ANNUAL REPORT **2017**

CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

常 茂 生 物 化 學 工 程 股 份 有 限 公 司

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

(Stock Code: 954)

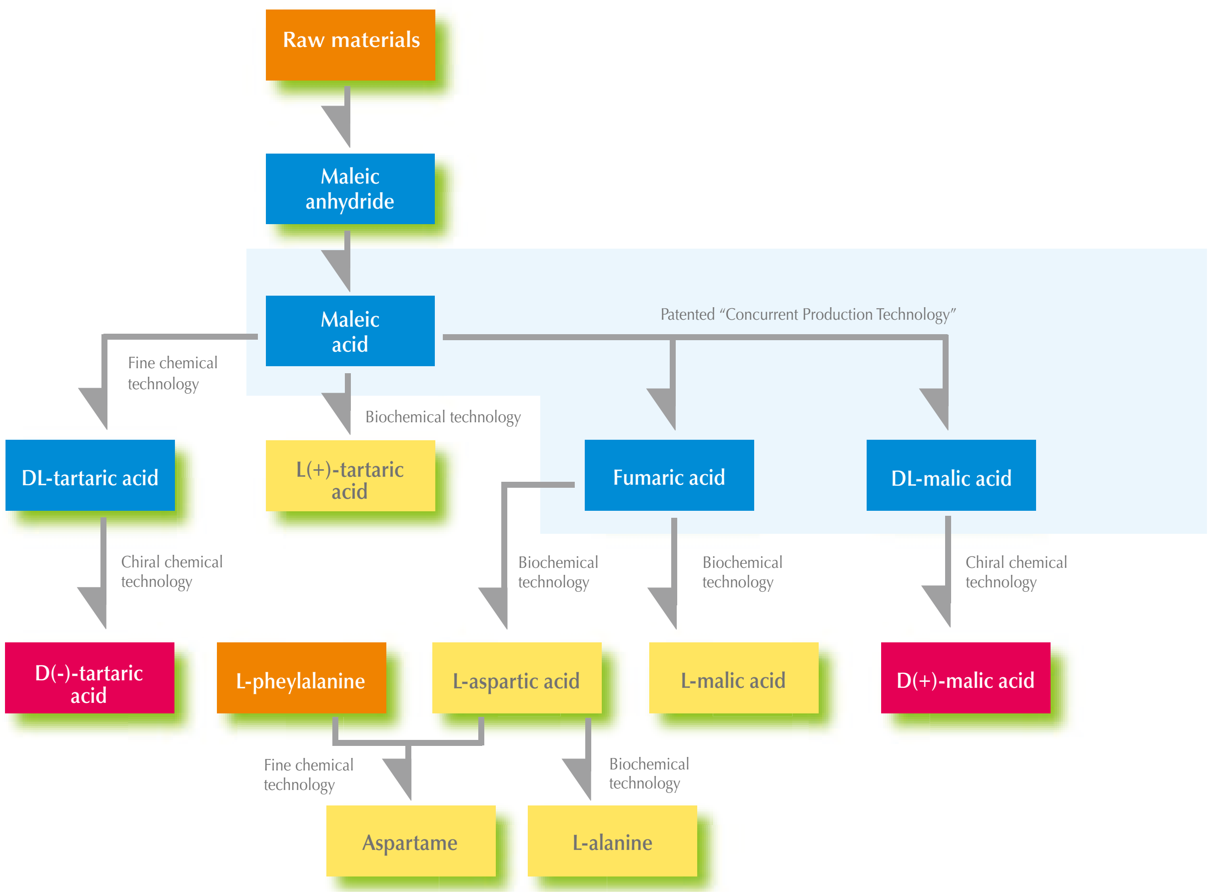
CONTENTS

CORPORATE PROFILE

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

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

PRODUCTION FLOWCHART OF CHANGMAO'S PRODUCTS

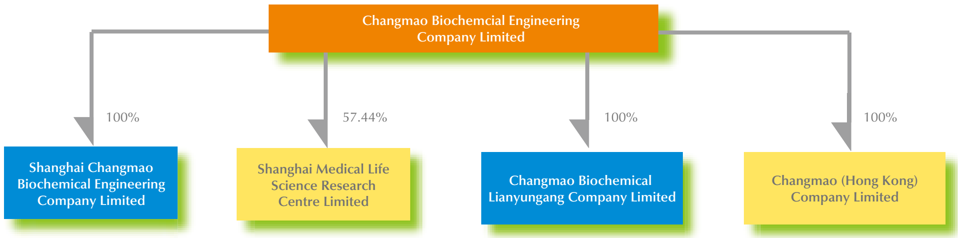


CORPORATE PROFILE

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

The Group's major competitive edge is its delicate and advanced production system. Changmao successfully applied the theoretical concepts of enzyme technology and chirotechnology in its highly efficient and cost effective production process. The Group has two research and development centres, Chirotechnology Centre which is based in Changzhou, and the Shanghai Medical Life Science Research Centre Limited to research on new products and new production technologies. The Group will continue the production of food additives as its core business and develop new nutraceutical products to extend its production chain. The Group believes its strong capability in research and development would enable the Group to continue to grow.

GROUP STRUCTURE



CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Rui Xin Sheng *(Chairman)*
Mr. Pan Chun *(Chief Executive Officer)*

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

INDEPENDENT NON-EXECUTIVE DIRECTORS
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 A 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
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Changzhou City
Jiangsu Province, 213034
The PRC

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

PRINCIPAL BANKERS
Bank of China
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,

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 scale 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.

CHAIRMAN'S STATEMENT

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.

CHAIRMAN'S STATEMENT

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.


The Group's research centre – the Chirotechnology Centre

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.

CHAIRMAN'S STATEMENT

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.

Changmao Lianyungang – Maleic anhydride production line with annual capacity of 10,000 tonnes using butane production method

Changmao Lianyungang – Control room of maleic anhydride production line with annual capacity of 10,000 tonnes using butane production method

Changmao Lianyungang – Raw material (butane) storage tanks

Changmao Lianyungang – Waste water processing system

CHAIRMAN'S STATEMENT

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.

CHAIRMAN'S STATEMENT

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.

The Group's long-term and stable development relies on the strong support from all shareholders. I would like to express my most sincere gratitude to the investors on behalf of the Board.

Rui Xin Sheng
Chairman

The PRC, 16 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

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 9 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

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 production lines. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group did not have any charge on its assets during the year ended 31 December 2017. The liabilites-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.

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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Rui Xin Sheng (芮新生), aged 61, is the chairman of the Board, an executive Director and the compliance officer of the Company. He is a researcher and a senior engineer of the Company. He was one of the founders of the Company in December 1992. He is also the director of Shanghai Life Sci, director and authorised representative of Shanghai Changmao and the director of Changmao (Hong Kong) Company Limited. Mr. Rui graduated from Jiangsu Institute of Technology (江蘇化工學院) with a bachelor degree in organic synthesis in 1982. He obtained an executive master of business administration in the Nanjing University (南京大學) in 2005. He is the vice chairman of the Committee of Biochemical Engineering of the Chemical Industry and Engineering Society of China (中國化工學會生物化工專業委員會), the deputy managing director of the Association of Biochemistry of China (中國生物化工協會), the deputy managing director of Jiangsu Commission of Biotechnology (江蘇省生物技術協會) and a part-time professor at the Nanjing University of Technology (南京工業大學). Owing to his significant achievement in the field of biochemistry, Mr. Rui received numerous awards including the First Class Award of Scientific Development and Technology Improvement in Changzhou (常州市技術改造一等獎) and the Second Prize of Changzhou City Scientific and Technological Achievement (常州市科技進步二等獎) in 1997. The Concurrent Production Technology invented by Mr. Rui, Ms. Leng Yi Xin and Mr. Jiang Jun Jie obtained patent in the PRC in 1998. Other awards obtained by Mr. Rui include the Fourth Annual Excellent Scientists of Changzhou City (常州市第四屆傑出科技人員) in 1999, DuPont Innovation Award and Youth Expert with Excellent Contribution in Jiangsu Province (江蘇省有突出貢獻的中青年專家) in 2000, the First Class Award of State Technological Achievement (國家科技進步一等獎) in 2001, Innovative Entrepreneur of Jiangsu Province (江蘇省創新創業人才獎), the Second Class Award of Petrol Chemical Industry Technological Achievement in the PRC (中國石油化學工業行業科技進步二等獎) in 2003 and the First Class Award of Jiangsu Province Technological Achievement (江蘇省科學技術進步一等獎) in 2005. 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 48, is an executive Director and the general manager (chief executive officer) of the Company. He is also the director and authorised representative of Lianyungang Changmao. 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 75, 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 62, 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 56, is a non-executive Director. She is also the director of Shanghai Life Sci and general manager of Shanghai Changmao. She graduated from the Jiangsu Institute of Technology (江蘇化工學院) with a bachelor degree in organic synthesis in 1982 and subsequently obtained a master degree in chemical engineering from Nanjing University of Technology (南京工業大學) in 1996 and obtained a doctorate in bio-chemical engineering from Nanjing University of Technology in 2005. She is also a professor of the department of chemical engineering of the School of Petrochemical Engineering in Changzhou University (常州大學石油化工學院). Ms. Leng has participated in various research projects and published more than 50 theses. As mentioned above, Ms. Leng is one of the inventors of the Concurrent Production Technology. She obtained the Second Class Award of Technological Invention (技術發明二等獎) from China Petroleum and Chemical Industry Association (中國石油和化學工業協會) in 2004. She also obtained the First Class Award of Jiangsu Province Technological Achievement (江蘇省科學技術進步一等獎) in 2005 and the Third Class Award of Jiangsu Province Technological Achievement (江蘇省科學技術進步三等獎) in 2010. She is the spouse of Mr. Rui (the chairman of the Board and an executive Director). She joined the Company in June 2001.

Mr. Wang Jian Ping (王建平), aged 56, 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 72, 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 77, 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 50, 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 43, 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 63, is a Supervisor and the chairman of the supervisory committee of the Company. She is also the supervisor of Shanghai Changmao. She graduated from Changzhou Light Industrial School (常州輕工學校) majoring in corporate management in 1988. Ms. Zhou passed the State Examination for Assistant Accountant in 1997. She was a financial accountant, the vice manager of the labour department and the director of the administrative department of the Company. Ms. Zhou was recognised as an activist of the labour union (工會積極分子) and an advanced worker (先進生產者) of the Company. She joined the Company in January 1993.

Mr. Lu A Xing (陸阿興), aged 49, is a Supervisor and 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 The Chinese Communist Party School of Jiangsu Province (中共江蘇省委黨校). Mr. Lu has over 20 years' experience in sales and marketing. Mr. Lu joined the Company in January 1993.

Supervisor nominated by employees

Mr. Zhang Jun Peng (張俊朋), aged 44, 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 81, 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 57, 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 44, is the deputy 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. Zhang Qin Ying (張琴英), aged 49, is the deputy general manager of the Company. She is also the supervisor of Lianyungang Changmao. She is a senior economist. She studied in Finance School of Changzhou (常州財經學校), specializing in financial management in 1999. She has also studied in The Chinese Communist Party School of Jiangsu Province in 2007, specializing in economic management. She has years of strong management experience in finance and labour union. She also serves as the chairman of the Union of Chemical Industry of Changzhou (常州市化工行業工會) and vice-chairman of the Union of Chemical and Light Industry in Changzhou (化輕產業工會). Ms. Zhang joined the Company in September 1993.

Ms. Wan, Pui Ling Alice (溫珮玲) (CPA), aged 46, is the financial controller and company secretary of the Company. She has over twenty years of experience in 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.

Mr. Lu A Xing (陸阿興), whose personal particulars are set out under the paragraph headed "Supervisor" in this section.

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

Code provision A.6.7 of CG Code stipulates that independent non-executive Directors and non-executive Directors should attend general meetings. Mr. Pan Chun, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Wang Jian Ping, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan were unable to attend the annual general meeting held on 12 May 2017, 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:

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 (General Manager), four non-executive Directors, namely, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Ms. Leng Yi Xin and Mr. Wang Jian Ping and four independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan.

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

CORPORATE GOVERNANCE REPORT

The Board meets regularly, and had met four times for the year ended 31 December 2017. Attendance of individual members of the Board meeting for the year ended 31 December 2017 is as follows:

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

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

Board Diversity Policy

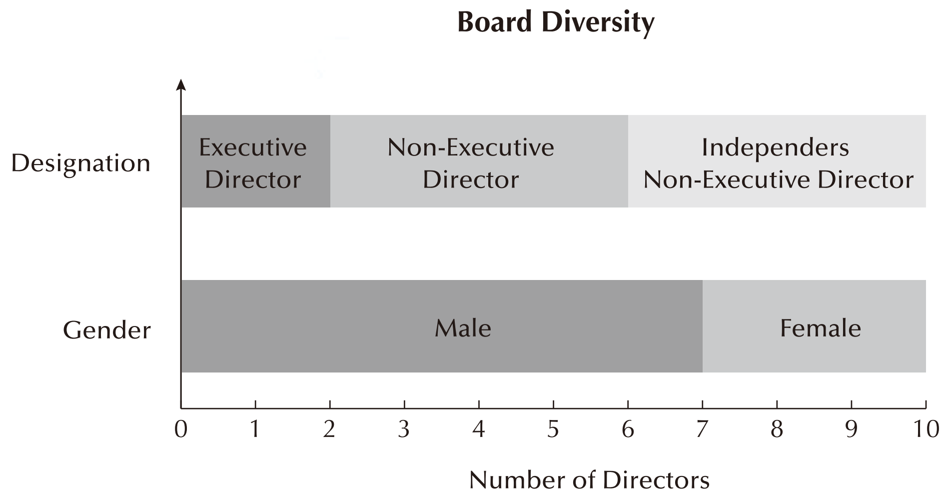
The Group has adopted a board diversity policy (the "Board Diversity Policy"). A summary, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy and Measurable Objectives

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

Implementation and Monitoring

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



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 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.

CORPORATE GOVERNANCE REPORT

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.

Appointments of Directors

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

Each of Mr. Rui Xin Sheng and Mr. Pan Chun has entered into a service agreement with the Company. All the other Directors have not entered into any service agreement with the Company. The terms of each Director is not more than three years and will be expired on 17 June 2019.

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
	Yu Xiao Ping	B
	Leng Yi Xin	B
	Wang Jian Ping	B
Independent non-executive Directors	Ouyang Ping Kai	B
	Yang Sheng Li	B
	Wei Xin	B
	Au Fung Lan	A,B

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

CORPORATE GOVERNANCE REPORT

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 (chairman of the committee), 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 2017 to assess the performance of the executive Directors and review the policy for the remuneration of the Directors and how the Group complied with the staff incentive bonus scheme as stated below. The meeting attendance rate of individual members for the year ended 31 December 2017 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	1/1

The remunerations of Directors and senior management are based on the skill, knowledge and involvement in the Company's affair of each Director or senior management and are also determined with reference to the performance and profitability of the Group. The Company has formulated a staff incentive bonus scheme. Details of which is set out in the paragraph headed "Employees" under the section headed "Management Discussion and Analysis".

CORPORATE GOVERNANCE REPORT

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 (chairman of the committee) 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 2017, two of which were with the attendance of the external auditor. The meeting attendance rate of individual members for the year ended 31 December 2017 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	5/5

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 and half-year report and reviewed significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee had focused particularly on:

    (i) any changes in accounting policies and practices;

    (ii) major judgmental areas;

    (iii) significant adjustments resulting from audit (if any);

    (iv) the going concern assumptions and any qualifications;

    (v) compliance with accounting standards;

    (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting; and

    (vii) consider any significant or unusual items that are, or may need to be, reflected in the report and accounts;

4. reviewed the Group's financial controls and internal controls, among others, by discussing the internal control system with the management to ensure that the management has performed its duty to have an effective internal control system; reviewed the Group's financial and accounting policies and practices; and reported to the Board on the matters in the CG Code.

Nomination Committee

The Nomination Committee was established to formulate and implement the nomination policy and Board Diversity Policy, nominate candidates of Directors for election by shareholders and to assess the independence of independent non-executive Directors. The Nomination Committee comprises four independent non-executive Directors, namely, Prof. Ouyang Ping Kai (chairman of the committee), Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan and an executive Director, Mr. Rui Xin Sheng.

The Nomination Committee held one meeting in 2017 to review the structure, size and composition of the Board and to assess the independence of independent non-executive Directors. The meeting attendance rate of individual members for the year ended 31 December 2017 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	1/1

THE SUPERVISORY COMMITTEE

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

The supervisory committee comprises two supervisors nominated by shareholders, Ms. Zhou Rui Juan and Mr. Lu A 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, Mr. Lu A Xing, and Mr. Zhang Jun Peng has entered into a service agreement with the Company. 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 2019.

The supervisory committee held two meetings for the year ended 31 December 2017 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 2017, 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 2017, which give a true and fair view of the state of affairs of the Group at that date and of the Group's profit and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 58 to 63.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The successful management of risks is essential for the long-term growth and sustainability of the Group's business. The Board is responsible for setting strategies, business objectives and risk appetite as well as ensuring a review of effectiveness of the risk management and internal control systems, and oversees management in the design, implementation and monitoring of the risk management and internal control systems. In 2017, the management have provided a confirmation to the Board on the effectiveness of such systems. The Board also reviewed the Group's risk management and internal control systems, which the Board considers to be adequate and effective in 2017. The level of resources, staff qualifications and experience, training programs and budget of the Company's internal audit and accounting and financial reporting functions were assessed and considered adequate.

A management committee has been established to ensure that significant risks are identified; assessed by considering the impacts and likelihoods of their occurrence; and effectively managed by identifying suitable controls and countermeasures, and assessing the cost effectiveness of the mitigating actions proposed. With the assistance of the this committee, the Board continuously monitors the company's risk management framework, reviews the Group's significant risks and emerging risks, and conducts an annual review of the effectiveness of the risk management system. The Board determines the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The process involves the maintenance of risk register setting out the particulars of material risks together with the control measures as reported by significant departments of the Group. It ensures that significant risks are considered by the Board in determining their risk appetite.

A risk management policy has been adopted to serve as a guideline for risk management and internal control systems.

Internal audit

Internal control system shall allow monitoring of the Company's overall financial position; safeguard its assets against major losses and misappropriation; provide reasonable assurance against material fraud and errors; and efficiently monitor and correct non-compliances.

The Company does not have an internal audit department but has engaged an external professional party to perform internal audits to evaluate the proper functioning of the internal control systems for the year ended 31 December 2017. It is intended to carry out this evaluation process on an ongoing basis. The Audit Committee, after reviewing and considering the management findings from the internal control report, then reported to the Board of the Company and confirmed to the Board that the internal control systems are effective and adequate.

Inside Information Policy

The Board approved and adopted an Inside Information Policy which contains the guidelines to the Directors, officers and all relevant employees (likely possessing the unpublished inside information) of the Group to ensure that the inside information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations. Such procedures include, among others, notification of regular blackout period and securities dealing restrictions to relevant Directors and employees, identification of project by code name and dissemination of information to stated purpose and on a need-to-know basis have been implemented by the Group to guard against possible mishandling of inside information within the Group.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

PricewaterhouseCoopers have been re-appointed as the Company's international external auditor by the shareholders at the 2017 annual general meeting. They are primarily responsible for providing audit services in connection with the Company's annual financial statements and internal control review.

During the year, the remuneration to the external auditor in Rmb equivalent is as follow:

	2017 Rmb'000	2016 Rmb'000
Auditors' remuneration		
– Audit Service	1,261	1,351
– Non-audit Service	114	323

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Article 61 of the Articles and Associations of the Company, shareholder(s) holding 10% or more of the Company's issued capital that carry voting rights request(s) in writing for the convening of an extraordinary general meeting, the board of Directors shall convene an extraordinary general meeting within 2 months.

Procedures for putting forward proposals at shareholders' meeting

Pursuant to Article 63 of the Articles and Associations of the Company, when the Company convenes a shareholders' annual general meeting, shareholder(s) holding 5% or more of the total shares carrying voting rights of the Company are entitled to propose new matters in writing to be considered, and the Company shall include in the agenda of that meeting those matters contained in the proposal which are within the scope of the duties of the general meeting provided that the proposal is delivered to the Company within 30 days from the issue of the notice of the meeting.

Procedures for nominating a new Director

Pursuant to Article 97 of the Articles and Associations of the Company, a notice of the intention to propose a person for election as Director and the written notice by such candidate of his/her willingness to accept the nomination shall be given to the Company no less than seven days. The minimum seven-day period of lodgement by the shareholders of notice to nominate a Director shall commence no earlier than the date after the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.

Communications with Shareholders

The Board always welcome Shareholders' and other stakeholder's questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post. The address is Room 54, 5th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong.

Articles of Association

The Company has not revised the Articles of Association to the Company during the year ended 31 December 2017.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 16 March 2018

ENVIRONMENTAL AND SOCIAL REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Board is well aware of the importance of environmental protection on the Group's sustainability and stable development, and at the same time strives to improve product quality while achieving the best balance between cost control and environmental protection. The Group has established an environmental management system based on the actual situation and obtained ISO140001 certification. The Group aims to be a resource-saving and environment-friendly enterprise with low energy and resources consumption and low level of discharge on wastages. The Group promotes clean production, prevents pollution and reduces the risk of environmental accidents. The Group's environment protection department dedicates to strengthen its environmental protection, actively implements environmental policies, vigorously carries out environmental management, and takes energy-saving measures to achieve reduction on pollution. The Group's business activities have no significant impact on the environment and natural resources.

All of the Group's production is conducted in Mainland China. The Group is required to comply with the environmental protection laws and regulations promulgated by the national and local governments of the PRC. Some of these regulations govern the level of fees payable to government entities providing environmental protection services and the prescribed standards relating to the discharge of solid wastes, effluent and gases. The Group's production technology enables the Group to effectively control the pollution caused by the production process. The Group has installed waste disposal facilities to reduce waste discharge. The Group did not aware of any violations of the laws and regulations on environmental protection in 2017.

I. Emissions

As the Group is mainly engaged in production, the following discussion on emissions is mainly related to the emissions from production. In 2017, majority of the Group's products are produced in its Changzhou and Lianyungang plants.

(1) Greenhouse gases emission

The Group has carbon dioxide and methane emissions. There are no requirements under the PRC rules and regulations to measure these greenhouse gases. In order to reduce costs and emissions, the Group started in 2017 using butane to replace benzene as a raw material for production. Using of butane to produce maleic anhydride will reduce carbon dioxide emissions. It is cleaner and more environmentally friendly and in line with the international trend of food additive production.

The Group's indirect greenhouse emissions are mainly from electricity and steam consumption. In order to reduce steam consumption, the Group recycles the steam output from the maleic anhydride production line. This not only can reduce greenhouse gas emissions, but also reduce production costs. In order to reduce emissions, the Group is committed to ensure the efficient operation of the equipment and the implementation of cleaner production. Hazardous and non-hazardous wastes are mainly disposed of by qualified waste disposal companies for incineration or recycling.

(2) *Sewage and noise*

The Group employs independent environmental monitoring companies to measure sewage water quality and noise emissions annually for its Changzhou and Lianyungang plants. The emissions in 2017 are within the limits set by the national standards.

Key Performance Indicators

	2017
Amount of waste water in total (in tonnes)	370,614
Amount of waste water – Per unit of output (in tonnes/tonne)	9.05
Exhaust gas in total (in tonnes)	39
Exhaust gas – Per unit of output (in tonnes/tonne)	0.001
Greenhouse gas emissions in total (in tonnes) (note)	113,632
Greenhouse gas emissions in total – Per unit of output (in tonnes/tonne) (note)	2.78
Hazardous waste produced in total (in tonnes)	1,043
Hazardous waste produced – Per unit of output (in tonnes/tonne)	0.03
Non-hazardous waste produced in total (in tonnes)	2,207
Non-hazardous waste produced – Per unit of output (in tonnes/tonne)	0.05

Note:

The Group converted its greenhouse gas emissions according to GBT32151.10-2015, "Requirements for the Greenhouse Gas Emissions Accounting and Reporting – Part 10: Chemical Production Enterprises (溫室氣體排放核算與報告要求第10部分：化工生產企業)". It is the sum of direct and indirect greenhouse gas emissions from the Changzhou plant and Lianyungang plant.

The Group's direct greenhouse gas emissions related to benzene, the raw material of Changzhou plant and n-butane, the raw material of the Lianyungang plant. The amount of greenhouse gas converted the steam sold by the Group has been deducted from the total direct greenhouse gas emissions. When calculating the amount of direct greenhouse gas converted from steam, the emission factor for heat consumption is calculated based on the "2010 Shanghai Energy Balance Sheet and the GHG inventory compilation data (上海市2010年能源平衡表和溫室氣體清單)".

The Group's indirect greenhouse gas emissions related to the emissions from purchase of electricity and heat by the two plants. The calculation of electricity emission factors used from electricity purchased is based on the 2014 data released by National Development and Reform Commission on 14 April 2017 which East China Regional Power Grid (EFgrid, BM, y(tCO_2/MWh)) = 0.5483. The calculation of the heat-generating emissions factors of the thermal consumption purchased is based on the "2010 Shanghai Energy Balance Sheet and the GHG inventory compilation data" and the value taken is 0.11t CO_2/GJ.

II. Use of Resources

The Company is committed to reducing energy consumption. In the production process, the Company needs to use energy, including water, electricity and steam.

(1) Water

The Changzhou plant of the Group is accredited as a water-saving enterprise in Changzhou City. The Company adopted the municipal policies and plans to use water efficiently and save water usage. The Company clearly understood these directions and adopted effective measures. The effect is obvious in recent years with gradual reduction in water consumption per unit of product. The Company improved the production equipment, used water-saving technology to achieve the rational use of water resources, the Company has effectively controlled the discharge of recycled water, backwashed water for centralised reuse to achieve water-saving effect.

The Changzhou plant of the Group has passed the assessment and obtained "Water Balance Test Certificate (水量平衡測試合格證)" which indicated that the Company's water consumption level is reasonable. The Group uses water from local water companies and there is no any issue in sourcing water.

(2) Electricity

The Group has effectively used of power resources. The power supply bureau adopts the policy of "top, peak, valley and flat" charging policy, that is, different charges in different periods. Unit charges is the highest in the 'top period', and lowest at the 'valley period'. The Group actively cooperated with the relevant policies to raise the proportion of electricity consumption in the 'valley and flat period' to reduce the production costs.

(3) Steam

There are two sources of steam, one is purchase from third parties and the other is recovery and recycling of steam generated during the production process. Recycling of steam helps to reduce energy consumption and production costs. The steam generated during production in Lianyungang plant, not only enough to recycle for its own use, there is excess steam produced for selling to the nearby factory. It helps both to reduce steam emissions, and also bring economic benefits to the Group.

(4) *Packaging materials*

There are different types of packaging materials. Packaging materials only accounted for a very small portion production costs. In 2017, packaging materials only accounted for less than 2% of the cost of production.

Key Performance Indicators

	2017
Electricity consumption in total (in kwh)	59,498,280
Electricity consumption – Per unit of output (in kwh/tonne)	1,453.61
Steam consumption in total (in tonnes)	329,582
Steam consumption – Per unit of output (in tonnes/tonne)	8.05
Water consumption in total (in tonnes)	998,837
Water consumption – Per unit of output (in tonnes/tonne)	24.40

SOCIAL

(I) Employment and Labour Practices

The Group's principle is people-oriented. It continuously improves the working environment and remuneration and to provide a broad developmental platform for the employees to display their individual talents. It has resolutely implemented the relevant national and local government laws and regulations in relation to employment. The Group has established a fine social accountability system, covering all aspects of employment regulations and social welfare. The Group provides its staff with a safe working environment by implementing the safety standard management and has accredited as the national "Second Grade Enterprise of Work Safety Standardisation" (安全生產標準化二級企業).

The Group attaches great importance to staff training. The Group provides trainings to staff which are relevant to their duties, including management, regulatory update, environment protection, food safety, team building, etc. The Group also encourages the employees to attend different kinds of colleges and universities courses and trainings to strengthen their academic qualifications which are related their work duties by providing subsidies to them.

For safety training, management personnel involved in the production have to participate in safety training and pass the assessment by Changzhou production safety publicity and education centres. The Group's safety director and safety department organise trainings on relevant laws and regulations, safety knowledge, and enterprise management system for the person in charge of safety and head of different production lines each month. The safety department also organises training for staff working in the production lines on safety production and technology operation, techniques on operation of new equipment before commencement of new projects and production with new production technologies.

ENVIRONMENTAL AND SOCIAL REPORT

In addition, pay raise and benefits for employees every year are based on their performance. The Group organised different social activities every year, so that the employees in various positions of different departments of the Group can increase communication and strengthen interaction.

The Group strictly complies with the State Council's regulation on "Provisions on the Prohibition of Using Child Labor" and the Standard of Social Accountability 8000 (SA8000) on executing the employment standards, and has established recruitment procedures and measures to ensure that child labor is not employed. The vast majority of the Group's employees are Chinese. The Group is not aware of any violation of employment and labor laws and regulations nor any violation of child labour provisions in 2017.

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

Key performance indicators

	2017	**2016**	**2015**
Number of employees (by gender)			
Male	409	421	373
Female	168	174	179
Number of employees (by employment type)			
Management	70	62	54
Production	406	426	383
Sales	29	31	31
Research and development	72	76	84
Number of employees (by age group)			
30 or under	251	293	290
31-50	291	269	235
Over 50	35	33	27
Training			
Training expenses	Rmb158,000	Rmb217,000	Rmb501,000
Percentage of employees trained	98%	91%	95%
Average training hours completed per employee	72	76	72

ENVIRONMENTAL AND SOCIAL REPORT

(II) Operating Practices

(1) Supply Chain Management

The Group has more than 100 qualified suppliers. To become qualified suppliers, their samples have to pass the examination, the trial production by the Group and suppliers' assessments. Performance of all suppliers for the previous year would be evaluated at the beginning of each year and they can continue as the Group's suppliers after passing the evaluation. Evaluation of new suppliers and subcontractors includes their commitment to social responsibility and performance, in order to meet the social accountability standards SA8000. The Group has a procurement management systems and has developed a series of procurement control procedures for strict selection of suppliers and control the procurement process. Procurement staff regularly visits suppliers to maintain close contacts and good cooperation relations with them. The vast majority of the Group's suppliers are located in mainland China.

(2) Product Liability

After 20 years of accumulation, the Group's customers are all over the world. The Group has always focused on maintaining customer relationships. In recent years, the Group has continued to strengthen direct sales to end-users with a closer and long-term customer relation. The Group strictly controls its product safety and quality to maintain quality leadership and ensure customer satisfaction. The Group has met the highest standards in the food safety systems FSSC22000 and quality management system ISO9001. The Group conducts customer satisfaction survey each year to obtain customers' feedback and understand their requirements, as well as serve as an objective assessment to the Group. Reports show that the Group's customers were satisfied in 2017.

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

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

ENVIRONMENTAL AND SOCIAL REPORT

The Group has inspection and test control procedures to test the semi-finished products or finished products item by item. Standard procedures are in place to deal with each qualified or non-qualified products. There is a "certificate of analysis" for each finished product to facilitate product traceability. In case a product recall is triggered, the Group initiates a recall procedure, analyses the extent of the food hazard and classifies it, re-examines the products if necessary and makes a recall if needed based on the results of the analysis or examination. The Group also records the number of products recalled to ensure that unsafe batch of products are fully and promptly recalled and are appropriately processed in accordance with the procedures for handling recalled products. In 2017, the Group has not recalled any sold or shipped products due to safety and health reasons.

The Group also endeavors to ensure the proper use of customer information. The Group has complied with the relevant national laws and regulations and the Company's internal business ethics control procedures when collecting, processing and using such information in the course of business.

(3) Anti-corruption

The Company has anti-corruption control procedures issued to all employees, and has mechanisms for employees to report problems found. The Company has management system and measures on fund management to prevent money laundering. The Company conducts an internal audit of social responsibilities every year to examine whether there are any bribery, extortion or fraud.

There was no significant risk associated with bribery identified in 2017. There was no concluded legal cases regarding corrupt practices brought against the Group or its employees. There were no confirmed incidents of contract termination or non-renewal of contract with business partners due to embezzlement during the year. During the year, the Group did not receive any reports in relation to corruption.

(III) Society

In terms of participating in social investment, the Company has committed to make a total of Rmb2 million donations to the Changzhou Charity Association, Rmb140,000 per year until the commitment is fulfilled. In addition, in 2017, the Company donated Rmb50,000 to Changzhou Education Development Fund for use as educational facilities and educational personnel incentives in Chunjiang Town, where the Company is located.

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 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are the production and sale of organic acids products. The activities of the subsidiaries are set out in note 18 to the consolidated financial statements.

An analysis of the Group's revenue for the year by geographic segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 64.

No interim dividend was declared during the year (2016: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017.

DONATIONS

Charitable and other donations made by the Group during the year amounted to Rmb190,000 (2016: Rmb190,000).

SHARE ISSUED IN THE YEAR

Details of the shares issued by the Company in the year ended 31 December 2017 are set out in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the distributable reserves of the Company were approximately Rmb350,946,000 (2016: Rmb351,000,000) as reported in the statutory financial statements prepared in accordance with the PRC Generally Accepted Accounting Principles.

PRE-EMPTIVE RIGHTS

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five years is set out on page 122 of the annual report.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

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

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

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

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

Supervisor nominated by employees
Mr. Zhang Jun Peng

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

DIRECTORS AND SUPERVISORS (Continued)

The terms of each of the Directors and Supervisors will be expired on 17 June 2019. 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, Mr. Lu A Xing, 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 who is proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director, a Supervisor and a connected party of a Director or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

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

As at 31 December 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:

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%	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%

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

Long positions in shares: (Continued)

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 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.

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

(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.

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

(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 as at 31 December 2017.

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

(n) The percentage is calculated based on the 183,700,000 H Foreign Shares in issue as 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, and (d) the Hong Kong Companies Ordinance (Cap. 622) to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

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

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

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

So far as known to the Directors, as at 31 December 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%	–	–

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

Long positions in shares: (Continued)

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (e))	Number of H Shares	Approximate Percentage shareholding in the H Shares (Note (f))
Jomo Limited	Beneficial owner	66,000,000	19.21%	–	–
Ms. Lam Mau	Interest of spouse, interest of controlled corporation and beneficial owner	66,000,000 (Note (a))	19.21%	2,620,000	1.43%
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%	–	–
上海科技創業投資股份有限公司 (Shanghai S&T Investment Company Limited*, formerly 上海科技投資股份有限公司)	Interest of controlled corporation	62,500,000 (Note (b))	18.20%	–	–
上海科技創業投資有限公司 (Shanghai Technology Entrepreneur Investment Company*, formerly 上海科技投資公司)	Interest of controlled corporation	62,500,000 (Note (c))	18.20%	–	–
上海科技創業投資（集團）有限公司 (Shanghai S&T Venture Capital (Group) Co., Ltd.*)	Interest of controlled corporation	62,500,000 (Note (d))	18.20%	–	–

Notes:

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

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

REPORT OF THE DIRECTORS

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

Long positions in shares: (Continued)

Notes: (Continued)

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

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

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

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.

REPORT OF THE DIRECTORS

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

	2017	2016
– the largest supplier	20%	18%
– five largest suppliers combined	53%	37%

Sales

	2017	2016
– the largest customer	8%	6%
– five largest customers combined	21%	19%

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.

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 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.

SHARE CAPITAL STRUCTURE (Continued)

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.

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

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

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

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

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

PUBLIC FLOAT

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

RETIREMENT SCHEMES

Details of the retirement schemes are set out in notes 2.22(a) and 12 to the consolidated financial statements.

BUSINESS REVIEW

(a) Business performance and future development

Discussion on the business performance and future development of the Group is set out in the session headed "Chairman's Statement" in this Annual Report.

Analysis of the key performance indicators of the Group is set out in the session headed "Management Discussion and Analysis" in this Annual Report.

These discussions form part of the "Report of the Directors".

(b) Environmental policies and performance

Discussions on the environment policies and performance of the Group are set out in the "Environmental and Social Report" in this Annual Report. These discussions form part of the "Report of the Directors".

(c) Laws and regulations that have a significant impact on the Company

The Group is mainly engaged in the production of organic acids products, which are used as food additives and pharmaceutical intermediates, etc. Accordingly, the Group is required to comply with relevant laws and regulations on environmental protection. It is also required to comply with the Law of Work Safety, Food Safety Law, Labor Contract Law and Company Law, etc. in the PRC. The H shares of the Company are listed on the Main Board, therefore the Company also needs to comply with the Listing Rules and the disclosure requirements the Hong Kong Companies Ordinance.

The Group did not aware of any non-compliance with applicable laws and regulations that have a significant impact on the Group for the year ended 31 December 2017.

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Continued)

(d) Key relationships

Discussions on the relationships with employees, customers and suppliers of the Group are set out in the "Environmental and Social Report" in this Annual Report. These discussions form part of the "Report of the Directors".

(e) Principal risks and uncertainties

Certain significant risks have been identified through the process of risk identification and assessment. A summary on such significant risks of the Group together with the relevant internal control measures or mitigation in place is listed below:

1. *Research and development*

   The Group has two research centres. The Group will invest in research and development to improve existing production technologies and develop new production technologies each year. The Group's future prospects will be dependent upon the successful development and commercialisation of products currently under development. Successful development is, however, uncertain. There is also no assurance that a product can receive market acceptance and is competitive in the market. The Group will take into account the prospect of new markets, sales prices and costs of new products before making decision to invest in research and development to control the relevant risks.

2. *Tax relief*

   The Group's net profit mainly comes from the company's production base in Changzhou. The Company, qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15%. The tax relief enjoyed by the Company due to the qualification of the New and High Technology Enterprise will soon expire. If the Company is fail to renew such qualification, there will be a material impact on the Group's profit. The Company has actively co-ordinated different departments for applying the renewal of New and High Technology Enterprise qualification and strives to continue to enjoy the relevant tax relief.

BUSINESS REVIEW (Continued)

(e) Principal risks and uncertainties (Continued)

3. *Volatility of prices for raw materials*

   The Group's main raw material is benzene and butane, mainly purchased from Chinese suppliers. The price for benzene and butane are affected by various factors and the Group does not and will not control over those factors. Those factors include the prices of crude oil, global and regional supply and demand for benzene and butane, domestic and foreign government regulations, weather conditions and global economic conditions. Any increase in the price of benzene and butane which cannot be passed on to the Group's customers may adversely affect the Group's business and results of operations.

4. *Competition*

   Approximately 54% of the Group's products are exported overseas, while approximate 46% of the sales are in the domestic (including import and export companies) market for the year ended 31 December 2017. Whether in foreign or domestic market, food additives and pharmaceutical intermediates industry are intensively competitive. Any increase in the level of competition could result in price reduction and erode the Group's market share and gross profit margin. The Group continuously monitors and analyses the competitive situation and market information and makes early estimate to adverse movements and takes corresponding measures. The Group has also taken measures to strengthen the brand, to promote business growth and consolidate the brand's market position. In addition, the Group continues to make improvement on production technologies to reduce production costs and improve product quality so that its products will be more competitive.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 16 March 2018

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2017, 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 2017, which have been audited by PricewaterhouseCoopers, reflected truly and fairly the operating results and financial position of the Company and its subsidiaries. The connected transactions were in compliance with the Listing Rules and were fair and reasonable and had not infringed upon the interest of the Company and the shareholders.

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

By order of the Supervisory Committee

Zhou Rui Juan
Chairman of the Supervisory Committee

The PRC, 16 March 2018

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of Changmao Biomedical Engineering Company Limited
(a joint stock company incorporated in People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Changmao Biomedical Engineering Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 121, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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INDEPENDENT AUDITOR'S REPORT

Key audit matters identified in our audit are summarised as follows:

- Impairment of non-financial assets of production plants in Lianyungang
- Net realisable value of inventories

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of non-financial assets of production plants in Lianyungang	
Refer to notes 4(a), 15, 16 and 17 to the consolidated financial statements As at 31 December 2017, the Group has certain non-financial assets, including property, plant and equipment, land use rights and construction in progress related to the new production plants in Lianyungang ("Lianyungang") amounting to RMB158 million. The production plants in Lianyungang commenced operations since early 2016 and have been operating at loss during the year while planned production level is yet to be attained. Management considered the operating loss of Lianyungang as an impairment indicator on the non-financial assets of these plants and has performed an impairment assessment on these assets. Based on the results of the assessment, it is concluded that no provision for impairment of the above non-financial assets of Lianyungang is required. We focused on this area because the carrying amounts of the above non-financial assets of Lianyungang are significant to the consolidated financial statements, the presence of impairment indicators and the determination of recoverable amount of these assets, using value-in-use calculations, require significant judgements and estimates by the management about the future results of the related business and the discount rate applied to the cash flow forecast.	Our audit procedures in relation to management's assessment on impairment of non-financial assets of Lianyungang included: – Obtained, understood and evaluated management's impairment assessment process; – Tested the mathematical accuracy of the value-in-use calculation of the cash flow forecast and assessed the appropriateness of the methodology used. We independently evaluated the appropriateness of the key assumptions, including revenue growth rate and gross profit margin, based on other available market data in the food additives industry in the People's Republic of China taking into account the historical performance of the Group. We also evaluated the appropriateness of the discount rate used by considering the Group's weighted average cost of capital and comparable companies; and – Assessed the appropriateness of management's sensitivity analysis over the above key assumptions of the cash flow forecast in order to assess the potential impact of a range of possible outcomes and evaluated the likelihood of such a movement based on the historical experience of the Group and market trend in the industry. Based on the procedures described above, we found the methodology used, and key assumptions and estimates applied by management in the impairment assessment of non-financial assets of Lianyungang are supportable by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Net realisable value of inventories Refer to notes 4(b) and 20 to the consolidated financial statements As at 31 December 2017, the Group held inventories of approximately RMB115 million, net of impairment provision of approximately RMB1.3 million. Inventories are carried at the lower of cost and net realisable value. Management determines the net realisable value of inventories by considering the ageing profile, estimated selling price and physical condition of the inventory on a product-by-product basis. Management performed periodic inventory counts to identify defective or obsolete inventories. Management determined the provision for slow-moving inventories based on inventory ageing and applied judgement to make specific provision for long aged inventories. Management also applied judgement in determining the estimated selling price less cost to sell based on historical experience of selling products of similar nature and expectation of future sales based on current market conditions and available information. We focused on the net realisable value of inventories due to the size of the inventories balance and the judgment involved by management in determining the net realisable value of the inventories.	Our audit procedures in relation to management's assessment on the net realisable value of inventories included: – Tested key inventory controls across the Group; – Observed inventory counts to identify defective or obsolete inventories; – Tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and purchase invoices; – Tested, on a sample basis, the estimated selling price of significant inventory items to the actual selling price subsequent to the year end or latest sales data and compared the estimated selling price of selected inventory items against its costs. We discussed with management as to its assessment on the net realisable value of the inventory items with no subsequent sales after the year end, cooperating explanations with sales orders, current market price of similar products, historical margins and marketability of relevant inventories, as appropriate; and – Tested, on a sample basis, the subsequent utilisation of raw materials, and subsequent sales by products to identify slow moving inventories. We discussed with management to understand its provision assessment for those raw materials or products with no subsequent utilisation or sales by cooperating explanations with the inventory ageing, sales orders and marketability of the relevant inventories, as appropriate. Based on the procedures described above, we found the assumptions made by management in relation to the assessment on net realisable value of inventories are supportable by available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Chiu Yin, Ivan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 December 2017

	Note	2017 Rmb'000	2016 Rmb'000
Revenue	5	630,841	594,402
Cost of sales	7	(555,846)	(488,870)
Gross profit		74,995	105,532
Other income	6	12,784	3,136
Other (losses)/gains, net	6	(5,889)	5,685
Selling expenses	7	(18,464)	(17,960)
Administrative expenses	7	(62,211)	(61,956)
Operating profit		1,215	34,437
Finance income		261	475
Finance costs		(232)	(111)
Finance income, net	8	29	364
Profit before income tax		1,244	34,801
Income tax credit/(expense)	9	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	10	Rmb0.006	Rmb0.063

The notes on pages 69 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 December 2017

	Note	2017 Rmb'000	2016 Rmb'000
ASSETS			
Non-current assets			
Patents	14	744	828
Property, plant and equipment	15	299,237	305,923
Land use rights	16	26,642	27,373
Construction in progress	17	79,826	59,574
Deferred income tax assets	29	8,788	7,163
Bank deposits	23	1,700	–
		416,937	400,861
Current assets			
Inventories	20	115,335	101,711
Trade and bills receivables	21	87,148	94,487
Other receivables and prepayments	22	23,466	23,189
Income tax recoverable		1,223	328
Pledged bank balances	23	15,671	5,066
Cash and bank balances	23	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	24	52,970	52,970
Reserves	25	526,377	533,591
		579,347	586,561
Non-controlling interests		1,610	2,292
Total equity		580,957	588,853

The notes on pages 69 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (Continued)

AS AT 31 December 2017

	Note	2017 Rmb'000	2016 Rmb'000
LIABILITIES			
Non-current liabilities			
Other payable	27	2,430	2,121
Deferred income tax liabilities	29	484	340
		2,914	2,461
Current liabilities			
Trade and bills payables	26	73,505	29,667
Other payables and accrued charges	27	20,988	25,366
Income tax payable		11	11
Bank borrowings	28	54,007	30,000
		148,511	85,044
Total liabilities		151,425	87,505
Total equity and liabilities		732,382	676,358

The financial statements on pages 64 to 121 were approved by the Board of Directors on 16 March 2018 and were signed on its behalf

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 69 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 December 2017

		Attributable to equity holders of the Company					
	Note	Share capital Rmb'000	Other reserves Rmb'000	Retained earnings Rmb'000	Total Rmb'000	Non-controlling interests Rmb'000	Total Rmb'000
Balance at 1 January 2016		52,970	177,203	336,986	567,159	2,148	569,307
Transfer to statutory reserve	25	–	4,608	(4,608)	–	–	–
Profit for the year		–	–	33,172	33,172	144	33,316
Other comprehensive income – currency translation difference – Group		–	2	–	2	–	2
Final dividend for the year ended 31 December 2015	11	–	–	(13,772)	(13,772)	–	(13,772)
Balance at 31 December 2016		52,970	181,813	351,778	586,561	2,292	588,853
Balance at 1 January 2017		52,970	181,813	351,778	586,561	2,292	588,853
Transfer to statutory reserve	25	–	1,170	(1,170)	–	–	–
Profit for the year		–	–	3,382	3,382	(682)	2,700
Other comprehensive income – currency translation difference – Group		–	(2)	–	(2)	–	(2)
Final dividend for the year ended 31 December 2016	11	–	–	(10,594)	(10,594)	–	(10,594)
Balance at 31 December 2017		52,970	182,981	343,396	579,347	1,610	580,957

The notes on pages 69 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 December 2017

	Note	2017 Rmb'000	2016 Rmb'000
Cash flows from operating activities			
Cash generated from operations	30(a)	67,904	59,304
Interest paid		(1,203)	(2,077)
Income tax paid		(920)	(8,095)
Net cash generated from operating activities		65,781	49,132
Cash flows from investing activities			
Proceeds from disposal of patents		–	2,000
Purchase of property, plant and equipment		(31)	(4)
Proceeds from disposal of property, plant and equipment		368	759
Additions of construction in progress		(49,861)	(28,562)
Government grants received		2,167	1,131
(Increase)/decrease in pledged bank balances		(10,605)	3,764
Increase in long-term and short-term bank deposits with maturities of over 3 months		(2,650)	(300)
Interest received		261	475
Net cash used in investing activities		(60,351)	(20,737)
Cash flows from financing activities			
Proceeds from new bank borrowings	30(b)	105,945	75,000
Repayment of bank borrowings	30(b)	(79,843)	(135,000)
Dividends paid	30(b)	(10,594)	(13,772)
Net cash generated from/(used in) financing activities		15,508	(73,772)
Net increase/(decrease) in cash and cash equivalents		20,938	(45,377)
Effect of foreign exchange rate changes		(2)	2
Cash and cash equivalents at 1 January		47,816	93,191
Cash and cash equivalents at 31 December	23	68,752	47,816

The notes on pages 69 to 121 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 formerly listed its H shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("SEHK") on 28 June 2002 which was then transferred to the Main Board of the SEHK on 28 June 2013. The principal activities of the Company and its subsidiaries (together, the "Group") are the production and sales of organic acids products.

The address of the Company's registered office is No.1228 Chang Jiang Bei Road, New North Zone, Changzhou City, Jiangsu Province, 213034, the PRC.

These consolidated financial statements are presented in Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 16 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Changmao Biochemical Engineering Company Limited and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of Changmao Biochemical Engineering Company Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The 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, see note 30(b).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(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

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group does not expect the new guidance to affect the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The Group does not expect a significant impact on the accounting for its hedging relationships under the new hedge accounting rules as the Group does not have any such hedging.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group does not have such items. Accordingly, the Group does not expect the new guidance to have a significant impact on the Group's financial statements.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15 Revenue from contracts with customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

The Group's revenue recognition policies are disclosed in Note 2.24. Revenue from the Group's principal business are the production and sales of organic acids products, which are recognised in profit or loss when a group entity has delivered products to the customers, the customer has accepted the products and collectability of the related receivables is reasonably assured. Given the products are provided at the point of sales, the Directors of the Company considered it will not affect the timing of the recognition of revenue going forward.

Date of adoption by Group

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of Rmb766,000, see note 31.

The commitments may be covered by the exception for short-term and low value leases. Accordingly, the Group does not expect the new standard to have a significant impact on the Group's consolidated financial statements.

Date of adoption by Group

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other new and amended standards and interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

(a) *Consolidation*

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2017.

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(a) Consolidation (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 profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Costs include direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2 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 ("Rmb"), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

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

All other foreign exchange gains and losses are presented in the income statement within "other (losses)/gains, net".

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

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

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

2.5 Patents

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

Acid patent	15 years
Nutraceutical patent	19 years

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

2.6 Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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

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

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

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

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

2.7 Land use rights

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

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

2.8 Construction in progress

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

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

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets (Continued)

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

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

(b) Recognition and measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Offsetting financial instruments

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

2.12 Impairment of financial assets

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Government grants

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

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.14 Inventories

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

2.15 Trade and other receivables

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

2.16 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank deposits with original maturities of more than three months are excluded from cash and cash equivalents.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Trade and other payables

Trade payables are obligations to pay for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within the normal operating cycle of the business. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

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

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

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employees benefits

(a) Pension obligations

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments in Mainland China for its PRC based employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Group. Contributions to these plans are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,500 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

(b) Profit-sharing and bonus plans

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

2.23 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)

2.24 Revenue recognition

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

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

2.25 Interest income

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

2.26 Research and development costs

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

2.27 Operating leases

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

2.28 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance.

(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.

At 31 December 2017, if Rmb had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would have been approximately Rmb1,236,000 (2016: Rmb2,384,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, other payables, bank deposits and bank borrowings.

(b) *Credit risk*

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

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

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers, taking into account its financial position, past experience and other factors. The Directors consider the Group does not have a significant concentration of credit risk. No single customer accounted for more than 8% (2016: 6%) of the Group's total revenue during the year.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk*

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

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

As at 31 December 2017 and 2016, all of the Group's trade and bills payables, other payables and bank borrowings were all due for settlement contractually within 1 year.

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

	2017 Rmb'000	2016 Rmb'000
Trade and bills payables	73,505	29,667
Other payables	14,321	10,973
Bank borrowings and interest thereon	54,411	30,477

(d) *Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and bank balances, details of which are disclosed in Note 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk (Continued)

At 31 December 2017, 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 Rmb54,000 (2016: Rmb30,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3.2 Capital risk management

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

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

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

The liabilities-to-assets ratio at 31 December 2017 and 2016 was as follows:

	2017 Rmb'000	2016 Rmb'000
Total liabilities	151,425	87,505
Total assets	732,382	676,358
Liabilities-to-assets ratio	20.7%	12.9%

The increase in liabilities-to-assets ratio is mainly due to the increase in utilisation of bills payables and short-term bank borrowings to finance the Group's operations.

3.3 Fair value estimation

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

3.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities were subject to offsetting, enforceable master netting arrangements and similar agreements as at 31 December 2017 and 2016.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

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

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on higher of fair value less cost of disposal or value-in-use calculations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and value-in-use which is the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow forecast including whether these cash flow forecast is discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates, the gross profit margin or the revenue growth rate assumptions in the cash flow forecast, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

As at 31 December 2017, the Group has certain non-financial assets, including property, plant and equipment, land use rights and construction in progress in the new production plants in Lianyungang ("Lianyungang") amounting to approximately RMB158 million. The production plants in Lianyungang commenced their operations since early 2016 and have been operating at loss during the year while planned production level is yet to be attained. Management considered the operating loss as an impairment indicator on the non-financial assets and has performed an impairment assessment on these assets. Management has also performed sensitivity analysis over the key assumptions of the cash flow forecast, including future gross profit margin, revenue growth rate and discount rate, in order to assess the potential impact of a range of possible outcomes. Based on the results of the assessment, it is concluded that no provision for impairment of the above non-financial assets of Lianyungang is required.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Net realisable value of inventories

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

(c) Useful lives of property, plant and equipment

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

(d) 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.

(e) Income taxes and deferred tax

The Group is subject to income taxes in Mainland China. Judgement is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(f) Research and development costs

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

5 REVENUE AND SEGMENT INFORMATION

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

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

	2017 Rmb'000	2016 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 Rmb'000	2016 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

5 REVENUE AND SEGMENT INFORMATION (Continued)

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.

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

	2017 Rmb'000	2016 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 Rmb'000	2016 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2017 Rmb'000	2016 Rmb'000
Cost of inventories sold	335,175	306,569
Amortisation of patents (Note 14)	84	362
Amortisation of land use rights (Note 16)	731	685
Auditors' remuneration		
– Audit services	1,261	1,351
– Non-audit services	114	323
Depreciation (Note 15)	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) (Note 12)	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 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

9 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 Rmb'000	2016 Rmb'000
Current income tax		
– Provision for CIT	–	6,021
– Under-provision in prior year	25	2
Deferred income tax (Note 29)	(1,481)	(4,538)
	(1,456)	1,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INCOME TAX (CREDIT)/EXPENSE (Continued)

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

	2017 Rmb'000	2016 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 years	–	(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.

10 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).

11 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.

12 STAFF COSTS

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

	2017 Rmb'000	2016 Rmb'000
Salaries, wages and related welfare	55,062	51,098
Social security costs	6,953	6,650
Contribution to defined contribution retirement schemes (Note)	7,029	6,592
	69,044	64,340

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 19% (2016: 19%) 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.

13 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the Supervisors of the Company for the year ended 31 December 2017 is set out as follows:

Name of Supervisor	Fees	Salaries	Discretionary Bonus	Housing Allowance	Estimated money value of other benefit	Retirement benefits contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Juan	15	48	–	–	–	–	63
Mr. Lu A Xing	6	231	–	–	–	23	260
Mr. Zhang Jun Peng	6	212	–	–	–	21	239
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 2016 is set out as follows:

Name of Supervisor	Fees	Salaries	Discretionary Bonus	Housing Allowance	Estimated money value of other benefit	Retirement benefits contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Juan	15	46	–	–	–	–	61
Mr. Lu He Xing (Note (i))	3	–	–	–	–	–	3
Mr. Lu A Xing (Note (ii))	3	79	–	–	–	13	95
Mr. Zhang Jun Peng	6	203	–	–	–	19	228
Prof. Jiang Yao Zhong	15	–	–	–	–	–	15
Mr. Geng Gang	15	–	–	–	–	–	15

None of the supervisors received or will receive any retirement benefits or termination benefits during the financial year (2016: Nil).

Notes:

(i) Mr. Lu He Xing ceased to be a supervisor of the Company on 17 June 2016.

(ii) Mr. Lu A Xing was appointed as a supervisor of the Company on 18 June 2016.

13 EMOLUMENTS OF SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals, two (2016: two) of them are Directors of the Company and the details of their remuneration are disclosed in Note 34(a). The emoluments of the remaining three highest paid individual are as follows:

	2017 Rmb'000	2016 Rmb'000
Basic salaries, allowances and benefits in kind	1,456	1,438
Discretionary bonus	–	–
Retirement benefit contributions	96	90
	1,552	1,528

The emoluments of each of the above 3 employees were all less than HK$1,000,000.

(c) Senior management remuneration by band

All senior management's (who are not Directors nor Supervisors) emolument fall within the band of HK$0 – HK$1,000,000 (2016: same).

14 PATENTS

	2017 Rmb'000	2016 Rmb'000
Net book amount, at 1 January	828	1,190
Amortisation charge (Note 7)	(84)	(362)
Net book amount, at 31 December	744	828

	2017 Rmb'000	2016 Rmb'000
At cost	11,600	11,600
Accumulated amortisation	(10,856)	(10,772)
Net book amount, at 31 December	744	828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings Rmb'000	Plant and machinery Rmb'000	Equipment and motor vehicles Rmb'000	Total Rmb'000
At 1 January 2016				
Cost	159,625	363,357	39,483	562,465
Accumulated depreciation	(50,429)	(206,265)	(29,475)	(286,169)
Net book amount	109,196	157,092	10,008	276,296
Year ended 31 December 2016				
Opening net book amount	109,196	157,092	10,008	276,296
Additions	–	–	4	4
Transfer from construction in progress (Note 17)	19,116	44,017	3,078	66,211
Disposals	–	(1,100)	(129)	(1,229)
Depreciation (Note 7)	(7,538)	(25,639)	(2,182)	(35,359)
Closing net book amount	120,774	174,370	10,779	305,923
At 31 December 2016				
Cost	178,741	401,895	41,277	621,913
Accumulated depreciation	(57,967)	(227,525)	(30,498)	(315,990)
Net book amount	120,774	174,370	10,779	305,923
Year ended 31 December 2017				
Opening net book amount	120,774	174,370	10,779	305,923
Additions	–	25	6	31
Transfer from construction in progress (Note 17)	–	31,959	1,639	33,598
Disposals	(318)	(2,780)	(126)	(3,224)
Depreciation (Note 7)	(8,275)	(26,636)	(2,180)	(37,091)
Closing net book amount	112,181	176,938	10,118	299,237
At 31 December 2017				
Cost	177,993	413,399	41,610	633,002
Accumulated depreciation	(65,812)	(236,461)	(31,492)	(333,765)
Net book amount	112,181	176,938	10,118	299,237

Depreciation expense of Rmb30,114,000 (2016: Rmb27,562,000) and Rmb6,977,000 (2016: Rmb7,797,000) were charged in "cost of sales" and "administrative expenses" respectively for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land use rights on four pieces of land located in Mainland China and their net book value are analysed as follows:

	2017 Rmb'000	2016 Rmb'000
Net book amount, at 1 January	27,373	28,058
Amortisation charge (Note 7)	(731)	(685)
Net book amount, at 31 December	26,642	27,373

	2017 Rmb'000	2016 Rmb'000
At cost	34,259	34,259
Accumulated amortisation	(7,617)	(6,886)
Net book amount, at 31 December	26,642	27,373

17 CONSTRUCTION IN PROGRESS

	2017 Rmb'000	2016 Rmb'000
At 1 January	59,574	94,655
Additions	53,850	31,130
Transfer to property, plant and equipment (Note 15)	(33,598)	(66,211)
At 31 December	79,826	59,574

During the year, the Group capitalised borrowing costs amounting to Rmb1,059,000 (2016: Rmb1,800,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 2.7% (2016: 3.9%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 SUBSIDIARIES

Details of the subsidiaries at 31 December 2017 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 products and property holding
上海醫學生命科學研究中心有限公司(Shanghai Medical Life Science Research Centre Limited) (Note a)	PRC, limited liability company	Rmb15,384,600	57.44%	Research and development of medicine and nutraceutical products
常茂生物連雲港有限公司 (Changmao Biochemical Lianyungang Company Limited)	PRC, limited liability company	Rmb50,000,000	100%	Sales and production of food additives
Changmao (Hong Kong) Company Limited	Hong Kong, limited company	HKD1	100%	Trading of organic acids products

Note a: No summarised financial information of Shanghai Medical Life Science Research Centre Limited is presented as the non-controlling interest is not material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables Rmb'000
31 December 2017	
Assets as per balance sheet	
Trade, bills and other receivables excluding prepayments and value-added tax receivables	89,706
Pledged bank balances	15,671
Cash and bank balances	74,302
Total	179,679

	Financial liabilities at amortised cost Rmb'000
31 December 2017	
Liabilities as per balance sheet	
Bank borrowings	54,007
Trade, bills and other payables excluding non-financial liabilities	87,826
Total	141,833

19 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Loans and receivables Rmb'000
31 December 2016	
Assets as per balance sheet	
Trade, bills and other receivables excluding prepayments and value-added tax receivables	97,904
Pledged bank balances	5,066
Cash and bank balances	50,716
Total	153,686

	Financial liabilities at amortised cost Rmb'000
31 December 2016	
Liabilities as per balance sheet	
Bank borrowings	30,000
Trade, bills and other payables excluding non-financial liabilities	40,640
Total	70,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 INVENTORIES

	2017 Rmb'000	2016 Rmb'000
Raw materials	47,864	50,594
Work-in-progress	16,878	12,536
Finished goods – at cost	50,593	38,581
	115,335	101,711

As at 31 December 2017, provision for impairment of inventories amounting to RMB1,321,000 (2016: RMB2,943,000).

The cost of inventories recognised as expense and included in "cost of sales" amounted to Rmb335,175,000 (2016: Rmb306,569,000) which included reversal of provision for inventories to net realisable value of Rmb1,622,000 (2016: provision for inventories to net realisable value of Rmb747,000).

21 TRADE AND BILLS RECEIVABLES

	2017 Rmb'000	2016 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 Rmb'000	2016 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.

21 TRADE AND BILLS RECEIVABLES (Continued)

(c) As at 31 December 2017, trade receivables of approximately Rmb171,000 (2016: Rmb2,260,000) 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:

	2017 Rmb'000	2016 Rmb'000
4 to 6 months	171	2,260
Over 6 months	–	–
	171	2,260

(d) The credit quality of trade 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:

	2017 Rmb'000	2016 Rmb'000
Rmb	30,357	42,209
USD	56,791	52,278
	87,148	94,487

21 TRADE AND BILLS RECEIVABLES (Continued)

(f) As at 31 December 2017, trade receivables of approximately Rmb1,985,000 (2016: Rmb1,711,000) were impaired and full provision was made. Movements on the provision for impairment of trade receivables are as follows:

	2017 Rmb'000	2016 Rmb'000
At 1 January	1,711	467
Trade receivables written off during the year as uncollectible	(31)	(246)
Provision for impairment of trade receivables	305	1,490
At 31 December	1,985	1,711

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

(g) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

22 OTHER RECEIVABLES AND PREPAYMENTS

	2017 Rmb'000	2016 Rmb'000
Prepayments	9,148	10,131
Value-added tax receivables	11,760	9,641
Other receivables	2,558	3,417
	23,466	23,189

23 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	2017 Rmb'000	2016 Rmb'000
Long-term bank deposits	1,700	–
Short-term bank deposits with original maturities of over 3 months	3,850	2,900
Cash and cash equivalents	68,752	47,816
Cash and bank balances	74,302	50,716
Pledged bank balances	15,671	5,066
Total	89,973	55,782

	2017 Rmb'000	2016 Rmb'000
Denominated in:		
– Rmb	67,735	50,214
– USD	22,198	5,527
– HKD	40	41
	89,973	55,782

The effective interest rate on long-term bank deposits and short-term bank deposits with original maturities of over 3 months are ranged from 1.35% to 2.25% (2016: 1.75%) per annum. These deposits have remaining maturities ranged from 1 month to 1.5 years as at 31 December 2017.

Cash at banks earn 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.

Bank balances of Rmb15,671,000 (2016: Rmb5,066,000) have been pledged to a bank to secure the Group's bills financing facilities as at 31 December 2017.

24 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2017 and 2016	529,700,000	52,970

As at 31 December 2017 and 2016, 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

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Exchange reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 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 Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Exchange reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 TRADE AND BILLS PAYABLES

	2017 Rmb'000	2016 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 Rmb'000	2016 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 OTHER PAYABLES AND ACCRUED CHARGES

	2017 Rmb'000	2016 Rmb'000
Deferred government subsidy	2,966	10,373
Construction payables	8,722	5,792
Provision for utilities	3,852	3,666
Receipt in advance	2,279	2,475
Others	5,599	5,181
	23,418	27,487
Less: Non-current portion		
Deferred government subsidy	(2,430)	(2,121)
Current portion	20,988	25,366

28 BANK BORROWINGS

The maturity of borrowings is as follows:

	2017 Rmb'000	2016 Rmb'000
Within 1 year	54,007	30,000
Denominated in:		
– RMB	5,000	30,000
– USD	49,007	–
	54,007	30,000

The carrying amounts of the Group's bank borrowings approximate their fair values.

As at 31 December 2017, the effective interest rate of the bank borrowings was 2.7% (2016: 3.9%).

29 DEFERRED INCOME TAX

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

	2017 Rmb'000	2016 Rmb'000
At 1 January	6,823	2,285
Credited to the statement of comprehensive income (Note 9)	1,481	4,538
At 31 December	8,304	6,823

The movements in deferred income 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 income tax assets:

	Deferred income Rmb'000	Provisions Rmb'000	Tax losses Rmb'000	Total Rmb'000
At 1 January 2016	1,612	937	–	2,549
(Charged)/credited to the consolidated statement of comprehensive income	(56)	393	4,277	4,614
At 31 December 2016	1,556	1,330	4,277	7,163
(Charged)/credited to the consolidated statement of comprehensive income	(1,107)	(267)	2,999	1,625
At 31 December 2017	449	1,063	7,276	8,788

Deferred income tax liabilities:

	Deferred expense Rmb'000	Accelerated tax depreciation Rmb'000	Fair value gain on patents Rmb'000	Total Rmb'000
At 1 January 2016	–	36	228	264
Charged/(credited) to the consolidated statement of comprehensive income	–	97	(21)	76
At 31 December 2016	–	133	207	340
Charged/(credited) to the consolidated statement of comprehensive income	67	98	(21)	144
At 31 December 2017	67	231	186	484

29 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 Rmb1,810,000 (2016: Rmb802,000) in respect of losses amounting to approximately Rmb7,238,000 (2016: Rmb3,208,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2017 Rmb'000	2016 Rmb'000
2020	1,452	1,452
2021	1,901	1,756
2022	3,885	–
	7,238	3,208

The Group had no unrecognised deferred income tax liabilities as at 31 December 2017 (2016: Nil).

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2017 Rmb'000	2016 Rmb'000
Profit before income tax	1,244	34,801
Adjustments for:		
Interest income	(261)	(475)
Interest expense	232	111
Unrealised exchange difference	(1,609)	–
Government grants	(9,574)	(1,507)
Amortisation of patents	84	362
Gain on disposal of patents	–	(2,000)
Depreciation	37,091	35,359
Loss on disposal of property, plant and equipment	2,856	470
Amortisation of land use rights	731	685
(Written back)/provision for impairment of inventories	(1,622)	747
(Written back)/provision for impairment of trade and other receivables	(178)	1,596
Fair value gain on derivative financial Instruments	–	(446)
	28,994	69,703
Changes in working capital:		
Inventories	(12,002)	27,741
Trade and bills receivables, other receivables and prepayments	6,754	(26,636)
Trade and bills payables, other payables and accrued charges	44,158	(11,504)
Cash generated from operations	67,904	59,304

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank borrowings		Dividends payable	
	2017	2016	2017	2016
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January	30,000	90,000	–	–
New bank borrowings	105,945	75,000	–	–
Repayment of bank borrowings	(79,843)	(135,000)	–	–
Exchange difference	(2,095)	–	–	–
2016/2015 final dividend	–	–	10,594	13,772
Dividends paid	–	–	(10,594)	(13,772)
At 31 December	54,007	30,000	–	–

31 COMMITMENTS

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

	2017	2016
	Rmb'000	Rmb'000
Contracted but not provided for	7,261	3,702

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2017, the Group and the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2017	2016
	Rmb'000	Rmb'000
Not later than one year	518	255
Later than one year and not later than five years	248	–
	766	255

32 RELATED PARTY TRANSACTIONS

Key management compensation

	2017 Rmb'000	2016 Rmb'000
Salaries and other short-term employee benefits	1,467	1,480
Retirement benefit contributions	63	75
	1,530	1,555

33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY

AS AT 31 December 2017

		2017 Rmb'000	2016 Rmb'000
ASSETS			
Non-current assets			
Property, plant and equipment		209,575	214,108
Land use rights		8,172	8,413
Construction in progress		12,773	9,924
Investments in subsidiaries		72,794	72,794
Deferred income tax assets		1,712	2,333
		305,026	307,572
Current assets			
Inventories		94,463	85,653
Trade and bills receivables		84,977	91,236
Other receivables and prepayments		12,586	7,566
Amounts due from subsidiaries		3,448	8,014
Loans to a subsidiary		180,000	140,000
Income tax recoverable		1,223	328
Pledged bank balances		15,671	5,066
Cash and bank balances		56,038	38,389
		448,406	376,252
Total assets		753,432	683,824
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		52,970	52,970
Reserves	Note (a)	551,774	549,777
Total equity		604,744	602,747

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

BALANCE SHEET OF THE COMPANY (Continued)

AS AT 31 December 2017

	2017 Rmb'000	2016 Rmb'000
LIABILITIES		
Non-current liabilities		
Other payable	2,430	2,121
Current liabilities		
Trade and bills payables	72,228	28,692
Other payables and accrued charges	16,171	20,264
Amount due to a subsidiary	3,852	–
Bank borrowings	54,007	30,000
	146,258	78,956
Total liabilities	148,688	81,077
Total equity and liabilities	753,432	683,824

The balance sheet of the Company was approved by the Board of Directors on 16 March 2018 and was signed on its behalf

Rui Xin Sheng
Director

Pan Chun
Director

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

Note (a) Reserve movement of the Company

	Company			
	Share premium Rmb'000	**Statutory common reserve** Rmb'000	**Retained earnings** Rmb'000	**Total** Rmb'000
At 1 January 2016	102,559	74,183	342,283	519,025
Transfer to statutory reserve	–	4,608	(4,608)	–
Profit and total comprehensive income for the year	–	–	44,524	44,524
Final dividend for the year ended 31 December 2015	–	–	(13,772)	(13,772)
At 31 December 2016	102,559	78,791	368,427	549,777

	Share premium Rmb'000	**Statutory common reserve** Rmb'000	**Retained earnings** Rmb'000	**Total** Rmb'000
At 1 January 2017	102,559	78,791	368,427	549,777
Transfer to statutory reserve	–	1,170	(1,170)	–
Profit and total comprehensive income for the year	–	–	12,591	12,591
Final dividend for the year ended 31 December 2016	–	–	(10,594)	(10,594)
At 31 December 2017	102,559	79,961	369,254	551,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each of the Directors and chief executive officer's of the Company for the year ended 31 December 2017 is set out as follows:

Name of Director	Fees	Salaries	Discretionary bonus	Housing allowance	Estimated money value of other benefits	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Executive director							
Mr. Rui Xin Sheng	320	504	–	–	–	23	847
Mr. Pan Chun (Note (i))	100	543	–	–	–	40	683
Non-executive director							
Mr. Zeng Xian Biao	50	–	–	–	–	–	50
Mr. Yu Xiao Ping	50	–	–	–	–	–	50
Ms. Leng Yi Xin	50	–	–	–	–	–	50
Mr. Wang Jian Ping	50	–	–	–	–	–	50
Independent non-executive director							
Prof. Ouyang Ping Kai	60	–	–	–	–	–	60
Prof. Yang Sheng Li	60	–	–	–	–	–	60
Ms. Wei Xin	60	–	–	–	–	–	60
Ms. Au Fung Lan	60	–	–	–	–	–	60

34 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

The remuneration of each of the Directors and chief executive officer's of the Company for the year ended 31 December 2016 is set out as follows:

Name of Director	Fees	Salaries	Discretionary bonus	Housing allowance	Estimated money value of other benefits	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Executive director							
Mr. Rui Xin Sheng	320	520	–	–	–	38	878
Mr. Pan Chun (Note (i))	100	540	–	–	–	37	677
Non-executive director							
Mr. Zeng Xian Biao	50	–	–	–	–	–	50
Mr. Yu Xiao Ping	50	–	–	–	–	–	50
Ms. Leng Yi Xin	50	–	–	–	–	–	50
Mr. Wang Jian Ping	50	–	–	–	–	–	50
Independent non-executive director							
Prof. Ouyang Ping Kai	60	–	–	–	–	–	60
Prof. Yang Sheng Li	60	–	–	–	–	–	60
Ms. Wei Xin	60	–	–	–	–	–	60
Ms. Au Fung Lan	60	–	–	–	–	–	60

Notes:

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

(ii) None of the Directors waived any emoluments during the years ended 31 December 2017 and 2016.

(iii) No remuneration paid to or receivables by the Directors of the Company in respect of accepting office as director or director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the financial year (2016: Nil).

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

During the financial year ended 31 December 2017, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2017, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors (2016: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. (2016: Nil).

FIVE YEAR SUMMARY

	2013 Rmb'000	2014 Rmb'000	2015 Rmb'000	2016 Rmb'000	2017 Rmb'000
Consolidated results					
Revenue	703,032	561,669	514,779	594,402	630,841
Operating profit	88,561	45,067	50,320	34,437	1,215
Finance (costs)/income, net	(6,958)	(3,152)	687	364	29
Profit before income tax	81,603	41,915	51,007	34,801	1,244
Income tax (expense)/credit	(11,275)	(4,497)	(5,861)	(1,485)	1,456
Profit for the year	70,328	37,418	45,146	33,316	2,700
Profit for the year attributable to:					
Equity holders of the Company	69,992	37,223	45,274	33,172	3,382
Non-controlling interest	336	195	(128)	144	(682)
Dividends	21,188	11,653	13,772	10,594	–
Consolidated assets and liabilities					
Total non-current assets	373,413	405,497	402,748	400,861	416,937
Total current assets	304,365	286,798	327,456	275,497	315,445
Total current liabilities	(157,750)	(156,138)	(160,633)	(85,044)	(148,511)
Net current assets	146,615	130,660	166,823	190,453	166,934
Total assets less current liabilities	520,028	536,157	569,571	591,314	583,871
Total non-current liabilities	(473)	(343)	(264)	(2,461)	(2,914)
Net assets	519,555	535,814	569,307	588,853	580,957
Earnings per share					
– basic and diluted	Rmb0.132	Rmb0.070	Rmb0.085	Rmb0.063	Rmb0.006

GLOSSARY

Board	Board of Directors of the Company
CG Code	Code provisions of Corporate Governance Code in appendix 14 of the Listing Rules
Changmao or the Company	Changmao Biochemical Engineering Company Limited
Changzhou Xinsheng	常州新生生化科技開發有限公司
Chirotechnology Centre	the Jiangsu Biochemical Chirotechnology Research Centre
CIT	Corporate Income Tax
Concurrent Production Technology	The concurrent production technology for the production of fumaric acid and malic acid
Director(s)	Director(s) of the Company
Domestic Shares	domestic shares of the Company
Foreign Shares	foreign shares of the Company
GEM	Growth Enterprise Market of the Exchange
Group	The Company and its subsidiaries
H Shares	H shares of the Company
HK Biochem Ltd	Hong Kong Bio-chemical Advanced Technology Company Limited
HK Xinsheng Ltd	Hong Kong Xinsheng Pioneer Investment Company Limited
Lianyungang Changmao	Changmao Biochemical Lianyungang Company Limited, a subsidiary of the Company
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange

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
PQQ	Pyrroloquinoline quinone
PRC	The People's Republic of China
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Shanghai Changmao	Shanghai Changmao Biochemical Engineering Company Limited, a subsidiary of the Company
Shanghai Life Sci	Shanghai Medical Life Science Research Centre Limited
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