常茂生物化學工程股份有限公司
Changmao Biochemical Engineering Company Limited*

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

(Stock Code: 954)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

HIGHLIGHTS

	2014	2013
	Rmb'000	*Rmb'000*
Turnover	**561,669**	703,032
Profit for the year attributable to the equity holders of the Company	**37,223**	69,992

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.022 (inclusive of tax) per share for the year ended 31 December 2014.

* *For identification purpose only*

The Board is pleased to present the audited results of the Group for the year ended 31 December 2014 together with the audited comparative figures for the year ended 31 December 2013 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	**2014**	2013
		Rmb'000	*Rmb'000*
Turnover	2	**561,669**	703,032
Cost of sales	4	**(450,340)**	(534,023)
Gross profit		**111,329**	169,009
Other income	3	**6,943**	2,188
Other (losses)/gains, net	3	**(44)**	1,821
Selling expenses	4	**(14,196)**	(15,348)
Administrative expenses	4	**(58,965)**	(69,109)
Operating profit		**45,067**	88,561
Finance income		**1,405**	555
Finance costs		**(4,557)**	(7,513)
Finance costs, net	5	**(3,152)**	(6,958)
Profit before income tax		**41,915**	81,603
Income tax expense	6	**(4,497)**	(11,275)
Profit for the year		**37,418**	70,328
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		**29**	106
Total comprehensive income for the year		**37,447**	70,434
Profit for the year attributable to:			
Equity holders of the Company		**37,223**	69,992
Non-controlling interests		**195**	336
		37,418	70,328
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**37,252**	70,098
Non-controlling interests		**195**	336
		37,447	70,434
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	7	**Rmb0.070**	Rmb0.132
Dividends	8	**11,653**	21,188

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	**2014** **Rmb'000**	2013 Rmb'000
ASSETS			
Non-current assets			
Patents		**2,314**	3,503
Property, plant and equipment		**283,926**	247,627
Land use rights		**28,744**	21,377
Construction in progress		**89,483**	84,615
Prepayments		**–**	15,233
Deferred income tax assets		**1,030**	1,058
		405,497	373,413
Current assets			
Inventories		**125,004**	135,946
Trade and bills receivables	9	**75,759**	79,004
Other receivables and prepayments		**16,315**	17,629
Derivative financial instruments		**–**	2,554
Income tax recoverable		**293**	–
Pledged bank balances		**7,724**	4,442
Cash and bank balances		**61,703**	64,790
		286,798	304,365
Total assets		**692,295**	677,778
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	10	**480,568**	464,504
		533,538	517,474
Non-controlling interests		**2,276**	2,081
Total equity		**535,814**	519,555

CONSOLIDATED BALANCE SHEET *(CONTINUED)*
As at 31 December 2014

	Note	**2014** **Rmb'000**	2013 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**343**	473
Current liabilities			
Trade and bills payables	11	**39,771**	18,410
Other payables and accrued charges		**26,125**	32,536
Derivative financial instruments		**242**	–
Income tax payable		**–**	1,804
Bank borrowings		**90,000**	105,000
		156,138	157,750
Total liabilities		**156,481**	158,223
Total equity and liabilities		**692,295**	677,778
Net current assets		**130,660**	146,615
Total assets less current liabilities		**536,157**	520,028

Notes:

1. BASIS OF PREPARATION

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

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policy and disclosures

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

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

HKAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities
HKAS 36 Amendment	Recoverable Amount Disclosure for Non-Financial Assets
HKAS 39 Amendment	Novation of Derivatives and Continuation of Hedge Accounting
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Investment Entities
HK(IFRIC) 21	Levies

There above new and amended standards and interpretations do not have significant impact on the Group financial statements.

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

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

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

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

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

2. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

4. EXPENSES BY NATURE

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

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

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

5. FINANCE COSTS, NET

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

6. INCOME TAX EXPENSE

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

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

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

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

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

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

7. EARNINGS PER SHARE

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

The Company had no dilutive potential shares in issue during the year (2013: Nil).

8. DIVIDENDS

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

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

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

9. TRADE AND BILLS RECEIVABLES

	2014	2013
	Rmb'000	*Rmb'000*
Trade receivables	**75,759**	78,304
Bills receivables	**–**	700
	75,759	79,004

(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:

	2014	2013
	Rmb'000	*Rmb'000*
0 to 3 months	**71,883**	75,750
4 to 6 months	**3,676**	2,135
Over 6 months	**693**	820
	76,252	78,705
Less: Provision for impairment of trade receivables	**(493)**	(401)
	75,759	78,304

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

10. RESERVES

	Share premium	Statutory common reserve	Capital reserve	Translation reserve	Retained earnings	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1 January 2013	102,559	58,883	461	(135)	247,470	409,238
Transfer of profit to statutory reserve	–	6,995	–	–	(6,995)	–
Profit for the year	–	–	–	–	69,992	69,992
Other comprehensive income						
– currency translation difference – Group	–	–	–	106	–	106
Final dividend for the year ended 31 December 2012	–	–	–	–	(14,832)	(14,832)
At 31 December 2013	102,559	65,878	461	(29)	295,635	464,504
Representing:						
2013 proposed final dividend					21,188	
Others					274,447	
					295,635	
At 1 January 2014	**102,559**	**65,878**	**461**	**(29)**	**295,635**	**464,504**
Transfer of profit to statutory reserve	**–**	**3,406**	**–**	**–**	**(3,406)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**37,223**	**37,223**
Other comprehensive income						
– currency translation difference – Group	**–**	**–**	**–**	**29**	**–**	**29**
Final dividend for the year ended 31 December 2013	**–**	**–**	**–**	**–**	**(21,188)**	**(21,188)**
At 31 December 2014	**102,559**	**69,284**	**461**	**–**	**308,264**	**480,568**
Representing:						
2014 proposed final dividend					**11,653**	
Others					**296,611**	
					308,264	

11. TRADE AND BILLS PAYABLES

	2014	2013
	Rmb'000	*Rmb'000*
Trade payables	**16,587**	18,410
Bills payables	**23,184**	–
	39,771	18,410

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

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

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

BUSINESS REVIEW AND OUTLOOK

In 2014, the Group maintained steady production and operation. Project construction made headway as planned. The progress of international collaboration, research and development and management were satisfactory in all aspects. The Group's development reflected a positive and healthy trend in general.

Results for the Year

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

Business Review

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

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

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

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

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

Research and Development

1. *Natural Organic Acids Project*

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

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

2. *New Vitamin PQQ Project*

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

3. *Pharmaceutical Adjuvant Project*

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

4. *Pharmaceutical Intermediaries*

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

Outlook and Prospect

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

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

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

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

2. *Commencement of transforming the production lines to use butane to manufacture maleic anhydride in the Changzhou headquarter*

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

3. *Accelerating technology innovation and promoting product upgrade*

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

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

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

FINANCIAL REVIEW

Turnover and gross profit margin

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

Expenses

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

Other income

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

Finance costs, net

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

Income tax

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

Net profit

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

SEGMENTAL INFORMATION

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the year, the Group has used forward contracts to hedge certain of its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

EMPLOYEES

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

Under the staff incentive scheme for each of the three years ended 31 December 2016, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before payment of the bonuses referred to below) amount to not less than Rmb 40 million (the "Target Profit"):

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

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

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

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, which is chaired by an independent non-executive Director and currently has a membership comprising three independent non-executive Directors, has reviewed with the management and approved the financial statements for the year ended 31 December 2014.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2014.

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.022 (inclusive of tax) per share in cash, totalling approximately Rmb11,653,000 for the year ended 31 December 2014. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It is intended that the dividend will be payable on 31 July 2015 to the holders of Domestic Shares, Foreign Shares and H Shares whose names appear on the register of member of the Company at 4:30 p.m. on 20 May 2015. Further information relating to the payment of the dividend will be made by the Company in due course.

CLOSURE OF H SHARE REGISTER IN RELATION TO THE PROPOSED FINAL DIVIDEND

The H Share register of shareholders of the Company will be closed from 15 May 2015 to 20 May 2015 (both days inclusive), during which no transfer of H Shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17Mth Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 14 May 2015.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 8 May 2015. A notice convening the annual general meeting will be published in due course.

SIGNIFICANT INVESTMENTS

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

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

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

CONTINGENT LIABILITIES

As at 31 December 2014 and 31 December 2013, the Group did not have any material contingent liabilities.

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

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

Long positions in shares:

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares *(Note (l))*	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares *(Note (m))*	Number of H Shares	Approximate percentage shareholding in the H Shares *(Note (n))*
Director							
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian *(Note (a))*	2,500,000	100%	135,000,000	39.30%	136,000	0.07%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation *(Note (b))*	2,500,000	100%	135,000,000	39.30%	136,000	0.07%
Mr. Pan Chun	*(Note (c))*	–	–	*(Note (c))*	*(Note (c))*	–	–
Mr. Zeng Xian Biao	*(Note (d))*	–	–	*(Note (d))*	*(Note (d))*	–	–
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation *(Note (e))*	–	–	66,000,000	19.21%	–	–
Prof. Ouyang Ping Kai	*(Note (f))*	–	–	*(Note (f))*	*(Note (f))*	–	–
Prof. Yang Sheng Li	*(Note (g))*	–	–	*(Note (g))*	*(Note (g))*	–	–
Supervisor							
Ms. Zhou Rui Juan	*(Note (h))*	–	–	*(Note (h))*	*(Note (h))*	–	–
Mr. Lu He Xing	*(Note (i))*	–	–	*(Note (i))*	*(Note (i))*	–	–
Mr. Zhang Jun Peng	*(Note (j))*	–	–	*(Note (j))*	*(Note (j))*	–	–
Prof. Jiang Yao Zhong	*(Note (k))*	–	–	*(Note (k))*	*(Note (k))*	–	–

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2014, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

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

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

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

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

Long positions in shares:

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares *(Note (f))*
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%
Union Top Development Limited	Interest of controlled corporation	67,500,000 *(Note (a))*	19.65%
Ms. Rakchanok Sae-lao	Interest of controlled corporation	67,500,000 *(Note (b))*	19.65%
Jomo Limited	Beneficial owner	66,000,000	19.21%
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	66,000,000 *(Note (c))*	19.21%
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%
上海科技投資股份有限公司 (Shanghai Technology Entrepreneur Investment Company Limited, formerly上海科技投資股份有限公司)	Interest of controlled corporation	62,500,000 *(Note (d))*	18.20%
上海科技投資公司(Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 *(Note (e))*	18.20%

Notes:

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

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

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

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

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

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

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

SHARE CAPITAL STRUCTURE

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

PUBLIC FLOAT

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

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

Code provision A.6.7 of CG Code stipulates that independent non-executive Directors and non-executive Directors should attend general meetings. Certain independent non-executive Directors and non-executive Directors were unable to attend the annual general meeting of the Company held on 12 May 2014, and extraordinary general meeting of the Company that held on 11 August 2014 due to prior business commitments.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the Model Code for the year ended 31 December 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Listing Rules. The audit committee comprises four independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including to review, inter alia, the Group's interim and annual results during the year ended 31 December 2014 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 16 March 2015

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

GLOSSARY

Board	Board of Directors of the Company
CG Code	Code provision of the Corporate Governance Code in appendix 14 of the Listing Rules
Changmao or the Company	Changmao Biochemical Engineering Company Limited
Changzhou Xinsheng	常州新生生化科技開發有限公司
CIT	Corporate Income Tax
Director(s)	Director(s) of the Company
Domestic Shares	Domestic shares of the Company
Foreign Shares	Foreign shares of the Company
ERP	Enterprise Resource Planning
GEM	Growth Enterprise Market of the Exchange
Group	the Company and its subsidiaries
HK Biochem Ltd	Hong Kong Bio-chemical Advanced Technology Company Limited
HKFRS	Hong Kong Financial Reporting Standards
HK Xinsheng Ltd	Hong Kong Xinsheng Pioneer Investment Company Limited
H Shares	H shares of the Company
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Main Board	the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM, and for avoidance of doubt, it does not include GEM for the purpose hereof

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
PRC	The People's Republic of China
PQQ	Pyrroloquinoline quinone
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	Supervisor(s) of the Company
USD	United States Dollars