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 2016

HIGHLIGHTS

	2016	2015
	Rmb'000	*Rmb'000*
Revenue	**594,402**	514,779
Profit for the year attributable to the equity holders of the Company	**33,172**	45,274

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.020 (inclusive of tax) per share for the year ended 31 December 2016.

* *For identification purpose only*

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2016 together with the audited comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Note	**2016** **Rmb'000**	2015 Rmb'000
Revenue	2	**594,402**	514,779
Cost of sales	4	**(488,870)**	(399,949)
Gross profit		**105,532**	114,830
Other income	3	**3,136**	3,065
Other gains, net	3	**5,685**	7,136
Selling expenses	4	**(17,960)**	(15,096)
Administrative expenses	4	**(61,956)**	(59,615)
Operating profit		**34,437**	50,320
Finance income		**475**	687
Finance costs		**(111)**	–
Finance income, net	5	**364**	687
Profit before income tax		**34,801**	51,007
Income tax expense	6	**(1,485)**	(5,861)
Profit for the year		**33,316**	45,146
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		**2**	–
Total comprehensive income for the year		**33,318**	45,146
Profit for the year attributable to:			
Equity holders of the Company		**33,172**	45,274
Non-controlling interests		**144**	(128)
		33,316	45,146
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**33,174**	45,274
Non-controlling interests		**144**	(128)
		33,318	45,146
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	7	**Rmb0.063**	Rmb0.085

CONSOLIDATED BALANCE SHEET
As at 31 December 2016

	Note	2016 Rmb'000	2015 Rmb'000
ASSETS			
Non-current assets			
Patents		**828**	1,190
Property, plant and equipment		**305,923**	276,296
Land use rights		**27,373**	28,058
Construction in progress		**59,574**	94,655
Deferred income tax assets		**7,163**	2,549
		400,861	402,748
Current assets			
Inventories		**101,711**	130,199
Trade and bills receivables	9	**94,487**	71,037
Other receivables and prepayments		**23,189**	21,599
Income tax recoverable		**328**	–
Pledged bank balances		**5,066**	8,830
Cash and bank balances		**50,716**	95,791
		275,497	327,456
Total assets		**676,358**	730,204
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	10	**533,591**	514,189
		586,561	567,159
Non-controlling interests		**2,292**	2,148
Total equity		**588,853**	569,307

CONSOLIDATED BALANCE SHEET *(CONTINUED)*
As at 31 December 2016

	Note	**2016** **Rmb'000**	2015 Rmb'000
LIABILITIES			
Non-current liabilities			
Other payable		**2,121**	–
Deferred income tax liabilities		**340**	264
		2,461	264
Current liabilities			
Trade and bills payables	11	**29,667**	41,936
Other payables and accrued charges		**25,366**	26,496
Derivative financial instruments		**–**	446
Income tax payable		**11**	1,755
Bank borrowings		**30,000**	90,000
		85,044	160,633
Total liabilities		**87,505**	160,897
Total equity and liabilities		**676,358**	730,204

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of Changmao Biochemical Engineering Company Limited (the "Company") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared under the historical cost convention, as modified by derivative financial instruments which are carried at fair value.

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016.

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11;
- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38;
- Annual improvements to HKFRSs 2012 – 2014 cycle; and
- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard 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.

The Group does not expect the new guidance to have a significant impact on 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.

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.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

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. 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.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

The Group has commenced an assessment of the impact of HKFRS 15 on the recognition of revenue, but is not yet in a position to state whether they would have significant impacts on the Group's consolidated financial statement.

HKFRS 16, 'Leases'

HKFRS 16 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.

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 Rmb255,000.

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 financial statements.

The new standard 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.

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

2. REVENUE AND SEGMENT INFORMATION

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

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

	2016	2015
	Rmb'000	*Rmb'000*
Revenue from sales of goods	**594,402**	514,779

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

	2016	2015
	Rmb'000	*Rmb'000*
Mainland China	**305,765**	258,199
Europe	**118,227**	100,909
Asia Pacific	**134,171**	116,732
America	**28,843**	27,476
Others	**7,396**	11,463
	594,402	514,779

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

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 2016, all the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb393,698,000 (2015: Rmb400,199,000) are located in Mainland China.

Included in the revenue from sales of goods, approximately Rmb35,659,000 (2015: Rmb25,097,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 6% (2015: 5%) of the total revenue of the Group. There are no other single customers contributing over 10% of the Group's total revenue.

3. OTHER INCOME AND OTHER GAINS, NET

	2016	2015
	Rmb'000	*Rmb'000*
Other income		
Sales of scrap materials	**267**	317
Government grants	**1,507**	1,593
Others	**1,362**	1,155
	3,136	3,065

	2016	2015
	Rmb'000	*Rmb'000*
Other gains, net		
Gain on disposal of patents	**2,000**	1,646
Loss on disposal of property, plant and equipment	**(470)**	(351)
Fair value gain/(loss) on derivative financial instruments	**446**	(204)
Net exchange gain	**3,709**	6,045
	5,685	7,136

4. EXPENSES BY NATURE

	2016	2015
	Rmb'000	*Rmb'000*
Cost of inventories sold	**306,569**	233,652
Amortisation of patents	**362**	770
Amortisation of land use rights	**685**	686
Auditors' remuneration		
– Audit services	**1,351**	1,139
– Non-audit services	**323**	–
Depreciation	**35,359**	35,291
Operating lease rentals in respect of land and buildings	**552**	569
Research and development costs	**8,036**	7,530
Provision for impairment of trade and other receivables	**1,596**	26
Staff costs (including emoluments of Directors and Supervisors)	**64,340**	59,794
Other expenses	**149,613**	135,203
Total cost of sales, selling expenses and administrative expenses	**568,786**	474,660

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

5. FINANCE INCOME, NET

	2016	2015
	Rmb'000	*Rmb'000*
Interest on bank borrowings	**(1,911)**	(3,463)
Less: amounts capitalised on qualifying assets	**1,800**	3,463
	(111)	–
Interest income on bank deposits	**475**	687
Finance income, net	**364**	687

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 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:

	2016	2015
	Rmb'000	*Rmb'000*
Current income tax		
– Provision for CIT	**6,021**	7,533
– Under-provision/(over-provision) in prior year	**2**	(74)
Deferred income tax	**(4,538)**	(1,598)
	1,485	5,861

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:

	2016	2015
	Rmb'000	*Rmb'000*
Profit before income tax	**34,801**	51,007
Calculated at the tax rates applicable to results of the respective consolidated entities	**3,675**	7,145
Expenses not deductible for tax purposes	**243**	443
Tax losses for which no deferred income tax asset was recognised	**439**	965
Tax incentives for research and development expenses*	**(1,587)**	(1,375)
Temporary difference not recognised in prior year	**(1,141)**	(1,451)
Under-provision/(over-provision) in prior year	**2**	(74)
Others	**(146)**	208
Income tax expense	**1,485**	5,861

* 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 2016 and 2015.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2016 is based on the profit attributable to the equity holders of the Company of Rmb33,172,000 (2015: Rmb45,274,000) and 529,700,000 (2015: 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 (2015: Nil).

8. DIVIDENDS

No interim dividend was declared during the year (2015: Nil). The dividends paid in 2016 and 2015 were Rmb13,772,000 (Rmb0.026 per share) and Rmb11,653,000 (Rmb0.022 per share) respectively. A final dividend in respect of the year ended 31 December 2016 of Rmb0.020 per share, totalling Rmb10,594,000 is to be proposed at the Annual General Meeting on 12 May 2017. These financial statements do not reflect this dividend payable.

	2016	2015
	Rmb'000	*Rmb'000*
Final, proposed, of Rmb0.020 (2015: Rmb0.026) per share	**10,594**	13,772

9. TRADE AND BILLS RECEIVABLES

	2016	2015
	Rmb'000	*Rmb'000*
Trade receivables	**92,807**	71,037
Bills receivables	**1,680**	–
	94,487	71,037

(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:

	2016	2015
	Rmb'000	*Rmb'000*
0 to 3 months	**90,547**	68,793
4 to 6 months	**2,320**	2,055
Over 6 months	**1,651**	656
	94,518	71,504
Less: Provision for impairment of trade receivables	**(1,711)**	(467)
	92,807	71,037

(b) The maturity dates of bills receivables ranged from 60 to 150 days.

10. 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 2015	102,559	69,284	461	–	308,264	480,568
Transfer to statutory reserve	–	4,899	–	–	(4,899)	–
Profit for the year	–	–	–	–	45,274	45,274
Final dividend for the year ended 31 December 2014	–	–	–	–	(11,653)	(11,653)
At 31 December 2015	102,559	74,183	461	–	336,986	514,189
Representing:						
2015 proposed final dividend					13,772	
Others					323,214	
					336,986	

	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**
Representing:						
2016 proposed final dividend					**10,594**	
Others					**341,184**	
					351,778	

11. TRADE AND BILLS PAYABLES

	2016	2015
	Rmb'000	*Rmb'000*
Trade payables	**12,781**	12,504
Bills payables	**16,886**	29,432
	29,667	41,936

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

	2016	2015
	Rmb'000	*Rmb'000*
0 to 6 months	**12,547**	12,361
7 to 12 months	**133**	44
Over 12 months	**101**	99
	12,781	12,504

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

BUSINESS REVIEW AND OUTLOOK

In 2016, the Group maintained steady production and operation. Project construction made headway as planned. The progress of international collaboration, research and development and management were satisfactorily in all aspects. The Group's development reflected a positive and healthy trend in general.

Results for the Year

The Group's sales revenue for the year ended 31 December 2016 was approximately Rmb594,402,000, which represented an increase of approximately 15% as compared to that in the corresponding period in last year. Net profit attributable to the equity holders of the Company was approximately Rmb33,172,000, which represented a decrease of approximately 27% as compared to that in the corresponding period in last year.

In 2016, the Group continued to steadily enhance its core competencies in terms of technology, quality, equipment, resources, personnel and management. Having the advantages in quality and brand, the Group achieved a steady increase in sales volume and stable market share of its organic acid products such as tartaric acid and malic acid, etc. However, the Group's consolidated net profit decreased due to the decrease in unit selling price of major products, the increase in costs of raw materials and labour and the increase in production costs during the trial production in Lianyungang plants in 2016 while the large-scale production advantage has not yet been fully utilised.

Business Review

2016 is the first year of the "Thirteen-Five" plan, the Group achieved an overall stable development trend by overcoming the impacts of weak recovery in the international economy and the adverse effects on production and operation as a result of slow domestic economic growth. Faced with fierce international and domestic market competitions, the Group's priority is to continuously improve product competitiveness. It has accelerated the modification of maleic anhydride production line which uses the butane method, brought the advantage of large scale production into play, saved energy, reduced discharge and consumption. The Group explored new development opportunities through its strong research and marketing capabilities, acceleration on improvement work in product structure, continuous expansion in domestic and foreign markets, revisiting its sales strategies, obtaining market insight, repeatedly visiting Europe and America to meet important customers to strengthen communication and cooperation with end customers and exploring new sales channels.

In terms of management, the Group has been always committed to the highest standards of the international standards, and constantly upgrades its management system. In 2016, the Group has passed the manufacturing license review with full score. The Group passed the audit for the renewal of FSSC22000, which represents the highest standards in food safety system, the audit of ISO9001 in the quality management system, and

ISO14001 certificate in relation to the environmental management system. In addition, in order to strengthen the management of the production site and improve the overall management level of the Company, the Group has implemented 5S management, which effectively managed elements of production with respect to position setting and fixation to improve the working environment and efficiency and help the Group's long-term healthy development.

For a long time, 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 to ensure the strict adherence to the pollutant discharge standards. On top of corporate earnings, the Group's social value is clearly reflected and corporate social responsibilities are actively fulfilled.

Research and Development

1. *New Vitamin PQQ Project*

   In 2016, 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 a chicken feed additive, PQQ can improve the egg-laying rate of laying hens, and accelerate the growth of broiler chickens. As a pig feed additive, PQQ can enhance effectiveness and tolerability on the growth 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 and strives for obtaining the approval for the new feed additive as soon as possible.

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 obtained the manufacture license to produce pharmaceutical adjuvant including aspartame, DL-malic acid and L-malic acid. It has begun to promote the pharmaceutical products produced and accumulated some domestic and foreign customers. Pharmaceutical adjuvant is the Group's focus in the medium to long run. It will further enrich the Group's product range, optimise the product structure of the Group, and expand the market to enhance the performance of existing products.

3. *Pharmaceutical Intermediaries*

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

Key Projects

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

In 2016, Lianyungang Changmao began the production and sale of L- aspartic acid and the production is stable and the product has been entered into the market. As Lianyungang Changmao has just commenced operation and has not reached full production capacity, coupled with heavy investment at the beginning stage, operating costs are high which caused an operating loss in 2016. On the other hand, after years of efforts, catalyst filling for the first set of maleic anhydride production line with an annual capacity of 10,000 tons and using butane as raw material in Lianyungang Changmao has been completed and put into the trial production in 2016. It is expected that the economic benefits of Lianyungang Changmao will be improved when it operates in normal with gradually increasing production volume in 2017.

Lianyungang Changmao 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 further improving the food additive series including acidulant and sweeteners through maximising the advantage of large-scale production. The project will bring in new dynamics to the Group, improve its overall competitiveness and become a new profit centre of the Group.

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

   In 2016, the Group has done lots of work on preparing the transformation of maleic anhydride production line with an existing annual production capacity of 20,000 tons in Changzhou. Government approvals were obtained.

   It is expected that transformation of maleic anhydride production by using the butane method to replace the benzene method will commence production in 2017. 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, 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.

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. *Nurturing high-potential employees for the Group's sustainability*

   Qualified personnel are very important strategic resources for enterprise development. The Group will plan to gradually carry out training program on scientific research, production, sales and management of for employees. It will constantly improve the recruitment and training of personnel. It will use mechanisms to form an excellent environment, create opportunities, build a platform to promote the work quality of employees, and provide new elements for the development of the Group.

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

   The Group continues to aim at stable production and expand sales network and at the same time will strive to expand internationally. Changmao is an export-oriented enterprise, approximately 49% of its products are exported to overseas in 2016. 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.

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 which are safe, environmental friendly and with strong competitiveness, highlighting its focus and increasing speed. 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 further improve the sales volume of products and continuously to increase economic benefits.

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

ANALYSIS OF KEY PERFORMANCE INDICATORS

Revenue (2016: Rmb594,402,000; 2015: Rmb514,779,000) **and gross profit margin** (2016: 17.8%; 2015: 22.3%)

Revenue from sales increased mainly because the total volume of products sold increased. The price for benzene, the Group's major raw material, has been risen since early 2016. The selling price of the major products also decreased slightly compared with that in 2015, which resulted in a drop in the gross profit margin of the major products. The Group's production base in Lianyungang was put into production in 2016. It is still at a trial production stage and the large-scale production advantage has not yet been fully utilised. The Group's gross profit margin is also dragged down as a result of the Lianyungang operation.

Selling and administrative expenses (2016: Rmb79,916,000; 2015: Rmb74,711,000)
The extent of increase in selling and administrative expenses was relatively less than the extent of increase in business and production volume, which is mainly because the Group has implemented effective cost saving measures in 2016.

Other income and other gains, net (2016: Rmb8,821,000; 2015: Rmb10,201,000)
Other income and other gains, net decreased compared to that in 2015, as there was an approximately Rmb2,336,000 decrease in exchange gain.

Finance income, net (2016: Rmb364,000; 2015: Rmb687,000)
The Group has capitalised most of the interest expense on qualifying assets in 2016. Interest expense before deducting the interest capitalised was Rmb1,911,000 (2015: Rmb3,463,000). It has decreased because there was a decrease in average balance of bank borrowings and effective interest rate in 2016.

Income tax (2016: Rmb1,485,000; 2015: Rmb5,861,000)
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 2016. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. For details of the difference on the tax on the Group's profit before income tax and the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, please refer to note 6 to the consolidated statement of comprehensive income above.

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

For the year ended 31 December 2016, the Group recorded a profit attributable to the equity holders of the Company of approximately Rmb33,172,000 (2015: Rmb45,274,000), representing a decrease of approximately 27%. Such decrease was mainly due to the decrease in gross profit margin and the increase in production costs during the trial production in Lianyungang plant in 2016. The Board believes that Lianyungang Changmao will improve its performance when it operates with planned capacity in 2017.

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 revenue, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 49% (2015: 50%) of the Group's revenue while domestic sales in the PRC accounted for approximately 51% (2015: 50%) 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. As the USD continued to rise against the Renminbi, during the year, the Group reduced the using of forward foreign exchange contracts to hedge the USD exposures. As at 31 December 2016, the Group had no outstanding forward foreign exchange contracts.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had total outstanding bank borrowings of Rmb30,000,000 (2015: Rmb90,000,000). The outstanding bank borrowings as at 31 December 2016 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 2016 was approximately 3.9% (2015: 4.4%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2016 and 2015, 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 2016, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb3,702,000 (2015: Rmb14,740,000). These capital commitments are mainly used for the modification of new production lines. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2016. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 12.9% (2015: 22.0%) as at 31 December 2016. As at 31 December 2016, the Group's cash and cash equivalents amounted to Rmb47,816,000 (2015: Rmb93,191,000). The decrease in cash and cash equivalents was due to measures taken by the Group to strengthen cash flow management, with the aim to reduce bank loans to save interest expenses, and as a result cash and cash equivalents were also reduced. The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2016, the Group employed a total of 595 employees (2015: 552 employees). Employees are remunerated in accordance with the nature of the job and also on individual merit. Total amount of staff costs for the year ended 31 December 2016 was approximately Rmb64,340,000 (2015: Rmb59,794,000). Increase in staff costs was mainly due to increase in number of employees and salary increment.

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 Rmb40 million (the "Target Profit"):

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

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

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

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, which is chaired by an independent non-executive Director and currently has a membership comprising three independent non-executive Directors, has reviewed with the management and approved the consolidated financial statements for the year ended 31 December 2016.

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.020 (inclusive of tax) per share in cash, totalling approximately Rmb10,594,000 for the year ended 31 December 2016. 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 2017 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 23 May 2017. 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 18 May 2017 to 23 May 2017 (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 17 May 2017.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 12 May 2017. 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 2016 and 2015.

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 2016.

CONTINGENT LIABILITIES

As at 31 December 2016 and 31 December 2015, the Group did not have any material contingent liabilities.

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

As at 31 December 2016, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap.622), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

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

	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 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 2016.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2016.

(n) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2016.

Save as disclosed above, as at 31 December 2016, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors; or (d) the Hong Kong Companies Ordinance (Cap.622), to be notified to the Company and the Stock Exchange.

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

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

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

So far as known to the Directors, as at 31 December 2016, 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 (g))*
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 (d))*	18.20%

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares *(Note (g))*
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 (e))*	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 (f))*	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 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.

(e) 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.

(f) 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.

(g) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE CAPITAL STRUCTURE

As at 31 December 2016, 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 2016, the Company complied with the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 14 to the Listing Rules, with the exception of Code provision A.6.7 (directors attending general meetings).

Code provision A.6.7 of CG Code stipulates that non-executive Directors and independent non-executive Directors should attend general meetings. Certain non-executive Directors and independent non-executive Directors were unable to attend the annual general meeting of the Company held on 16 May 2016 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 2016.

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 2016 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 8 March 2017

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

GLOSSARY

Board	Board of Directors of the Company
CG Code	Code provision of the Corporate Governance Code in appendix 14 of the Listing Rules
Changmao or the Company	Changmao Biochemical Engineering Company Limited
Changzhou Xinsheng	常州新生生化科技開發有限公司
CIT	Corporate Income Tax
Director(s)	Director(s) of the Company
Domestic Shares	Domestic shares of the Company
Foreign Shares	Foreign shares of the Company
GEM	Growth Enterprise Market of the Exchange
Group	the Company and its subsidiaries
HKAS	Hong Kong Accounting Standard
HK Biochem Ltd	Hong Kong Bio-chemical Advanced Technology Company Limited
HK Xinsheng Ltd	Hong Kong Xinsheng Pioneer Investment Company Limited
H Shares	H shares of the Company
Lianyungang Changmao	Changmao Biochemical Lianyungang Company Limited, a subsidiary 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