling interests		2,081	1,745
Total equity		519,555	463,953

The notes on pages 56 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (Continued)

AS AT 31 December 2013

	Note	2013 Rmb'000	2012 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	28	473	655
Current liabilities			
Trade payables	26	18,410	20,878
Other payables and accrued charges		32,536	30,008
Income tax payable		1,804	2,348
Bank borrowings	27	105,000	144,456
		157,750	197,690
Total liabilities		158,223	198,345
Total equity and liabilities		677,778	662,298
Net current assets		146,615	112,757
Total assets less current liabilities		520,028	464,608

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 56 to 105 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2013

	Note	2013 Rmb'000	2012 Rmb'000
ASSETS			
Non-current assets			
Patents	15	1,611	2,278
Property, plant and equipment	16	236,911	248,290
Land use rights	17	9,136	9,376
Construction in progress	18	56,976	50,920
Investments in subsidiaries	19	74,149	74,149
Deferred income tax assets	28	740	538
		379,523	385,551
Current assets			
Inventories	20	135,718	108,135
Trade and bills receivables	21	74,895	74,272
Other receivables and prepayments		8,873	14,421
Amounts due from subsidiaries	19	15,071	8,658
Derivative financial instruments	22	2,554	507
Pledged bank balances	23	–	4,094
Cash and bank balances	23	59,914	67,022
		297,025	277,109
Total assets		676,548	662,660
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	52,970	52,970
Reserves	25	467,243	413,356
Total equity		520,213	466,326

The notes on pages 56 to 105 are an integral part of these financial statements.

BALANCE SHEET (Continued)

AS AT 31 DECEMBER 2013

	Note	2013 Rmb'000	2012 Rmb'000
LIABILITIES			
Current liabilities			
Trade payables	26	18,410	20,878
Other payables and accrued charges		31,397	28,652
Income tax payable		1,528	2,348
Bank borrowings	27	105,000	144,456
		156,335	196,334
Total equity and liabilities		676,548	662,660
Net current assets		140,690	80,775
Total assets less current liabilities		520,213	466,326

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

The notes on pages 56 to 105 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 December 2013

		Attributable to equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total
	Note	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2012		52,970	156,636	215,989	425,595	1,632	427,227
Transfer of profit to statutory reserve	25	–	5,261	(5,261)	–	–	–
Profit for the year		–	–	49,455	49,455	113	49,568
Other comprehensive income – currency translation difference – Group		–	(129)	–	(129)	–	(129)
Final dividend for the year ended 31 December 2011		–	–	(12,713)	(12,713)	–	(12,713)
Balance at 31 December 2012		52,970	161,768	247,470	462,208	1,745	463,953
Balance at 1 January 2013		52,970	161,768	247,470	462,208	1,745	463,953
Transfer of profit to statutory reserve	25	–	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

The notes on pages 56 to 105 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 December 2013

	Note	2013 Rmb'000	2012 Rmb'000
Cash flows from operating activities			
Cash generated from operations	29(a)	88,260	113,185
Interest paid		(7,494)	(10,931)
Income tax paid		(12,182)	(8,635)
Net cash generated from operating activities		68,584	93,619
Cash flows from investing activities			
Proceed from disposal of a patent		500	2,000
Purchase of property, plant and equipment		(319)	(1,452)
Proceeds from disposal of property, plant and equipment		8	526
Additions of construction in progress		(56,838)	(26,672)
Prepayment for purchase of properties		(1,242)	(13,991)
Proceed from disposal of equity interest in an associate		–	28,116
Dividend received from an associate		–	12,603
Increase in pledged bank balances		(348)	(1,594)
Increase in short-term bank deposits with maturities of over 3 months		–	(1,600)
Interest received		555	645
Net cash used in investing activities		(57,684)	(1,419)
Cash flows from financing activities			
New bank borrowings	29(b)	155,000	254,442
Repayment of bank borrowings	29(b)	(194,456)	(286,986)
Dividends paid	29(b)	(14,832)	(12,713)
Net cash used in financing activities		(54,288)	(45,257)
Net (decrease)/increase in cash and cash equivalents		(43,388)	46,943
Cash and cash equivalents at 1 January		106,578	59,635
Cash and cash equivalents at 31 December	23	63,190	106,578

The notes on pages 56 to 105 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 ("Rmb"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 10 March 2014.

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 the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by derivative financial instruments which are stated at fair value.

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)

(a) *New and amended standards 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 2013.

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

HKAS 19, 'Employee benefits' was revised in June 2011. The amendments require immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group and the Company do not have any defined benefit retirement scheme, therefore it is not expected to have any impact on the Group's or Company's financial statements.

Amendment to HKFRS 7, 'Financial instruments: Disclosures', on asset and liability offseting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. It is not expected to have an material impact on the Group's or Company's financial statements.

HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It is not expected to have any impact on the Group's or Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

HKFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. It is not expected to have any impact on the Group's or Company's financial statements.

HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. It is not expected to have any impact on the Group's or Company's financial statements.

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. It is not expected to have an material impact on the Group's or Company's financial statements.

(b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2013.

(a) *Subsidiaries*

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) *Subsidiaries (Continued)*

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.

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 in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value 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 remeasured 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. Costs also include direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income or costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other gains, net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of the Group entities (none of which has the currency of a hyper-inflationary economy) that has 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 exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. 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, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange 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 exchange 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 jointly controlled entities 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.

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. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Patents

Patents are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Patents are amortised using the straight-line method over their estimated useful lives 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 in the consolidated statement of comprehensive income during the financial period in which they are incurred.

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

Buildings	20-50 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 each balance sheet date. 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.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and other related expenses incurred in connection with the construction of buildings, plant and machinery for own use, less provision for impairment losses, if any.

No depreciation is provided for construction in progress until they are completed and ready for their intended use, upon which they will be transferred to property, plant and equipment.

2.9 Impairment of investments in subsidiaries, associate and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets 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 or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Government grants

A government grant is recognised at its fair value where there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the related costs that they are intended to compensate.

Government grants relating to property, plant and equipment are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, 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.

2.12 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 statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of comprehensive income.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with banks at call. Bank deposits with original maturities of more than three months are excluded from cash and cash equivalents.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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 at fair value through profit or loss 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 consolidated statement of comprehensive income within "other gains, net".

2.15 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Trade payables

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

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax of the Company and its subsidiaries. Tax is recognised and recorded under tax expense in the consolidated statement of comprehensive income, 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.

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 PRC. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Current and deferred income tax (Continued)

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, 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 tax asset is realised or the deferred 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associate, except 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 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.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income 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 balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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$1,250 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

(b) *Profit-sharing and bonus plans*

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

2.20 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 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. 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.

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

2.22 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.

2.23 Operating leases

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

2.24 Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors. The Group uses derivative financial instruments to hedge certain foreign currency exposures.

(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 2013, 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 Rmb2,773,000 (2012: Rmb980,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, USD-denominated bank loan and USD-denominated bank deposits.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk*

The carrying amounts of trade receivables 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 9% of the Group's total revenue during the year.

(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 2013 and 2012, all of the Group's trade payables, other payables and bank borrowings were all due for settlement contractually within 1 year.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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

	Group	**Company**
	Rmb'000	Rmb'000
At 31 December 2013		
Trade payables	18,410	18,410
Other payables	12,526	12,035
Bank borrowings and interest thereon	108,148	108,148
At 31 December 2012		
Trade payables	20,878	20,878
Other payables	11,485	11,133
Bank borrowings and interest thereon	148,634	148,634

(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 cash equivalents, details of which are disclosed in Note 23. 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 2013, 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 Rmb105,000 (2012: Rmb144,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

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

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

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

The liabilities-to-assets ratio at 31 December 2013 and 2012 was as follows:

	2013 Rmb'000	2012 Rmb'000
Total liabilities	158,223	198,345
Total assets	677,778	662,298
Liabilities-to-assets ratio	23.3%	29.9 %

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The 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 2013, the Group had several foreign exchange forward contracts of carrying amounts Rmb2,554,000 (2012: Rmb507,000), 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 cash equivalents, pledged bank balances, trade receivables and other receivables, and current financial liabilities, including trade payables, other payables and short-term bank borrowings, approximate their fair values due to their short maturities.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 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 2013			
Assets as per balance sheet			
Available-for-sale financial assets	–	–	–
Derivative financial instruments	–	2,554	2,554
Trade and other receivables excluding prepayments	83,819	–	83,819
Financial assets at fair value through profit or loss	–	–	–
Cash and cash equivalents	63,190	–	63,190
Total	147,009	2,554	149,563

	Other financial liabilities at amortised cost Rmb'000	Total Rmb'000
31 December 2013		
Liabilities as per balance sheet		
Borrowings (excluding finance lease liabilities)	105,000	105,000
Finance lease liabilities	–	–
Derivative financial instruments	–	–
Trade and other payables excluding non-financial liabilities	30,936	30,936
Total	135,936	135,936

	Loans and receivables Rmb'000	Assets at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2012			
Assets as per balance sheet			
Available-for-sale financial assets	–	–	–
Derivative financial instruments	–	507	507
Trade and other receivables excluding prepayments	75,320	–	75,320
Financial assets at fair value through profit or loss	–	–	–
Cash and cash equivalents	106,577	–	106,577
Total	181,897	507	182,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Financial instruments by category – Group and Company (Continued)

Group (Continued)

	Other financial liabilities at amortised cost Rmb'000	Total Rmb'000
31 December 2012		
Liabilities as per balance sheet		
Borrowings (excluding finance lease liabilities)	144,456	144,456
Finance lease liabilities	–	–
Derivative financial instruments	–	–
Trade and other payables excluding non-financial liabilities	32,363	32,363
Total	176,819	176,819

Company

	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			
Available-for-sale financial assets	–	–	–
Derivative financial instruments	–	2,554	2,554
Trade and other receivables excluding prepayments	77,430	–	77,430
Financial assets at fair value through profit or loss	–	–	–
Cash and cash equivalents	59,914	–	59,914
Total	137,344	2,554	139,898

	Other financial liabilities at amortised cost Rmb'000	Total Rmb'000
31 December 2013		
Liabilities as per balance sheet		
Borrowings (excluding finance lease liabilities)	105,000	105,000
Finance lease liabilities	–	–
Derivative financial instruments	–	–
Trade and other payables excluding non-financial liabilities	30,445	30,445
Total	135,445	135,445

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Financial instruments by category – Group and Company (Continued)

Company (Continued)

	Loans and receivables Rmb'000	Assets at fair value through the profit & loss Rmb'000	Total Rmb'000
31 December 2012			
Assets as per balance sheet			
Available-for-sale financial assets	–	–	–
Derivative financial instruments	–	507	507
Trade and other receivables excluding prepayments	75,032	–	75,032
Financial assets at fair value through profit or loss	–	–	–
Cash and cash equivalents	67,022	–	67,022
Total	142,054	507	142,561

	Other financial liabilities at amortised cost Rmb'000	Total Rmb'000
31 December 2012		
Liabilities as per balance sheet		
Borrowings (excluding finance lease liabilities)	144,456	144,456
Finance lease liabilities	–	–
Derivative financial instruments	–	–
Trade and other payables excluding non-financial liabilities	32,001	32,001
Total	176,457	176,457

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 discussed 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 its property, plant and equipment, other than construction-in-progress, 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 adjust the depreciation charge 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) 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.

(c) 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Impairment of investments in subsidiaries and associate and amounts due from subsidiaries

The Company makes provision for impairment of investments in subsidiaries and amounts due from subsidiaries based on an assessment of the future economic benefits of the investments which will flow to the Company and the collectibility of the amounts due from subsidiaries. The identification of provisions requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of investments in subsidiaries and amounts due from subsidiaries in the period in which such estimate has been changed.

(e) 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.

(f) 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.

(g) 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(g) Research and development costs (Continued)

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

Management determines the operating segments based on the information reported to the Group's chief operating decision maker. Executive directors are identified as the chief operating decision maker. 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.

	2013 Rmb'000	2012 Rmb'000
Turnover		
Sales of goods	703,032	653,218

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

	2013 Rmb'000	2012 Rmb'000
Mainland China	319,902	343,299
Europe	167,638	136,577
Asia Pacific	137,316	102,961
America	61,587	49,380
Others	16,589	21,001
	703,032	653,218

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 TURNOVER AND SEGMENT INFORMATION (Continued)

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.

The total of the Group's assets located in Mainland China is Rmb 676,224,000 (2012: Rmb660,111,000), and the total of the Group's assets located in other country is Rmb1,554,000 (2012: Rmb2,187,000).

6 OTHER INCOME AND OTHER GAINS, NET

	2013 Rmb'000	2012 Rmb'000
Other income		
Sales of scrap materials	546	401
Government grants	1,035	4,457
Income from joint research and development of apatent	400	800
Others	207	176
	2,188	5,834

	2013 Rmb'000	2012 Rmb'000
Other gains, net		
Gain on disposal of equity interest in an associate	–	11,231
Gain on disposal of a patent	1,942	1,553
Loss on disposal of property, plant and equipment	(75)	(72)
Fair value gains on derivative financial instruments	2,047	357
Net exchange loss	(2,093)	(168)
Others	–	474
	1,821	13,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2013 Rmb'000	2012 Rmb'000
Cost of inventories sold (including provision for inventories to net realisable value of Rmb1,191,000 (2012: Nil))	356,967	372,210
Amortisation of patents (Note 15)	838	877
Amortisation of land use rights (Note 17)	526	526
Auditors' remuneration	994	933
Depreciation (Note 16)	33,769	35,373
Operating lease rentals in respect of land and buildings	489	425
Research and development costs	16,005	13,674
Staff costs (including emoluments of Directors and Supervisors) (Note 13)	59,781	50,485
Other expenses	149,111	128,864
Total cost of sales, selling expenses and administrative expenses	618,480	603,367

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

	2013 Rmb'000	2012 Rmb'000
Interest on bank borrowings – wholly repayable within five years	7,513	10,722
Interest income on bank deposits	(555)	(645)
Net finance costs	6,958	10,077

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%.

9 INCOME TAX EXPENSE (Continued)

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

	2013 Rmb'000	2012 Rmb'000
Current income tax		
– Provision for CIT	11,379	9,995
– Under-provision in prior year	259	–
Deferred income tax (Note 28)	(363)	(238)
	11,275	9,757

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:

	2013 Rmb'000	2012 Rmb'000
Profit before income tax	81,603	59,325
Adjustment: share of profit of an associate	–	(342)
	81,603	58,983
Calculated at the tax rates applicable to results of the respective consolidated entities	12,425	8,702
Income not subject to tax	(307)	(106)
Expenses not deductible for tax purposes	370	153
Tax losses for which no deferred income tax asset was recognised	425	104
Utilisation of tax losses for which no deferred income tax asset was recognised	(334)	–
Tax incentives for research and development expenses	(1,869)	(515)
Under-provision in prior year	259	–
Others	306	1,419
Income tax expense	11,275	9,757

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Rmb68,719,000 (2012: Rmb68,758,000).

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2013 is based on the profit attributable to the equity holders of the Company of Rmb69,992,000 (2012: Rmb49,455,000) and 529,700,000 (2012: 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 (2012: Nil).

12 DIVIDENDS

No interim dividend was declared during the year (2012: Nil). The directors recommend the payment of a final dividend of Rmb0.04 (2012: Rmb0.028) per share, totalling Rmb21,188,000 (2012: Rmb14,832,000) for the year ended 31 December 2013. Such dividend is to be approved by the shareholders at the Annual General Meeting on 12 May 2014. These financial statements do not reflect this dividend payable.

	2013 Rmb'000	2012 Rmb'000
Final, proposed, of Rmb0.04(2012: Rmb0.028) per share	21,188	14,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 STAFF COSTS

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

	2013 Rmb'000	2012 Rmb'000
Salaries, wages and related welfare	48,837	40,401
Social security costs	5,779	5,657
Contribution to defined contribution retirement schemes (note)	5,165	4,427
	59,781	50,485

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% (2012: 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 2013 is set out as follows:

Name of Director	**Fees** Rmb'000	**Basic salaries, allowances and benefits in kind** Rmb'000	**Discretionary bonus** Rmb'000	**Retirement benefit contributions** Rmb'000	**Total** 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 (Note (ii))	33	–	–	–	33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2012 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	509	542	29	1,400
Mr. Pan Chun	100	179	181	29	489
Non-executive director					
Mr. Zeng Xian Biao	50	–	90	–	140
Mr. Yu Xiao Ping	50	–	90	–	140
Ms. Leng Yi Xin	50	–	90	–	140
Mr. Wang Jian Ping	50	–	90	–	140
Independent non-executive director					
Prof. Ouyang Ping Kai	60	–	–	–	60
Prof. Yang Sheng Li	60	–	–	–	60
Ms. Wei Xin	60	–	–	–	60

Notes:

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

(ii) Ms. Au was appointed as an independent non-executive director of the Company on 20 June 2013.

None of the Directors waived any emoluments during the years ended 31 December 2013 and 2012.

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 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
Ms. Zhou Rui Juan	15	41	–	–	56
Mr. Lu He Xing	6	–	–	–	6
Mr. Zhang Jun Peng (Note (i))	5	87	–	12	104
Mr. Wan Yi Dong (Note (ii)	2	72	–	7	81
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 2012 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
Ms. Zhou Rui Juan	15	38	–	–	53
Mr. Lu He Xing	6	–	–	–	6
Mr. Wan Yi Dong	6	196	54	30	286
Prof. Jiang Yao Zhong	15	–	–	–	15
Mr. Geng Gang	15	–	–	–	15

Notes:

(i) Mr. Zhang was appointed as a supervisor of the Company on 1 April 2013.

(ii) Mr. Wan resigned as a supervisor of the Company on 1 April 2013.

None of the Supervisors waived any emoluments during the years ended 31 December 2013 and 2012.

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

(c) The five individuals whose emoluments were the highest in the Group during the year are as follows:

	2013	2012
Director	2	2
Employees	3	3
	5	5

Details of the emoluments paid and payable to the above 3 employees (2012: three employees) are as follows:

	2013 Rmb'000	2012 Rmb'000
Basic salaries, allowances and benefits in kind	1,279	1,482
Discretionary bonus	645	63
Retirement benefit contributions	72	26
	1,996	1,571

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

	2013	2012
Emolument bands (in HK dollar)		
Less than HK$1,000,000	2	3
HK$1,000,001 – HK$1,500,000	1	–

(d) Senior management remuneration by band

One of the senior management's (who are not Directors nor Supervisors) emolument is within the band of HK$1,000,000 to HK$1,500,000. All other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PATENTS

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
Net book amount, at 1 January	4,899	6,223	2,278	2,944
Disposal	(558)	(447)	–	–
Amortisation charge (Note 7)	(838)	(877)	(667)	(666)
Net book amount, at 31 December	3,503	4,899	1,611	2,278

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
At cost	12,800	13,600	10,000	10,000
Accumulated amortisation	(9,297)	(8,701)	(8,389)	(7,722)
Net book amount, at 31 December	3,503	4,899	1,611	2,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT

	Group			
	Buildings Rmb'000	Plant and machinery Rmb'000	Equipment and motor vehicles Rmb'000	Total Rmb'000
At 1 January 2012				
Cost	116,293	280,540	32,368	429,201
Accumulated depreciation	(26,069)	(115,884)	(18,743)	(160,696)
Net book amount	90,224	164,656	13,625	268,505
Year ended 31 December 2012				
Opening net book amount	90,224	164,656	13,625	268,505
Additions	3,205	–	1,343	4,548
Transfer from construction in progress (Note 18)	2,572	19,071	536	22,179
Disposals	–	(550)	(48)	(598)
Depreciation (Note 7)	(5,220)	(26,043)	(4,110)	(35,373)
Closing net book amount	90,781	157,134	11,346	259,261
At 31 December 2012				
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

Depreciation expense of Rmb28,203,000 (2012: Rmb29,329,000) and Rmb5,566,000 (2012: Rmb6,044,000) had been charged in "cost of sales" and "administrative expenses" respectively in 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Company			
	Buildings Rmb'000	**Plant and machinery** Rmb'000	**Equipment and motor vehicles** Rmb'000	**Total** Rmb'000
At 1 January 2012				
Cost	109,049	279,365	30,702	419,116
Accumulated depreciation	(25,399)	(114,860)	(17,328)	(157,587)
Net book amount	83,650	164,505	13,374	261,529
Year ended 31 December 2012				
Opening net book amount	83,650	164,505	13,374	261,529
Addition	–	–	117	117
Transfer from construction in progress (Note 18)	2,572	19,071	536	22,179
Disposals	–	(550)	(48)	(598)
Depreciation	(5,012)	(25,995)	(3,930)	(34,937)
Closing net book amount	81,210	157,031	10,049	248,290
At 31 December 2012				
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

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 three pieces of land located in Mainland China under lease term of 50 years.

	Group		Company	
	2013	2012	2013	2012
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net book amount, at 1 January	21,903	22,429	9,376	9,617
Amortisation charge (Note 7)	(526)	(526)	(240)	(241)
Net book amount, at 31 December	21,377	21,903	9,136	9,376

	Group		Company	
	2013	2012	2013	2012
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost	26,275	26,275	12,040	12,040
Accumulated amortisation	(4,898)	(4,372)	(2,904)	(2,664)
Net book amount, at 31 December	21,377	21,903	9,136	9,376

18 CONSTRUCTION IN PROGRESS

	Group		Company	
	2013	2012	2013	2012
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January	50,920	47,793	50,920	47,793
Additions	55,594	25,306	27,955	25,306
Transfer to property, plant and equipment (Note 16)	(21,899)	(22,179)	(21,899)	(22,179)
At 31 December	84,615	50,920	56,976	50,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	2013 Rmb'000	2012 Rmb'000
Unlisted equity investments, at cost, at 1 January	74,149	24,149
Capital injection to a subsidiary	–	50,000
Unlisted equity investments, at cost, at 31 December	74,149	74,149

Details of the subsidiaries at 31 December 2013 and 2012 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)	PRC, limited liability company	Rmb15,384,600	57.44%	Research and development of medicine and nutraceutical products
Chang Mao International Ltd.	Canada, limited liability company	USD200,000	100%	Trading of organic acids
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

(b) Amounts due from subsidiaries

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

The carrying values of the amounts due from subsidiaries approximate their fair value and represent the maximum exposure to credit risk at 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 INVENTORIES

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
Raw materials	34,869	44,940	34,835	44,855
Work-in-progress	19,845	13,779	19,845	13,779
Finished goods	81,232	49,761	81,038	49,501
	135,946	108,480	135,718	108,135

21 TRADE AND BILLS RECEIVABLES

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
Trade receivables	78,304	73,220	74,895	73,220
Bills receivables	700	1,330	–	1,052
	79,004	74,550	74,895	74,272

(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	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
0 to 3 months	75,750	71,772	73,094	71,772
4 to 6 months	2,135	915	1,382	915
Over 6 months	820	949	820	949
	78,705	73,636	75,296	73,636
Less: Provision for impairment of trade receivables	(401)	(416)	(401)	(416)
	78,304	73,220	74,895	73,220

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE AND BILLS RECEIVABLES (Continued)

(c) As at 31 December 2013, trade receivables of approximately Rmb1,801,000 (2012: Rmb1,329,000) 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	
	2013 Rmb'000	2012 Rmb'000
0 to 3 months	–	–
4 to 6 months	1,382	915
Over 6 months	419	414
	1,801	1,329

(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	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
Rmb	23,755	36,083	21,883	35,805
USD	54,950	38,883	53,413	38,883
	78,705	74,966	75,296	74,688
Less: Provision for impairment of trade receivables	(401)	(416)	(401)	(416)
	78,304	74,550	74,895	74,272

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE AND BILLS RECEIVABLES (Continued)

(f) Movements on the provision for impairment of trade receivables are as follows:

	Group and Company	
	2013 Rmb'000	2012 Rmb'000
At 1 January	416	275
(Write-back of)/provision for impairment of trade receivables	(15)	141
At 31 December	401	416

(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.

22 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2013, 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 2013 are approximately Rmb86,783,000 (2012: Rmb74,497,000). These foreign exchange forward contracts held for trading are expected to be settled within 12 months.

23 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
Short-term bank deposits with original maturities of over 3 months	1,600	1,600	–	–
Cash and cash equivalents	63,190	106,578	59,914	67,022
	64,790	108,178	59,914	67,022
Pledged bank balances	4,442	4,094	–	4,094
Total	69,232	112,272	59,914	71,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Group		Company	
	2013	2012	2013	2012
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Denominated in:				
– Rmb	57,244	95,545	47,937	56,564
– USD	11,957	14,674	11,951	14,525
– CAD	5	2,026	–	–
– HKD	26	27	26	27
	69,232	112,272	59,914	71,116

The effective interest rate on the short-term bank deposits with original maturities of over 3 months is 3.25% per annum. These deposits have remaining maturities ranged from 2 months to 1 year as at 31 December 2013.

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.

24 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2013 and 2012	529,700,000	52,970

As at 31 December 2013 and 2012, 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

25 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 2012	102,559	53,622	461	(6)	215,989	372,625
Transfer of profit to statutory reserve	–	5,261	–	–	(5,261)	–
Profit for the year	–	–	–	–	49,455	49,455
Other comprehensive income – currency translation difference – Group	–	–	–	(129)	–	(129)
Final dividend for the year ended 31 December 2011	–	–	–	–	(12,713)	(12,713)
At 31 December 2012	102,559	58,883	461	(135)	247,470	409,238
Representing:						
2012 proposed final dividend					14,832	
Others					232,638	
					247,470	

	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	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 RESERVES (Continued)

Company

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2012	102,559	53,622	201,130	357,311
Transfer of profit to statutory reserve	–	5,261	(5,261)	–
Profit and total comprehensive income for the year	–	–	68,758	68,758
Final dividend for the year ended 31 December 2011	–	–	(12,713)	(12,713)
At 31 December 2012	102,559	58,883	251,914	413,356
Representing:				
2012 proposed final dividend			14,832	
Others			237,082	
			251,914	

	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	

25 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.

26 TRADE PAYABLES

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

	Group and Company	
	2013	2012
	Rmb'000	Rmb'000
0 to 6 months	18,292	20,754
7 to 12 months	46	63
Over 12 months	72	61
	18,410	20,878

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 BANK BORROWINGS

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group and Company	
	2013	2012
	Rmb'000	Rmb'000
– Rmb	105,000	115,000
– USD	–	29,456
Short-term bank borrowings	105,000	144,456

The maturity of borrowings is as follows:

	Group and Company	
	2013	2012
	Rmb'000	Rmb'000
Within 1 year	105,000	144,456

The carrying amounts of these bank borrowings approximate their fair values. As at 31 December 2012, bank loans of Rmb29,456,000 were secured by a USD bank deposit of Rmb4,089,000.

As at 31 December 2013, the effective interest rates of the bank borrowings were as follows:

	Group and Company	
	2013	2012
Short-term bank borrowings, at fixed rate	5.9%	6.4%
Short-term bank borrowings, at floating rate	6.0%	5.6%

28 DEFERRED INCOME TAX

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 relate to the same tax jurisdiction. The amounts are as follows:

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
Deferred tax assets to be recovered within 12 months	1,058	877	740	538
Deferred tax liabilities to be settled after more than 12 months	(473)	(655)	–	–
Deferred tax assets – net	585	222	740	538

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

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
At 1 January	222	(16)	538	518
Credited to the statement of comprehensive income (Note 9)	363	238	202	20
At 31 December	585	222	740	538

28 DEFERRED INCOME TAX (Continued)

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 2012	102	702	804	518
(Charged)/credited to the statement of comprehensive income	(13)	86	73	20
At 31 December 2012	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

Deferred tax liabilities – Group:

	Fair value gain on patents Rmb'000
At 1 January 2012	820
Credited to consolidated statement of comprehensive income	(165)
At 31 December 2012	655
Credited to consolidated statement of comprehensive income	(182)
At 31 December 2013	473

28 DEFERRED INCOME TAX (Continued)

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 Rmb1,270,000 (2012: Rmb1,564,000) in respect of losses amounting to approximately Rmb4,885,000 (2012: Rmb5,941,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	Group	
	2013	2012
	Rmb'000	Rmb'000
2013	–	1,711
2014	–	671
2015	486	486
2016	892	892
2017	614	614
2018	810	–
2030	297	313
2031	494	519
2032	699	735
2033	593	–
	4,885	5,941

The Company had no unrecognised deferred tax liabilities as at 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2013 Rmb'000	2012 Rmb'000
Profit before income tax	81,603	59,325
Adjustments for:		
Interest income	(555)	(645)
Interest expense	7,513	10,722
Amortisation of patents	838	877
Gain on disposal of a patent	(1,942)	(1,553)
Depreciation	33,769	35,373
Loss on disposal of property, plant and equipment	75	72
Amortisation of land use rights	526	526
Gain on disposal of equity interest in an associate	–	(11,231)
Provision for impairment of inventory	1,191	–
Provision for impairment of trade receivables and other receivables	260	235
Fair value gains on derivative financial Instruments	(2,047)	(357)
Currency translation difference	106	(129)
Share of profit of an associate	–	(342)
	121,337	92,873
Changes in working capital:		
Inventories	(28,657)	40,181
Trade and bills receivables, other receivables and prepayments	(5,705)	(14,360)
Trade payables, other payables and accrued charges	1,285	(5,509)
Cash generated from operations	88,260	113,185

(b) Analysis of changes in financing during the year

	Bank borrowings		Dividends payable	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
At 1 January	144,456	177,000	–	–
New bank borrowings	155,000	254,442	–	–
Repayment of bank borrowings	(194,456)	(286,986)	–	–
2012/2011 final dividend	–	–	14,832	12,713
Dividends paid	–	–	(14,832)	(12,713)
At 31 December	105,000	144,456	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 COMMITMENTS

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

	Group		Company	
	2013 Rmb'000	2012 Rmb'000	2013 Rmb'000	2012 Rmb'000
Authorised but not contracted for	–	35,931	–	–
Contracted but not provided for	28,465	4,753	3,101	4,222
	28,465	40,684	3,101	4,222

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2013, 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	
	2013 Rmb'000	2012 Rmb'000
Not later than one year	449	199
Later than one year and not later than five years	225	–
	674	199

The leases for offices and warehouses generally range from 2 to 5 years.

31 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

	2013 Rmb'000	2012 Rmb'000
Salaries and other short-term employee benefits	3,408	1,830
Retirement benefit contributions	60	59
	3,468	1,889

FIVE YEAR SUMMARY

	2009 Rmb'000	2010 Rmb'000	2011 Rmb'000	2012 Rmb'000	2013 Rmb'000
Consolidated results					
Turnover	385,302	515,574	620,233	653,218	703,032
Operating profit	53,022	83,029	54,462	69,060	88,561
Finance costs, net	(6,619)	(6,476)	(8,749)	(10,077)	(6,958)
Share of profit of an associate	3,538	10,441	739	342	–
Profit before income tax	49,941	86,994	46,452	59,325	81,603
Income tax expense	(7,074)	(11,135)	(4,749)	(9,757)	(11,275)
Profit for the year	42,867	75,859	41,703	49,568	70,328
Profit for the year attributable to:					
Equity holders of the Company	43,203	75,773	41,105	49,455	69,992
Non-controlling interest	(336)	86	598	113	336
Dividends	–	22,777	12,713	14,832	70,328
Consolidated assets and liabilities					
Total non-current assets	338,919	356,226	377,996	351,851	373,413
Total current assets	266,535	274,870	286,009	310,447	304,365
Total current liabilities	(186,809)	(221,788)	(235,958)	(197,690)	(157,750)
Net current assets	79,726	53,082	50,051	112,757	146,615
Total assets less current liabilities	418,645	409,308	428,047	464,608	520,028
Total non-current liabilities	(957)	(976)	(820)	(655)	(473)
Net assets	417,688	408,332	427,227	463,953	519,555
Earnings per share					
– basic and diluted	Rmb0.063	Rmb0.122	Rmb0.078	Rmb0.093	Rmb0.132

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
Class Meetings	collectively, the Class Meeting of H Shareholders and the Class Meeting of Domestic Shareholders and Foreign Shareholders
Concurrent Production Technology	The concurrent production technology for the production of fumaric acid and malic acid
Director(s)	Director(s) of the Company
Domestic Shares	domestic shares of the Company
Foreign Shares	foreign shares of the Company
GEM	Growth Enterprise Market of the Exchange
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

GLOSSARY

Main Board	the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM, and for avoidance of doubt, it does not include GEM for the purpose hereof
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
PRC	The People's Republic of China
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Shanghai 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