常茂生物化學工程股份有限公司

Changmao Biochemical Engineering Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 954)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

	2017	2016
	Rmb'000	*Rmb'000*
Revenue	**630,841**	594,402
Profit for the year attributable to the equity holders of the Company	**3,382**	33,172

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017.

* *For identification purpose only*

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2017 together with the audited comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** **Rmb'000**	2016 Rmb'000
Revenue	2	**630,841**	594,402
Cost of sales	4	**(555,846)**	(488,870)
Gross profit		**74,995**	105,532
Other income	3	**12,784**	3,136
Other (losses)/gains, net	3	**(5,889)**	5,685
Selling expenses	4	**(18,464)**	(17,960)
Administrative expenses	4	**(62,211)**	(61,956)
Operating profit		**1,215**	34,437
Finance income		**261**	475
Finance costs		**(232)**	(111)
Finance income, net	5	**29**	364
Profit before income tax		**1,244**	34,801
Income tax credit/(expense)	6	**1,456**	(1,485)
Profit for the year		**2,700**	33,316
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		**(2)**	2
Total comprehensive income for the year		**2,698**	33,318
Profit for the year attributable to:			
Equity holders of the Company		**3,382**	33,172
Non-controlling interests		**(682)**	144
		2,700	33,316
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**3,380**	33,174
Non-controlling interests		**(682)**	144
		2,698	33,318
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	7	**Rmb0.006**	Rmb0.063

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	**2017** **Rmb'000**	2016 Rmb'000
ASSETS			
Non-current assets			
Patents		**744**	828
Property, plant and equipment		**299,237**	305,923
Land use rights		**26,642**	27,373
Construction in progress		**79,826**	59,574
Deferred income tax assets		**8,788**	7,163
Bank deposits		**1,700**	–
		416,937	400,861
Current assets			
Inventories		**115,335**	101,711
Trade and bills receivables	9	**87,148**	94,487
Other receivables and prepayments		**23,466**	23,189
Income tax recoverable		**1,223**	328
Pledged bank balances		**15,671**	5,066
Cash and bank balances		**72,602**	50,716
		315,445	275,497
Total assets		**732,382**	676,358
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	10	**526,377**	533,591
		579,347	586,561
Non-controlling interests		**1,610**	2,292
Total equity		**580,957**	588,853

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2017

	Note	2017 Rmb'000	2016 Rmb'000
LIABILITIES			
Non-current liabilities			
Other payable		**2,430**	2,121
Deferred income tax liabilities		**484**	340
		2,914	2,461
Current liabilities			
Trade and bills payables	11	**73,505**	29,667
Other payables and accrued charges		**20,988**	25,366
Income tax payable		**11**	11
Bank borrowings		**54,007**	30,000
		148,511	85,044
Total liabilities		**151,425**	87,505
Total equity and liabilities		**732,382**	676,358

Notes:

1 BASIS OF PREPARATION

The consolidated financial statements of Changmao Biochemical Engineering Company Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost basis.

(a) Amended standards adopted by the Group

The Group has applied the following amended standards for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to HKAS 12, and
- Disclosure initiative – amendments to HKAS 7.

The adoption of these amended standards did not have any impact on the amounts recognised in prior periods and will not affect the current or future periods. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

(b) New standards and interpretations not yet adopted

A number of new and amended standards and interpretations have been published that are not mandatory for the year ended 31 December 2017 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Annual Improvements Project HKFRS 1 and HKAS 28 (amendments)	Annual improvements 2014-2016 Cycle	1 January 2018
HKFRS 2 (amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts (amendments)	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 (amendments)	Clarifications to HKFRS 15	1 January 2018
HKAS 40 (amendments)	Transfers of investment property	1 January 2018
HK(IFRIC) 22	Foreign currency transactions and advance consideration (new interpretation)	1 January 2018
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	Not yet established by HKICPA

2 REVENUE AND SEGMENT INFORMATION

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

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

	2017	2016
	Rmb'000	*Rmb'000*
Revenue from sales of goods	**630,841**	594,402

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

	2017	2016
	Rmb'000	*Rmb'000*
Mainland China	**287,394**	305,765
Europe	**106,610**	118,227
Asia Pacific	**173,870**	134,171
America	**54,984**	28,843
Others	**7,983**	7,396
	630,841	594,402

Asia Pacific region mainly includes Hong Kong, Indonesia, Australia, India, Thailand and Japan.

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

As at 31 December 2017, all the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb408,149,000 (2016: Rmb393,698,000) are located in Mainland China.

Included in the revenue from sales of goods, approximately Rmb51,729,000(2016: Rmb35,659,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 8% (2016: 6%) of the total revenue of the Group. There are no single customers contributing over 10% of the Group's total revenue.

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

	2017	2016
	Rmb'000	*Rmb'000*
Other income		
Sales of scrap materials	**787**	267
Government grants *(Note a)*	**9,574**	1,507
Others	**2,423**	1,362
	12,784	3,136

	2017	2016
	Rmb'000	*Rmb'000*
Other (losses)/gains, net		
Gain on disposal of patents	**–**	2,000
Loss on disposal of property, plant and equipment	**(2,856)**	(470)
Fair value gain on derivative financial instruments	**–**	446
Net exchange (losses)/gains	**(3,033)**	3,709
	(5,889)	5,685

Note:

(a) Government grants recognised during the year ended 31 December 2017 mainly included a grant totalling RMB7,221,000 in relation to an organic acid research project, which was recognised upon fulfilment of all relevant conditions during the year.

4 EXPENSES BY NATURE

	2017 *Rmb'000*	2016 *Rmb'000*
Cost of inventories sold	**335,175**	306,569
Amortisation of patents	**84**	362
Amortisation of land use rights	**731**	685
Auditors' remuneration		
– Audit services	**1,261**	1,351
– Non-audit services	**114**	323
Depreciation	**37,091**	35,359
Operating lease rentals in respect of land and buildings	**592**	552
Research and development costs	**8,117**	8,036
(Written back)/provision for impairment of inventories	**(1,622)**	747
(Written back)/provision for impairment of trade and other receivables	**(178)**	1,596
Staff costs (including emoluments of Directors and Supervisors)	**69,044**	64,340
Other expenses	**186,112**	148,866
Total cost of sales, selling expenses and administrative expenses	**636,521**	568,786

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

5 FINANCE INCOME, NET

	2017 *Rmb'000*	2016 *Rmb'000*
Interest on bank borrowings	**(1,291)**	(1,911)
Less: amounts capitalised on qualifying assets	**1,059**	1,800
	(232)	(111)
Interest income on bank deposits	**261**	475
Finance income, net	**29**	364

6 INCOME TAX (CREDIT)/EXPENSE

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

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

	2017	2016
	Rmb'000	*Rmb'000*
Current income tax		
– Provision for CIT	**–**	6,021
– Under-provision in prior year	**25**	2
Deferred income tax	**(1,481)**	(4,538)
	(1,456)	1,485

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:

	2017	2016
	Rmb'000	*Rmb'000*
Profit before income tax	**1,244**	34,801
Calculated at the tax rates applicable to results of the respective consolidated entities	**(1,023)**	3,675
Expenses not deductible for tax purposes	**228**	243
Tax losses for which no deferred income tax asset was recognised	**958**	439
Tax incentives for research and development expenses*	**(1,540)**	(1,587)
Temporary difference not recognised in prior year	**–**	(1,141)
Under-provision in prior year	**25**	2
Others	**(104)**	(146)
Income tax (credit)/expense	**(1,456)**	1,485

* According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The additional deduction of 50% of qualified research and development expenses is subject to the approval from the relevant tax authorities in the annual CIT filling. The Group has made its best estimate for the Super Deduction to be claimed in ascertaining the assessable profits for the years ended 31 December 2017 and 2016.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit attributable to the equity holders of the Company of Rmb3,382,000 (2016: Rmb33,172,000) and 529,700,000 (2016: 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 (2016: Nil).

8 DIVIDENDS

No interim dividend was declared during the year (2016: Nil). The dividends paid in 2017 and 2016 were Rmb10,594,000 (Rmb0.020 per share) and Rmb13,772,000 (Rmb0.026 per share) respectively. No final dividend in respect of the year ended 31 December 2017 (2016: Rmb0.020 per share, totalling Rmb10,594,000) is proposed.

9 TRADE AND BILLS RECEIVABLES

	2017	2016
	Rmb'000	*Rmb'000*
Trade receivables	**86,248**	92,807
Bills receivables	**900**	1,680
	87,148	94,487

(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:

	2017	2016
	Rmb'000	*Rmb'000*
0 to 3 months	**83,330**	90,547
4 to 6 months	**2,919**	2,320
Over 6 months	**1,984**	1,651
	88,233	94,518
Less: Provision for impairment of trade receivables	**(1,985)**	(1,711)
	86,248	92,807

(b) The maturity dates of bills receivables ranged from 60 to 180 days.

10 RESERVES

	Share premium	Statutory common reserve	Capital reserve	Exchange reserve	Retained earnings	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1 January 2016	102,559	74,183	461	–	336,986	514,189
Transfer to statutory reserve	–	4,608	–	–	(4,608)	–
Profit for the year	–	–	–	–	33,172	33,172
Other comprehensive income – currency translation difference – Group	–	–	–	2	–	2
Final dividend for the year ended 31 December 2015	–	–	–	–	(13,772)	(13,772)
At 31 December 2016	102,559	78,791	461	2	351,778	533,591

	Share premium	**Statutory common reserve**	**Capital reserve**	**Exchange reserve**	**Retained earnings**	**Total**
	Rmb'000	***Rmb'000***	***Rmb'000***	***Rmb'000***	***Rmb'000***	***Rmb'000***
At 1 January 2017	**102,559**	**78,791**	**461**	**2**	**351,778**	**533,591**
Transfer to statutory reserve	**–**	**1,170**	**–**	**–**	**(1,170)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**3,382**	**3,382**
Other comprehensive income – currency translation difference – Group	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Final dividend for the year ended 31 December 2016	**–**	**–**	**–**	**–**	**(10,594)**	**(10,594)**
At 31 December 2017	**102,559**	**79,961**	**461**	**–**	**343,396**	**526,377**

11 TRADE AND BILLS PAYABLES

	2017	2016
	Rmb'000	*Rmb'000*
Trade payables	**21,267**	12,781
Bills payables	**52,238**	16,886
	73,505	29,667

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

	2017	2016
	Rmb'000	*Rmb'000*
0 to 6 months	**21,062**	12,547
7 to 12 months	**7**	133
Over 12 months	**198**	101
	21,267	12,781

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

BUSINESS REVIEW AND OUTLOOK

Results for the Year

The Group's sales revenue for the year ended 31 December 2017 was approximately Rmb630,841,000, which represented an increase of approximately 6% as compared to that in last year. Net profit attributable to the equity holders of the Company was approximately Rmb3,382,000, which represented a decrease of approximately 90% as compared to that in last year.

In 2017, the Group continued to steadily enhance its core competencies in terms of technology, quality, equipment, resources, personnel and management. In the first quarter of 2017, the production of the Group's maleic anhydride production lines in Changzhou has been suspended for transformation, the Group has to source maleic anhydride from external suppliers. In addition, due to the impact of the government policy on cutting overcapacity during the period, the prices of major raw materials and auxiliary materials increased substantially. Among them, the annual average price of the major raw material, liquid maleic anhydride, rose more than 40%, the average price of main auxiliary materials, caustic soda, rose 49%, and the average price of certain auxiliary material rose more than 150% compared to the highest price in last year. In addition, suspension of production of maleic anhydride caused the Changzhou plant to incur extra energy costs such as steam cost and other manufacturing costs, which made the Group lost the advantage brought by the production chain in the short-run and increased production costs. The Group has entered into some sales orders based on the prices of raw materials before the raw material price surge. These factors resulted in a significant reduction in the gross margin of the Group. With the commencement of operation of Lianyungang Plant, many construction projects are continuing to progress. Although the performance of the Lianyungang Plant has improved compared to that in 2016, it has not brought its full production capacity advantage into full play and it was not able to bring benefits from economy of scales to the Group. As a result, the consolidated net profit of the Group experienced a large decline in 2017.

Management processes

In terms of management, the Group has been always committed to the highest standard, and constantly upgrades its management system. In addition, the Group has effectively managed elements of production to improve the working environment and efficiency and help the Group's long-term healthy development.

Safety management is the top priority of the Group's day-to-day management. As one of the first batch of safety standardisation pilot enterprises in Changzhou, 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, constantly self-correction in the production process and implantation of the safety enhancement.

As a production enterprise and to cope with the special ecological environment campaign introduced by the Jiangsu Provincial Government, the Group conscientiously studied and refined the implementation of policies and laws and regulations imposed by the government on environmental protection, followed the standards and requirements of Environmental Management System ISO14001, improving the self-monitoring process to ensure the strict adherence to the 3 major types of pollutant discharge standards to achieve continuous improvement in environmental performance.

Research and Development

As a New and High Technology Enterprise in Jiangsu Province, for a long time, the Group has persisted focusing on "sales" and "research and development" in carrying out its operation. On the basis of stabilising production and opening up the market, the Group attaches importance to the research and development of new products and new projects, relying on its provincial research and development centre and the platform from various collaborating scientific research institutes to actively carry out the cooperation among industry, universities and research institutes to improve its own innovative capabilities.

1. ***New Vitamin PQQ Project***

   In 2017, the Group has continued carrying out the research work on the application of using new vitamin PQQ as a new feed additive and research work on related medium scale production. The Group has been doing research on the detection method of PQQ in a mixed feed. At the same time, the Group is also continuing to improve PQQ's production technologies, reduce production costs and improve market competitiveness and lay a good foundation for the future development of the market.

2. ***Pharmaceutical Adjuvant Project***

   To extend its product chain and enhance added value of products, the Group actively carried out the development project of pharmaceutical adjuvant. The product breadth has extended from food additives to pharmaceutical adjuvant. The Group has actively promoted pharmaceutical adjuvants of aspartame, DL-malic acid and L-malic acid and has slightly increase their sales in 2017. Recently, the China Food and Drug Administration has made changes to the procedures for the approval of new pharmaceutical adjuvants. The Group is actively responding to the changes in order to obtain the production approval of fumaric acid and maleic acid for pharmaceutical adjuvants as soon as possible. Pharmaceutical adjuvant is the Group's focus in the medium to long run. It will further enrich the Group's product range, optimise the product structure of the Group, and expand the market to enhance the performance of existing products.

3. Pharmaceutical Intermediaries

In the recent years, some new types of anticancer drugs and diabetes drugs have been approved for sale in the market. The market of pharmaceutical intermediaries, which are new products developed by the Group and as a side chain of these drugs, also gradually opens. The Group will continue to carry out collaboration on research combining academic theories and actual production technology and actively develop new pharmaceutical intermediaries, expand the scope of the Group's pharmaceutical intermediaries, and continue to extend the Group's product chain.

Key Projects

1. Transforming the production lines to use butane to manufacture maleic anhydride in the Changzhou headquarter

In 2017, the Group has basically completed the transformation of the maleic anhydride production lines with annual production capacity 20,000 tonnes in the Changzhou headquarter. At present, the stability of production is under adjustment.

The transformation of production lines affected the amount of maleic anhydride produced in 2017 and increased the energy costs and some other costs, and lost the advantage brought by producing upstream products to support its downstream products, and has affected the Group's economic efficiency in the short-run. However, the Group considered the long-run benefit in making a change in the raw materials. Using butane instead of benzene as a raw material to manufacture maleic anhydride will consume fewer raw material per tonne. The cost of butane per tonne is less than that of benzene per tonne. These factors combined will create a cost-saving advantage. Moreover, the manufacturing process of maleic anhydride using butane is cleaner and more environmental friendly as the emission of carbon dioxide can be largely reduced. 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 and in line with the trend of international food additives manufacturing.

2. ***Development of Changmao Biochemical Lianyungang Limited (常茂生物連雲港有限公司)***

Lianyungang Changmao is a major development project of the Group in recent years. The first set of maleic anhydride production line with an annual capacity of 10,000 tonnes is producing products stably and has almost reached its full capacity. The other construction projects of Lianyungang Changmao are progressing steadily. However, it is still at the early stage of Lianyungang factory's operation and the operating costs were high. It has not made a positive impact on the Group's economic performance in 2017.

Lianyungang has an excellent investment environment. It is suitable for large scale production of food additives and has better production cost advantages in the future as compared to Changzhou. The construction of the new production plant in Lianyungang has a strategic goal of further improving the food additive series including acidulant and sweeteners through enhancing the advantage of large-scale production. The project will bring in new dynamics to the Group, improve its overall competitiveness and become a profit growth point of the Group.

Outlook and Prospect

Despite the uncertain economic situations and intense market competition at home and abroad, the Group endeavours to maximise the production capacity. The Group will continue to explore new markets and get hold of new development opportunities through active development of new products and accelerated adjustments of product chain. The Group will continue to put efforts into the following areas:

1. ***Replacing the raw materials of production and enhance competitive advantage***

In recent years, considering the long-term economic benefits, the Group is committed to replace the raw materials for production and controlling the production costs from the beginning and exerting the capacity and cost advantages of existing product chains. The implementation of this project will help to enhance the market competitiveness of the existing products of the Group and maintain their leading position in the industry so as to lay the foundation for the Group to obtain good economic benefits in the future.

2. ***Accelerating technology innovation and promoting product upgrade***

   The Group will put more efforts into technology innovation to consolidate its existing resources and research team. The Group will accelerate the pace of research and development of new products such as PQQ, pharmaceutical adjuvant and pharmaceutical intermediates by technological improvement and cultivate new products which are safe, environmental friendly and with strong competitiveness. 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.

3. ***Adjusting sales strategies and attracting high-end customers***

   The Group will strive to attract major customers and end-customers by optimising its sales structure, tapping the market potential, and developing a steady, sustainable market for its products. This will help open new international sales aspects, enable direct access by end customers and expand international sales networks. It will also facilitate steady growth in sales, and further improve the sales volume of products and continuously to increase economic benefits.

4. ***Persisting in internationalisation to help expansion of the Group***

   As an export-oriented enterprise, Changmao exports over 50% of its products overseas. With the accelerating pace of the Group, there is a need to use an international platform to stimulate its growth speed. The Group needs to seek international cooperation in different dimensions, including the introduction of new technologies and international talents to develop new products, which will promote Changmao onto an international platform, and make its development faster and better.

The Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application areas. At the same time, the Group will capitalise on its research and production strength to develop new functional food additives, pharmaceutical intermediaries 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.

ANALYSIS OF KEY PERFORMANCE INDICATORS

Revenue *(2017: Rmb630,841,000; 2016: Rmb594,402,000)* ***and gross profit margin*** *(2017: 11.9%; 2016: 17.8%)*
The increase in revenue was mainly due to the slight increase in product prices over 2016. In the first half of 2017, the production of the Group's maleic anhydride production lines in Changzhou has been suspended for transformation, the Group has to source maleic anhydride from external suppliers. The price of maleic anhydride has surged rapidly in 2017. Since the Group has entered into some sales orders based on the prices of raw materials before the raw material price surge, resulting in a significant reduction in the gross margin of the Group. In addition, suspension of production of maleic anhydride caused the Group to incur extra energy costs such as steam cost and other manufacturing costs, which made the Group lost the advantage brought by the production chain in the short-run and significantly reduced the Group's consolidated net profit.

Selling and administrative expenses *(2017: Rmb80,675,000; 2016: Rmb79,916,000)*
The extent of increase in selling and administrative expenses was about the same level in 2016.

Other income *(2017: Rmb12,784,000; 2016: Rmb3,136,000)*
Other income increased mainly because there was an increase in government grant by approximately Rmb8,067,000 compared to that in 2016.

Other (losses)/gains, net *(2017: losses of Rmb5,889,000; 2016: gains of Rmb5,685,000)*
Other losses, net mainly arose from the exchange losses of approximately Rmb3,033,000 incurred in 2017 as compared to the other gains, net, which mainly arose from the exchange gains in 2016 of approximately Rmb3,709,000.

Finance income, net *(2017: Rmb29,000; 2016: Rmb364,000)*
The Group has capitalised most of the interest expense on qualifying assets in 2017. Interest expense before deducting the interest capitalised was Rmb1,291,000 (2016: Rmb1,911,000). It has decreased because there was a decrease in effective interest rate in 2017.

Income tax credit/(expense) *(2017: Credit of Rmb1,456,000; 2016: Expense of Rmb1,485,000)*
The Company, being qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15% for the year ended 31 December 2017. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. Tax credit resulted for the year ended 31 December 2017 mainly because of the recognition of deferred tax assets on tax loss of a subsidiary. For details of the difference on the tax on the Group's profit before income tax and the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, please refer to note 6 to the consolidated statement of comprehensive income above.

Profit for the year attributable to the equity holders of the Company

For the year ended 31 December 2017, the Group recorded a profit attributable to the equity holders of the Company of approximately Rmb3,382,000 (2016: Rmb33,172,000), representing a decrease of approximately 90%. Such decrease was mainly due to the decrease in gross profit margin and the production costs of Lianyungang plant was still in a high level in 2017. The Board believes that with the completion of the transformation of the maleic anhydride production line in the Changzhou headquarter and the continuous improvement of the operating efficiency of Lianyungang Changmao, the operation of the Group will be greatly improved in 2018.

SEGMENTAL INFORMATION

Most of the Group's products are exported to Hong Kong, Western Europe, the United States, Indonesia and Australia. As expressed as a percentage of revenue, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 54% (2016: 49%) of the Group's revenue while domestic sales in the PRC accounted for approximately 46% (2016: 51%) of the Group's revenue.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. The Group did not use any forward foreign exchange contracts to hedge the USD exposures during the year. As at 31 December 2017, the Group had no outstanding forward foreign exchange contracts.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had total outstanding bank borrowings of Rmb54,007,000 (2016: Rmb30,000,000). The outstanding bank borrowings as at 31 December 2017 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 2017 was approximately 2.7% (2016: 3.9%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2017 and 2016, 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 2017, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb7,261,000 (2016: Rmb3,702,000). These capital commitments are mainly used for the modification of new production lines. 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 2017. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 20.7% (2016: 12.9%) as at 31 December 2017. As at 31 December 2017, the Group's cash and cash equivalents amounted to Rmb68,752,000 (2016: Rmb47,816,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2017, the Group employed a total of 577 employees (2016: 595 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 2017 was approximately Rmb69,044,000 (2016: Rmb64,340,000). Increase in staff costs was mainly due to salary increment.

Under the staff incentive scheme for each of the three years ended 31 December 2019, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before payment of the bonuses referred to below) amount to not less than Rmb 40 million (the "Target Profit"):

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

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

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

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, which is chaired by an independent non-executive Director and currently has a membership comprising three independent non-executive Directors, has reviewed with the management and approved the consolidated financial statements for the year ended 31 December 2017.

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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 2017.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 18 May 2018. A notice convening the annual general meeting will be published in due course.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2017 and 2016.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

There are no material acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2017.

CONTINGENT LIABILITIES

As at 31 December 2017 and 31 December 2016, the Group did not have any material contingent liabilities.

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

As at 31 December 2017, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap.622), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares *(Note (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))*
Director							
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%	1,692,000	0.92%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation *(Note (b))*	2,500,000	100%	135,000,000	39.30%	1,692,000	0.92%
Mr. Pan Chun	*(Note (c))*	–	–	*(Note (c))*	*(Note (c))*	–	–
Mr. Zeng Xian Biao	*(Note (d))*	–	–	*(Note (d))*	*(Note (d))*	–	–
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation *(Note (e))*	–	–	66,000,000	19.21%	2,620,000	1.43%
Prof. Ouyang Ping Kai	*(Note (f))*	–	–	*(Note (f))*	*(Note (f))*	–	–
Prof. Yang Sheng Li	*(Note (g))*	–	–	*(Note (g))*	*(Note (g))*	–	–
Supervisor							
Ms. Zhou Rui Juan	*(Note (h))*	–	–	*(Note (h))*	*(Note (h))*	–	–
Mr. Lu A 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 1,692,000 H Shares are held by Bonus Sky Investments Limited. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Mr. Rui is the beneficial owner of 100% of the issued share capital of Bonus Sky Investments Limited. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.

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

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

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

(e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares. Mr. Yu's wife, Ms. Lam Mau, is also the beneficial owner of 2,620,000 H Shares.

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

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

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

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

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

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

(l) The percentage is calculated based on the 2,500,000 Domestic Shares in issue at 31 December 2017.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2017.

(n) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2017.

Save as disclosed above, as at 31 December 2017, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap.622), to be notified to the Company and the Stock Exchange.

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

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

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

So far as known to the Directors, as at 31 December 2017, the followings, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares:

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

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

Notes:

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

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

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

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

(e) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2017.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2017.

Save as disclosed above, as at 31 December 2017, 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.

SHARE CAPITAL STRUCTURE

As at 31 December 2017, 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 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 the GEM on 28 June 2002 and the listing of which was transferred from the 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.

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

At the date of this announcement, 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.

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2017, the Company complied with the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 14 to the Listing Rules, with the exception of Code provision A.6.7 (directors attending general meetings).

Code provision A.6.7 of CG Code stipulates that non-executive Directors and independent non-executive Directors should attend general meetings. Certain non-executive Directors and independent non-executive Directors were unable to attend the annual general meeting of the Company held on 12 May 2017 due to prior business commitments.

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 spouse of Mr. Yu Xiao Ping ("Mr. Yu"), a non-executive Director, has overlooked the Model Code and purchased 220,000 H Shares of the Company at an average price of HKD0.8564 from the market on 1 February 2018 which was within the prohibition period (from 6 January 2018 to 16 March 2018) and has forgotten to first notify in writing the Company's chairman or a designated director and has not obtained a written acknowledgement as set out in Rule B.8 of the Model Code. Subsequently, Mr. Yu notified the Company the above transactions and acknowledged his breach of the Model Code. He undertook that he will comply with the required standards as set out in the Model Code in the future. Save as disclosed above, he does not have any record in breach of notification requirement for his dealings in the Company's shares since he became a Director in December 1992.

The Company has maintained an effective system in monitoring the director's dealings (including a notification mechanism) to ensure compliance with the Model Code. In particular, the Company has notified all Directors the prohibition period on 12 December 2017. The Board is of the view that the guidelines and procedures for the director's dealings of shares in the Company are adequate and effective.

Keeping track of the Directors' dealings by the Company totally depends on whether the Directors take the initiative to ask for approval from the Company. In order to avoid similar incidents in the future, the Company reminded all the Directors at the Directors' meeting of the Company on 16 March 2018 the importance of complying with the Model Code in their dealings of the Company's shares and in submission of notifications. The Company will also emphasize and remind the Directors to avoid similar incidents in the prohibition period in the future. The Company also provides briefings to update and refresh the Directors' knowledge and skills on the latest developments regarding the Model Code, to ensure compliance and enhance their awareness of good corporate government practices.

The Company had also made specific enquiry of all Directors in relation to the compliance of the Model Code. Save for the above, the Company was not aware of any non-compliance with the Model Code for the year ended 31 December 2017.

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 Rule and the Company considers the independent non-executive Directors remained independent.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with 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 audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including to review, inter alia, the Group's interim and annual results during the year ended 31 December 2017 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 16 March 2018

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

GLOSSARY

Board	Board of Directors of the Company
CG Code	Code provision of the 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
CIT	Corporate Income Tax
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
HKAS	Hong Kong Accounting Standard
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
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Main Board	the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM, and for avoidance of doubt, it does not include GEM for the purpose hereof

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
PQQ	Pyrroloquinoline quinone
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	Supervisor(s) of the Company
USD	United States Dollars