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 2018

HIGHLIGHTS

	2018	2017
	Rmb'000	*Rmb'000*
Revenue	**639,120**	630,841
Profit for the year attributable to the equity holders of the Company	**50,525**	3,382

DIVIDEND

The Directors recommend the payment of a final cash dividend of Rmb0.05 (inclusive of tax) per share for the year ended 31 December 2018.

* *For identification purpose only*

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2018 together with the audited comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 Rmb'000	2017 Rmb'000
Revenue	2	**639,120**	630,841
Cost of sales	4	**(509,394)**	(555,846)
Gross profit		**129,726**	74,995
Other income	3	**4,018**	12,784
Other gains/(losses), net	3	**1,737**	(5,889)
Selling expenses	4	**(15,169)**	(18,464)
Administrative expenses	4	**(63,554)**	(62,389)
(Loss allowance)/reversal of loss allowance on financial assets	4	**(1,304)**	178
Operating profit		**55,454**	1,215
Finance income		**296**	261
Finance costs		**(1,149)**	(232)
Finance (costs)/income, net	5	**(853)**	29
Profit before income tax		**54,601**	1,244
Income tax (expense)/credit	6	**(4,692)**	1,456
Profit for the year		**49,909**	2,700
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		**1**	(2)
Total comprehensive income for the year		**49,910**	2,698
Profit for the year attributable to:			
Equity holders of the Company		**50,525**	3,382
Non-controlling interests		**(616)**	(682)
		49,909	2,700
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**50,526**	3,380
Non-controlling interests		**(616)**	(682)
		49,910	2,698
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	7	**Rmb0.095**	Rmb0.006

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	**2018**	2017
	Note	***Rmb'000***	*Rmb'000*
ASSETS			
Non-current assets			
Patents		**660**	744
Property, plant and equipment		**292,537**	299,237
Land use rights		**25,943**	26,642
Construction in progress		**87,531**	79,826
Deferred income tax assets		**13,949**	8,788
Bank deposits		**–**	1,700
		420,620	416,937
Current assets			
Inventories		**108,024**	115,335
Trade and bills receivables	9	**98,672**	87,148
Other receivables, deposits and prepayments		**16,830**	23,466
Income tax recoverable		**–**	1,223
Pledged bank balances		**2,774**	15,671
Cash and bank balances		**85,098**	72,602
		311,398	315,445
Total assets		**732,018**	732,382
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	10	**576,903**	526,377
		629,873	579,347
Non-controlling interests		**994**	1,610
Total equity		**630,867**	580,957

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2018

	Note	**2018** *Rmb'000*	2017 *Rmb'000*
LIABILITIES			
Non-current liabilities			
Deferred income		**1,945**	2,430
Deferred income tax liabilities		**494**	484
		2,439	2,914
Current liabilities			
Trade and bills payables	11	**19,781**	73,505
Contract liabilities, other payables and accruals		**37,055**	20,988
Income tax payable		**2,565**	11
Bank borrowings		**39,311**	54,007
		98,712	148,511
Total liabilities		**101,151**	151,425
Total equity and liabilities		**732,018**	732,382

Notes:

1 BASIS OF PREPARATION

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

(a) *New and amended standards, improvements and interpretation adopted by the Group*

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Annual Improvements Project	Annual Improvements 2014-2016 Cycle
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HKAS 40 (Amendments)	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

To conform with current year presentation, impairment losses on financial assets reclassified from administrative expenses in 2017 as a result of consequential changes made to HKAS 1 Presentation of Financial Statements. Impairment losses on financial assets that were previously classified as administrative expenses are now presented separately in the consolidated statement of comprehensive income.

Saved as disclosed in Note 1(c), the adoption of these new and amended standards, improvements and interpretation did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

(b) *New and amended standards, interpretation and revised framework not yet adopted*

A number of new and amended standards and interpretations have been published that are not mandatory for the year ended 31 December 2018 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Annual Improvements Project (Amendments)	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 1 (Revised)	Presentation of Financial Statement	1 January 2020
HKAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 3 (Amendments)	Business Combinations	1 January 2020
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HK(IFRIC) 23	Uncertainty Over Income Tax Treatments	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	A date to be determined

The Group will apply the above new and amended standards and interpretation and revised framework when they become effective. The Group has commenced the assessment of the expected impact of HKFRS 16 as set out below. The directors of the Company is in the process of assessing the financial impact of the other new and amended standards, interpretation and revised framework, but is not yet in a position to state whether they would have significant impacts on its results of operations and financial position.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of Rmb260,000.

For the lease commitments the Group expects to recognise right-of-use assets on 1 January 2019 and lease liabilities (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Net current assets may be lower due to the presentation of a portion of the liability as a current liability.

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

Mandatory application date/Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. The Group intends to apply the simplified transition approach and last year comparatives do not have to restate as the lease commitments are short term.

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

(c) *Changes in accounting policies*

The Group elects to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassification and the adjustments arising from the adoption of HKFRS 9 and HKFRS 15 are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening of the consolidated balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more details by standard below.

Consolidated balance sheet (extract)	**31 December 2017 As originally presented**	**HKFRS 15**	**1 January 2018 Restated**
	Rmb'000	*Rmb'000*	*Rmb'000*
Current liabilities			
Contract liabilities, other payables and accruals			
– Receipt in advance	2,279	(2,279)	–
– Contract liabilities	–	2,279	2,279
– Others	18,709	–	18,709
	20,988	–	20,988

(i) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

(1) Classification and measurement of financial instruments on adoption of HKFRS 9

The financial assets currently held by the Group include financial instruments previously classified as loans and receivables which continue to be measured at amortised cost under HKFRS 9. Accordingly, there is no 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 HKFRS 9 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 and have not been changed.

(2) Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's expected credit loss model:

- trade and bills receivables
- other receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity was immaterial.

While pledged bank balances and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified loss allowance was also immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The resulted increase of loss allowance for trade receivables on 1 January 2018 was immaterial.

Other receivables

Loss allowance on other receivables from third parties are measured as either 12-months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then loss allowance is measured as lifetime expected credit losses. The resulted increase of loss allowance for deposits and other receivables on 1 January 2018 was immaterial. The loss allowance for other receivables have increased by Rmb244,000 during the year ended 31 December 2018.

(ii) HKFRS 15 Revenue from contracts with customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 15, comparative figures have not been restated. The adoption of HKFRS 15 did not result in significant changes to the Group recognition policies.

The Group has voluntarily changed the presentation of certain amounts in the consolidated balance sheet to reflect the terminology of HKFRS 15. As such, receipt in advance from customers which was previously included in trade and other payables, amounting to Rmb2,279,000 as at 1 January 2018, are now recognised as contract liabilities (as included in trade and other payables) to reflect the terminology of HKFRS 15.

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

	2018	2017
	Rmb'000	*Rmb'000*
Revenue from sales of goods, recognised at a point in time	**639,120**	630,841

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

	2018	2017
	Rmb'000	*Rmb'000*
Mainland China	**324,745**	287,394
Europe	**112,698**	106,610
Asia Pacific	**142,815**	173,870
America	**43,887**	54,984
Others	**14,975**	7,983
	639,120	630,841

Europe region mainly includes the Great British, Germany, Turkey, Spain and Italy whereas Asia Pacific region mainly includes Hong Kong, Indonesia, Australia, India, Thailand and Japan.

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

As at 31 December 2018, all the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb406,671,000 (2017: Rmb408,149,000) are located in Mainland China.

Included in the revenue from sales of goods, approximately Rmb33,580,000 (2017: Rmb51,729,000) was contributed by the Group's largest customer and the aggregate revenue from this customer represented approximately 5% (2017: 8%) of the total revenue of the Group. There are no single customers contributing over 10% of the Group's total revenue.

Assets and liabilities related to contract with customers

Contract liabilities of Rmb3,398,000 were recognised in relation to receipt in advance from customers for sales of goods not yet delivered and were previously included in other payables and accruals (Rmb2,279,000 as at 1 January 2018).

The Group has not recognised any contract assets related to contract with customers as at 1 January and 31 December 2018.

(i) Significant changes in contract liabilities

Contract liabilities have been increased by Rmb1,119,000 due to an increase in overall contract activities.

(ii) Revenue recognised in relation to contract liabilities

Revenue of Rmb2,279,000 is recognised in relation to contract liabilities in the year ended 31 December 2018 which is related to carried forward contract liabilities as at 1 January 2018. There is no revenue recognised in relation to contract liabilities satisfied on or before 1 January 2018.

(iii) All contracts are for the periods of one year or less or are billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

	2018	2017
	Rmb'000	*Rmb'000*
Other income		
Sales of scrap materials	**43**	787
Government grants *(Note a)*	**1,618**	9,574
Others	**2,357**	2,423
	4,018	12,784

	2018	2017
	Rmb'000	*Rmb'000*
Other gains/(losses), net		
Loss on disposal of property, plant and equipment	**(79)**	(2,856)
Net exchange gains/(losses)	**1,816**	(3,033)
	1,737	(5,889)

Note:

(a) Government grants recognised during the year ended 31 December 2017 mainly included a grant totalling Rmb7,221,000 in relation to an organic acid research project, which was recognised upon fulfilment of all relevant conditions during the year.

4 EXPENSES BY NATURE

	2018	2017
	Rmb'000	*Rmb'000*
Cost of inventories sold	**310,764**	335,175
Amortisation of patents	**84**	84
Amortisation of land use rights	**699**	731
Auditors' remuneration		
– Audit services	**1,367**	1,261
– Non-audit services	**–**	114
Depreciation	**33,587**	37,091
Operating lease rentals in respect of land and buildings	**611**	592
Research and development costs	**8,677**	8,117
Provision/(written back) for impairment of inventories	**–**	(1,622)
Loss allowance/(reversal of loss allowance) on financial assets	**1,304**	(178)
Staff costs (including emoluments of Directors and Supervisors)	**69,859**	69,044
Utilities	**58,922**	82,842
Other expenses	**103,547**	103,270
	589,421	636,521

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 (COSTS)/INCOME, NET

	2018	2017
	Rmb'000	*Rmb'000*
Interest on bank borrowings	**(1,149)**	(1,291)
Less: amounts capitalised on qualifying assets	**–**	1,059
	(1,149)	(232)
Interest income on bank deposits	**296**	261
Finance (costs)/income, net	**(853)**	29

6 INCOME TAX EXPENSE/(CREDIT)

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:

	2018	2017
	Rmb'000	*Rmb'000*
Current income tax		
– Provision for CIT	**9,852**	–
– (Over)/under-provision in prior year	**(9)**	25
Deferred income tax	**(5,151)**	(1,481)
	4,692	(1,456)

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:

	2018	2017
	Rmb'000	*Rmb'000*
Profit before income tax	**54,601**	1,244
Calculated at the tax rates applicable to results of the respective consolidated entities	**5,257**	(1,023)
Expenses not deductible for tax purposes	**1,162**	228
Tax losses for which no deferred income tax asset was recognised	**533**	958
Tax incentives for research and development expenses*	**(2,198)**	(1,540)
(Over)/under-provision in prior year	**(9)**	25
Others	**(53)**	(104)
Income tax expense/(credit)	**4,692**	(1,456)

* 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 175% (2017: 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 75% (2017: 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 2018 and 2017.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit attributable to the equity holders of the Company of Rmb50,525,000 (2017: Rmb3,382,000) and 529,700,000 (2017: 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 (2017: Nil).

8 DIVIDENDS

No interim dividend was declared during the year (2017: Nil). The dividends paid in 2018 and 2017 were Nil and Rmb10,594,000 (Rmb0.02 per share) respectively. A final dividend in respect of the year ended 31 December 2018 of Rmb0.05 per share, totalling Rmb26,485,000 is to be proposed at the Annual General Meeting on 10 May 2019. These financial statements do not reflect this dividend payable.

9 TRADE AND BILLS RECEIVABLES

	2018	2017
	Rmb'000	*Rmb'000*
Trade receivables	**98,672**	86,248
Bills receivables	**–**	900
	98,672	87,148

(a) The credit terms of trade receivables range from 30 to 120 days and the ageing analysis which is based on the invoice date of trade receivables is as follows:

	2018	2017
	Rmb'000	*Rmb'000*
0 to 3 months	**94,340**	83,330
4 to 6 months	**4,972**	2,919
Over 6 months	**719**	1,984
	100,031	88,233
Less: Loss allowance	**(1,359)**	(1,985)
	98,672	86,248

(b) The maturity dates of bills receivables ranged from 60 to 180 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 2017	102,559	78,791	461	2	351,778	533,591
Transfer to statutory common reserve	–	1,170	–	–	(1,170)	–
Profit for the year	–	–	–	–	3,382	3,382
Other comprehensive income						
– currency translation difference						
– Group	–	–	–	(2)	–	(2)
Final dividend for the year ended 31 December 2016	–	–	–	–	(10,594)	(10,594)
At 31 December 2017	102,559	79,961	461	–	343,396	526,377

	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 2018	**102,559**	**79,961**	**461**	**–**	**343,396**	**526,377**
Transfer to statutory common reserve	**–**	**7,272**	**–**	**–**	**(7,272)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**50,525**	**50,525**
Other comprehensive income						
– currency translation difference						
– Group	**–**	**–**	**–**	**1**	**–**	**1**
At 31 December 2018	**102,559**	**87,233**	**461**	**1**	**386,649**	**576,903**

11 TRADE AND BILLS PAYABLES

	2018 ***Rmb'000***	2017 *Rmb'000*
Trade payables	**10,535**	21,267
Bills payables	**9,246**	52,238
	19,781	73,505

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

	2018	2017
	Rmb'000	*Rmb'000*
0 to 6 months	**10,247**	21,062
7 to 12 months	**40**	7
Over 12 months	**248**	198
	10,535	21,267

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

BUSINESS REVIEW AND OUTLOOK

Results for the Year

The Group's sales revenue for the year ended 31 December 2018 was approximately Rmb639,120,000, which represented a slightly increase as compared to that in last year of Rmb630,841,000. Net profit attributable to the equity holders of the Company was approximately Rmb50,525,000, which was a significantly increase from Rmb3,382,000 in the last year.

In 2018, due to the domestic supply chain reform, the requirements for safety and environmental protection continued to become more rigorous, the Group was facing greater operational pressures compared with 2017. The Group was facing new challenges by the suspension of production of its wholly-owned subsidiary Changmao Biochemical Lianyungang Company Limited (hereinafter referred to as Lianyungang Changmao) for rectification as a result of the local government policies. Facing difficult domestic and foreign situations, all employees in the Group have worked together to respond positively, persisted in innovation and worked hard to overcome the difficulties. With the efforts of all employees, the Group's production, operation, research and development, management and other aspects have made great progress in 2018. Economic benefits have been significantly improved and overall developed to a positive and healthy direction.

Business Review

In 2018, the Group's production lines in Changzhou was the first in China to transform from using benzene-method to butane-method to manufacture maleic anhydride. The maleic anhydride production team studied constantly and broke through technical difficulties when facing difficulties. The manufacturing process was gradually restored to normal which lessen the pressure of downstream production costs and bought economic benefits to the Group. The recovery of by-product steam for further use in production also saved energy costs for the Group.

For a long time, the Group's aim is "To create value for customers and create benefit for the company" and made plans accordingly. The Group has been always committed to the highest standard. In order to meet the production needs and improve labour productivity, the Group actively applied automation and intelligent transformation on the production lines to improve product quality while reducing labour costs. At the same time, the Group has constantly upgraded its management system in production, organised labour competitions, improved the enthusiasm of employees in various departments, and carried out targeted process improvement and product quality improvement.

Carrying out cost reduction and efficiency improvement is the focus of production management for the Group in this year. The Group has paid attention to details, tapped potential transformation and upgraded basic facilities to achieve the purposes of saving energy, reducing emissions, and controlling production costs. In 2018, the low-pressure steam pipe and cold pipe projects of the Group's Changzhou plant effectively utilised different energy level allocations. The comprehensive utilisation rate of energy has been improved and the cost of purchased energy has been reduced which has achieved remarkable results.

In terms of sales, the Group adjusted its sales strategies timely and focused on sales channel control according to market changes. It has strengthened communication with end users and enhanced control power over the market. While improving sales management, the Group also strengthened procurement management. Through direct cooperation with suppliers, implementation of bidding and price comparison, strengthening the relationship with suppliers, reducing intermediate links, the Group has pursued a win-win situation.

Safety management is always the top priority of the Group's production management. In 2018, the Group focused on the improvement of the safety production management information system and the upgrading of the safety infrastructure. The Group passed the second-level safety production standardisation assessment of Jiangsu Province again in June 2018. The Group has always 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, constant self-correction in the production process and implantation of the safety enhancement.

In response to the new situation, the Group conscientiously followed the policies and laws and regulations in relation to environment protection imposed by the government. The Group continued to increase investment in environmental protection, took measures for energy saving, cost reduction and reduced emissions of wastes. In order to cope with the smoothing operation of the maleic anhydride production lines which used the butane-method, the Group has installed a new exhaust gas incinerator, the regenerative thermal oxidiser (RTO), to centralise incineration of production tail gas. A large amount of steam was recycled at the same time as the tail gas was incinerated which created objective economic benefits. In addition, the wastewater treatment plant has been updated and upgraded. A dedicated environmental protection department has ensured wastewater reached the discharge standard before emissions. The Group continued to improve its self-monitoring process to ensure the strict adherence to the 3 major types of pollutant discharge standards and actively fulfilled the corporate social responsibility.

In addition, the Group increased its investment in intelligent management in 2018, adopted computer process management control, re-regulated internal operations and improved the efficiency of inter-departmental cooperation. Internal management was effectively improved through the improvement of office automation. All employees can participate in risk identification and control that strengthening responsibility and execution.

Research and Development

1. Pharmaceutical Adjuvant Project

To extend its product chain and enhance added value of products, the Group actively carried out the development project of pharmaceutical adjuvant. The product breadth has extended from food additives to pharmaceutical adjuvant. The Group has actively promoted pharmaceutical adjuvants of aspartame, malic acid and other products and has slightly increase their sales this year.

Pharmaceutical adjuvant is the Group's focus in the medium to long run. The Group will continue to promote the research and development of pharmaceutical adjuvants, increase product categories, increase sales efforts, and achieve economic benefits.

2. Active Pharmaceutical Ingredient Project

Since the beginning of this year, the Group has promoted the L-malic acid active pharmaceutical ingredient research and development project, and was currently conducting quality research and stability investigation on the product. After the approval of L-malic acid active pharmaceutical ingredient and their preparations, the Group is expected to become the first L-malic acid active pharmaceutical ingredient supplier in China. The Group's research and development project of another active pharmaceutical ingredient, sodium pantothenate, has been submitted to the Jiangsu Provincial Drug Administration, and it is currently preparing for the production site inspection of the Provincial Drug Administration actively for GMP certification. The active pharmaceutical ingredient project will upgrade the existing products of the Group. It is an effective way to increase the added value of the products and will made contributions to the economic benefits of the Group.

The Group will put more efforts into research and development, strengthen cooperation with research institutes and pharmaceutical manufacturers, actively develop new products and expand production scope.

Key Projects

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

In 2018, the Group completed the transformation of the maleic anhydride production lines which use the butane-method to produce with annual production capacity 20,000 tonnes in the Changzhou headquarter. It has almost reached its full capacity recently. Transforming the production lines to use butane-method based on production lines that previously using benzene to manufacture maleic anhydride was the first in China and this has increased the difficulties of the project. The Group encountered different challenges, however, with the efforts of all employees of the Group by paying attention to details, tapping potential transformation and process optimisation, the project was completed successfully and maintained stable production.

The transformation of production lines, using butane instead of benzene as a raw material to manufacture maleic anhydride have reduced the emission of carbon dioxide which is clean and environmentally friendly and is in line with the government's requirements for safety and environmental protection. It is in line with the trend of international food additives manufacturing and also a starting point for the long-term economic benefits to control costs from the source and enhance the market competitiveness in long run.

2. Development of Changmao Biochemical Lianyungang Limited

Since the end of 2017, some enterprises in the Lianyungang have experienced safety and environmental accidents which were exposed by the media and caused a relatively bad social impact. In early 2018, Jiangsu Province stopped production of all enterprises in Lianyungang industrial district for rectification. Lianyungang Changmao has strictly complied various policies and laws and regulations imposed by the government since established, carried out projects and plant construction in accordance with national regulations of safety and environmental protection. As Lianyungang Changmao was located in the affected area, its production was suspended since early 2018 has had a major negative impact on the Group's economic efficiency.

During the suspension period, Lianyungang Changmao has actively implemented the procedures in later stage of the construction project, started the construction and paved the roads of the plant. In addition, Lianyungang Changmao self-examined its safety and environmental protection in the plant area and well prepared for the resumption of production at any time. The management has assessed the safety facilities of Lianyungang Changmao according to the government's requirements and believes that the relevant standards have been complied with. The management has filed an application for resumption of production, and is waiting for the approval of the relevant departments for fully resumption of production.

Outlook and Prospect

The Group adheres to the economic efficiency, and is customer-oriented and relies on the advantages of the existing product chain to maintain its leading position in the industry. As a manufacturing enterprise, the Group will insist to reduce costs and increase efficiency, enhance scale effects, and continuously to improve product quality, and firmly establish Changmao brand and image in the future. The Group will focus on the following areas specifically:

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

   The Group will continue to increase investment in technology innovation to consolidate its existing resources and research team. Relying on technological advancement and accelerating the development of new products such as L-malic acid active pharmaceutical ingredients, new feed additive PQQ and pharmaceutical adjuvant, it will build a more optimised product mix through cultivating new products which are safe, environmentally friendly and with strong competitiveness, highlighting its focus and increasing speed. Moreover, it will optimise its product structure, promote the upgrading and extension of existing product chains, and enhance the Group's competitiveness in the high-end product market, and to seek new profit source of the Group.

2. ***Promoting the development of Lianyungang project and taking advantages of productivity***

   Lianyungang Changmao is a major development project of the Group in coming years. The construction of the new production plant in Lianyungang aimed to enhance the Group's product chain and large-scale production advantages, and provide raw materials for the world's high-end food and pharmaceutical manufacturers. After Lianyungang Changmao plant put into production, it will have more production cost advantages over the plant in Changzhou in the future, which will be the new force and become the Group's new profit center.

3. ***Enhancing safety and environmental protection and resisting policy risks***

   With the laws and regulations related to safety and environmental protection becoming stricter, the elimination of small and medium-sized enterprises that failed to meet the standards were accelerated, leaving the industry to further concentrated on strong enterprises that complied with the relevant requirements. The Group has strictly complied with various safety and environmental regulations and this has transformed into a competitive advantage. In the future, the Group will continue to strengthen safety control, pay attention to safety risks, improve the safety of the production environment, and reduce and eliminate safety accidents. The Group will continue to promote clean production and implement pollution prevention, endeavor to become an environment-friendly enterprise which saves energy and reduces emissions of wastes to reduce the impact of policy risks on production and operation, and paves the way for the Group's sustainable development.

4. ***Focusing on market expansion and develop markets of high-end customers***

   The Group's sales team strived to develop markets of major customers and end-customers, be customer-oriented, meet customer needs through the improvement of product quality and service, enhance the reputation and add value to the Changmao brand, thereby to enhance the overall competitive advantages. Facing the ever-changing domestic and international markets, the Group will actively adjust its sales strategy to improve the response to the market and its power over the markets. The markets of domestic sales and foreign sales will complement each other. In addition, the Group strived to establish close cooperation with customers and pursue a win-win situation to reduce risks together.

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. The Group will capitalise its research and production strengths to develop new functional food additives, pharmaceutical intermediaries and nutraceutical products, etc. to continue to extend its production chain, to become bigger and stronger with great results.

ANALYSIS OF KEY PERFORMANCE INDICATORS

Revenue *(2018: Rmb639,120,000; 2017: Rmb630,841,000)* ***and gross profit margin*** *(2018: 20.3%; 2017: 11.9%)*

The increase in revenue was mainly due to the increase in product prices compared to 2017. The Group began to transform the maleic anhydride production line that uses new materials in Changzhou in 2017. After the completion of the transformation in 2018, the change of raw materials and the recycling of energy have saved production costs. At the same time, the Group is committed to energy conservation and emission reduction to increase labour productivity to control production costs which led to the increase in efficiency, and increased the gross profit margin.

Selling and administrative expenses *(2018: Rmb78,723,000; 2017: Rmb80,853,000)*

The Group's measures to reduce staffing and increase efficiency in 2018 achieved certain results, and the level of sales and administrative expenses was slightly lower than that in 2017. In addition, according to the incentive bonus plan of the Group, the incentive bonus for the year ended 31 December 2018 was Rmb1,809,000 (2017: Nil).

Other income *(2018: Rmb4,018,000; 2017: Rmb12,784,000)*

The decrease in other income in 2018 compared to that in 2017 was mainly due to the recognition of government subsidies for the year ended 31 December 2017, which included a one-off government subsidy in relation to an organic acid research project totalling Rmb7,221,000.

Other gains/(losses), net *(2018: gains of Rmb1,737,000; 2017: losses of Rmb5,889,000)*

The net gains were mainly attributable to the exchange gains of approximately Rmb1,816,000 in 2018, compared to other net losses in 2017 which mainly caused by the exchange losses of approximately Rmb3,033,000.

Finance (costs)/income, net *(2018: costs of Rmb853,000; 2017: income of Rmb29,000)*

The Group did not capitalise interest in 2018 (the interest expense capitalised in 2017 was Rmb1,059,000). The interest expense before deducting the interest capitalised was Rmb1,149,000 (2017: Rmb1,291,000), and the decrease in interest expense was due to the decrease in average bank loans compared to that in last year.

Income tax (expense)/credit *(2018: expense of Rmb4,692,000; 2017: Credit of Rmb1,456,000)*

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 2018. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. Tax credit resulted for the year ended 31 December 2018 mainly because of the recognition of deferred tax assets on tax loss of a subsidiary. For details of the difference on the tax on the Group's profit before income tax and the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, please refer to note 6 to the consolidated statement of comprehensive income above.

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

For the year ended 31 December 2018, the Group recorded a profit attributable to equity holders of the Company of approximately Rmb50,525,000 (2017: Rmb3,382,000), which was significantly higher than that in last year. The increase in net profit was mainly due to the increase in gross profit margin, the contribution of Changzhou headquarters maleic anhydride production line to the cost control, and the continuous improvement of operating efficiency.

SEGMENTAL INFORMATION

Some of the Group's products are exported to Hong Kong, Western Europe, the United States, Indonesia and Australia. As expressed as a percentage of revenue, export sales (excluding sales through import-export agents in the PRC) accounted for approximately 49% (2017: 54%) of the Group's revenue while domestic sales in the PRC accounted for approximately 51% (2017: 46%) of the Group's revenue.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. The Group did not use any forward foreign exchange contracts to hedge the USD exposures during the year. As at 31 December 2018, the Group had no outstanding forward foreign exchange contracts.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had total outstanding bank borrowings of Rmb39,311,000 (2017: Rmb54,007,000). The outstanding bank borrowings as at 31 December 2018 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 2018 was approximately 3.8% (2017: 2.7%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2018 and 2017, 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 2018, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb12,328,000 (2017: Rmb7,261,000). 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 2018. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 13.8% (2017: 20.7%) as at 31 December 2018. As at 31 December 2018, the Group's cash and cash equivalents amounted to Rmb81,398,000 (2017: Rmb68,752,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2018, the Group employed a total of 479 employees (2017: 577 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 2018 was approximately Rmb69,859,000 (2017: Rmb69,044,000). The incentive bonus for the directors and staff of the Group was Rmb1,809,000 (2017: Nil) for the year ended 31 December 2018. Excluding the incentive bonus, the cost of staff wages, benefits and retirement was approximately Rmb68,050,000 (2017: Rmb69,044,000), which was lower than that in 2017 because the average number of employees was lower than that of last year.

Under the staff incentive scheme for each of the three years ended 31 December 2019, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before payment of the bonuses referred to below) amount to not less than 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 2018.

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 2018 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 2018.

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.05 (inclusive of tax) per share in cash, totalling approximately Rmb26,485,000 for the year ended 31 December 2018. 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 2019 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 22 May 2019. 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 17 May 2019 to 22 May 2019 (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 16 May 2019.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 10 May 2019. 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 2018 and 2017.

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 2018.

CONTINGENT LIABILITIES

As at 31 December 2018 and 31 December 2017, 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 2018, 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%	2,672,000	1.45%
Ms. Leng Yi Xin	Beneficial owner, interest of spouse and interest of controlled corporation *(Note (b))*	2,500,000	100%	135,000,000	39.30%	2,672,000	1.45%
Mr. Pan Chun	*(Note (c))*	–	–	*(Note (c))*	*(Note (c))*	–	–
Mr. Zeng Xian Biao	*(Note (d))*	–	–	*(Note (d))*	*(Note (d))*	–	–
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation *(Note (e))*	–	–	66,000,000	19.21%	2,620,000	1.43%
Prof. Ouyang Ping Kai	*(Note (f))*	–	–	*(Note (f))*	*(Note (f))*	–	–
Prof. Yang Sheng Li	*(Note (g))*	–	–	*(Note (g))*	*(Note (g))*	–	–
Supervisor							
Ms. Zhou Rui Juan	*(Note (h))*	–	–	*(Note (h))*	*(Note (h))*	–	–
Mr. Lu A Xing	*(Note (i))*	–	–	*(Note (i))*	*(Note (i))*	–	–
Mr. Zhang Jun Peng	*(Note (j))*	–	–	*(Note (j))*	*(Note (j))*	–	–
Prof. Jiang Yao Zhong	(Note (k))	–	–	*(Note (k))*	*(Note (k))*	–	–

Notes:

(a) The 135,000,000 Foreign Shares are held by HK Xinsheng Ltd, the 2,500,000 Domestic Shares are held by Changzhou Xinsheng and the 2,620,000 H Shares are held by Bonus Sky Investments Limited and 52,000 H Shares are held by Ms. Leng, spouse of Mr. Rui. 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. Ms. Leng is also the registered holder and beneficial owner of 52,000 H Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd, Changzhou Xinsheng and Bonus Sky Investments Limited, details of which are set out in Note (a) above.

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

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

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

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

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

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

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

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

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

(l) The percentage is calculated based on the 2,500,000 Domestic Shares in issue at 31 December 2018.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2018.

(n) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2018.

Save as disclosed above, as at 31 December 2018, 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 2018, the followings, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares:

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

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

Notes:

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

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

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

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

(e) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2018.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 31 December 2018.

Save as disclosed above, as at 31 December 2018, 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 2018, 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 2018, 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 18 May 2018 due to prior business commitments.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors.

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

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

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

The Company had also made specific enquiry of all Directors in relation to the compliance of the Model Code. Save for the above, the Company was not aware of any non-compliance with the Model Code for the year ended 31 December 2018.

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 2018 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 12 March 2019

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
GMP	Good Manufacturing Practices
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 Investment 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