

Interim Report 2010



CMBEC

CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

常茂生物化學工程股份有限公司

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

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of Changmao Biochemical Engineering Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“GEM Listing Rules”) for the purposes of giving information with regard to Changmao Biochemical Engineering Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this report misleading.

The board of Directors (the “Board”) of Changmao Biochemical Engineering Company Limited (the “Company” or “Changmao”) is pleased to present the unaudited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three and the six months ended 30 June 2010 together with the unaudited comparative figures for corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2010 – Unaudited

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
Turnover	2	125,254	113,517	219,953	191,538
Cost of sales		(93,820)	(88,816)	(165,218)	(145,517)
Gross profit		31,434	24,701	54,735	46,021
Other income		1,337	304	3,273	1,152
Other losses, net		(131)	(192)	(374)	(612)
Selling expenses		(2,019)	(1,795)	(4,643)	(3,572)
Administrative expenses		(11,595)	(7,772)	(22,369)	(15,745)
Operating profit	3	19,026	15,246	30,622	27,244
Finance costs, net	4	(1,695)	(1,636)	(3,341)	(3,572)
Share of profit of an associate		1,834	656	3,938	1,050
Profit before income tax		19,165	14,266	31,219	24,722
Income tax expense	5	(2,703)	(2,699)	(4,325)	(4,166)
Profit and total comprehensive income for the period		16,462	11,567	26,894	20,556
Attributable to:					
Equity holders of the Company		16,558	11,680	27,042	20,732
Minority interest		(96)	(113)	(148)	(176)
		16,462	11,567	26,894	20,556
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	6	Rmb0.024	Rmb0.017	Rmb0.040	Rmb0.030

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2010 – Unaudited

	Note	30 June 2010 Rmb'000	31 December 2009 Rmb'000
ASSETS			
Non-current assets			
Patents	8	8,071	8,530
Property, plant and equipment	9	239,755	253,743
Land use rights	9	23,216	23,479
Construction in progress	9	49,541	33,468
Investment in an associate		21,904	17,966
Deferred income tax assets		1,725	1,733
		344,212	338,919
Current assets			
Inventories		122,720	101,975
Trade and bills receivables	10	60,657	46,456
Other receivables and prepayments		15,911	13,556
Amount due from a shareholder	11	43,120	21,560
Pledged bank balances		11,219	6,856
Cash and cash equivalents		76,796	76,132
		330,423	266,535
Total assets		674,635	605,454

		30 June 2010 <i>Rmb'000</i>	31 December 2009 <i>Rmb'000</i>
	Note		
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	68,370	68,370
Reserves	13	375,951	348,909
		444,321	417,279
Minority interest		261	409
Total equity		444,582	417,688
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		985	957
Current liabilities			
Amount due to a shareholder		21	3
Trade and bills payables	14	52,598	28,955
Other payables and accrued charges		33,694	26,098
Derivative financial instruments		104	46
Income tax payable		2,651	1,707
Bank borrowings	15	140,000	130,000
		229,068	186,809
Total liabilities		230,053	187,766
Total equity and liabilities		674,635	605,454
Net current assets		101,355	79,726
Total assets less current liabilities		445,567	418,645

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – Unaudited

	Attributable to equity holders of the Company				Minority	
	Share capital	Other reserves	Retained earnings	Total	Interest	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2009	68,370	125,888	190,074	384,332	745	385,077
Profit for the period	-	-	20,732	20,732	(176)	20,556
Final dividend for the year ended 31 December 2008	-	-	(10,256)	(10,256)	-	(10,256)
Balance at 30 June 2009	68,370	125,888	200,550	394,808	569	395,377
Balance at 1 January 2010	68,370	129,864	219,045	417,279	409	417,688
Profit for the period	-	-	27,042	27,042	(148)	26,894
Balance at 30 June 2010	68,370	129,864	246,087	444,321	261	444,582

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 – Unaudited

	For the six months ended 30 June	
	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>
Net cash generated from operating activities	32,312	45,914
Net cash used in investing activities	(20,088)	(271)
Net cash used in financing activities	(11,560)	(33,000)
Net increase in cash and cash equivalents	664	12,643
Cash and cash equivalents at 1 January	76,132	63,137
Cash and cash equivalents at 30 June	76,796	75,780

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial information has been prepared in accordance with applicable disclosure provisions of GEM Listing Rules, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim financial information was approved for issue on 10 August 2010. This condensed consolidated interim financial information has not been audited.

The accounting policies used in preparing the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2009 (the “2009 Financial Statements”), except for the new standards, amendments and interpretations of Hong Kong Financial Reporting Standards (“New HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants which have become effective in this period as detailed in note 2 of the 2009 Financial Statements. The adoption of such New HKFRSs has no material impact on the accounting policies in the Group’s interim financial statements for the period.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of organic acids. Turnover represents sales of organic acids for the period.

An analysis of the Group's turnover for the period by geographical segment is as follows:

	For the six months ended 30 June	
	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Mainland China	104,496	74,835
Europe	47,443	47,348
Asia Pacific	37,467	45,476
America	16,873	18,192
Others	13,674	5,687
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	219,953	191,538
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The Asia Pacific region includes Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand.

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

Substantially all of the Group's assets and liabilities were located in Mainland China.

3. OPERATING PROFIT

Operating profit is stated after charging the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>
Amortisation of patents	230	230	459	485
Amortisation of land use rights	131	131	263	263
Depreciation	6,944	6,240	14,000	12,454

4. FINANCE COSTS, NET

	For the three months ended 30 June		For the six months ended 30 June	
	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>
Interest on bank loans – wholly repayable within five years	1,804	1,744	3,516	3,724
Interest income on bank deposits	(109)	(108)	(175)	(152)
Net finance costs	1,695	1,636	3,341	3,572

5. INCOME TAX EXPENSE

PRC Company Income Tax ("CIT") is provided 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. Upon obtaining the New and High Technology Enterprise certificate in 2008, the Company is entitled to a preferential CIT rate of 15%. The other subsidiaries of the Group in Mainland China are subject to a tax rate of 25%.

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

	For the three months ended 30 June		For the six months ended 30 June	
	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>
Current income tax –				
Provision for CIT	2,659	2,114	4,227	3,568
Under-provision in prior year	62	566	62	566
Deferred income tax	(18)	19	36	32
	2,703	2,699	4,325	4,166

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 results of the consolidated entities as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
Profit before income tax	19,165	14,266	31,219	24,722
Adjustment: Share of profit of an associate	(1,834)	(656)	(3,938)	(1,050)
	17,331	13,610	27,281	23,672
Calculated at the tax rates applicable to results of the respective consolidated entities	2,532	1,979	3,986	3,442
Income not subject to tax	(40)	(22)	(29)	(147)
Expenses not deductible for tax purposes	–	–	8	–
Tax losses for which no deferred income tax asset was recognised	148	176	297	305
Under-provision in prior year	63	566	63	566
Income tax expense	2,703	2,699	4,325	4,166

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2010 is based on the profit attributable to equity holders of the Company of approximately Rmb16,558,000 (for the three months ended 30 June 2009: Rmb11,680,000) and the 683,700,000 shares (for the three months ended 30 June 2009: 683,700,000 shares) in issue during the period.

The calculation of earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity holders of the Company of approximately Rmb27,042,000 (for the six months ended 30 June 2009: Rmb 20,732,000) and the 683,700,000 shares (for the six months ended 30 June 2009: 683,700,000 shares) in issue during the period.

The Company has no dilutive potential shares in issue during the period (2009: Nil).

7. DIVIDEND

There were no dividends paid or proposed and no amount absorbed thereby for the six months ended 30 June 2010.

8. PATENTS

	<i>Rmb'000</i>
Net book value as at 1 January 2010	8,530
Amortisation	(459)
	<hr/>
Net book value as at 30 June 2010	8,071
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9. CAPITAL EXPENDITURE

	Property, plant and equipment	Land use rights	Construction in progress
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Net book value as at 1 January 2010	253,743	23,479	33,468
Additions	12	-	16,073
Depreciation/amortisation charge	(14,000)	(263)	-
	<hr/>	<hr/>	<hr/>
Net book value as at 30 June 2010	239,755	23,216	49,541
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10. TRADE AND BILLS RECEIVABLES

	30 June 2010 <i>Rmb'000</i>	31 December 2009 <i>Rmb'000</i>
Trade receivables (<i>note (a)</i>)	57,759	46,456
Bills receivables (<i>note (b)</i>)	2,898	–
	<hr/> 60,657	<hr/> 46,456

- (a) The credit terms of trade receivables range from 30 days to 90 days and the aging analysis of the trade receivables is as follows:

	30 June 2010 <i>Rmb'000</i>	31 December 2009 <i>Rmb'000</i>
0 to 3 months	56,462	45,286
4 to 6 months	853	700
Over 6 months	738	764
	<hr/> 58,053	<hr/> 46,750
Provision for impairment of trade receivables	(294)	(294)
	<hr/> 57,759	<hr/> 46,456

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

11. AMOUNT DUE FROM A SHAREHOLDER

The Company entered into an off-market share repurchase agreement (the “Repurchase Agreement”) with 常州曙光化工廠 (Changzhou Shuguang Chemical Factory or “Shuguang Factory”), a shareholder, on 8 September 2009, pursuant to which, the Company has conditionally agreed to repurchase and Shuguang Factory has conditionally agreed to sell 154,000,000 domestic shares of the Company (the “Repurchased Shares”), being Shuguang Factory’s whole interest in the Company and 22.52% of the entire issued share capital of the Company, at a consideration of Rmb86,240,000 (the “Share Repurchase”).

The Company held the Extraordinary General Meeting, the Class Meeting of holders of H Shares and the Class Meeting of holders of Domestic Shares and Foreign Shares on 8 December 2009 and approved the Repurchase Agreement and authorised the Board of Directors to carry out all necessary procedures to complete the Repurchase Agreement.

As at 30 June 2010, the Company paid instalments of Rmb43,120,000 to Shuguang Factory in accordance with the Repurchase Agreement. The Company expects to settle the remaining portion of the consideration in 2011. The Company expects that all the procedures of the Share Repurchase will be completed in the second half of 2010. Upon completion, the share capital will be reduced accordingly and the excess of the consideration paid over the nominal value of the shares repurchased will also be accounted for as a reduction of the equity of the Company.

12. SHARE CAPITAL

Registered, issued and fully paid

	Share capital	
	Number of shares at Rmb 0.10 each	Nominal value <i>Rmb'000</i>
At 30 June 2010 and 31 December 2009	683,700,000	68,370

As at 30 June 2010 and 31 December 2009, the share capital of the Company composed of 219 million domestic shares, 281 million promoter foreign shares and 183.7 million H shares. The H shares rank pari passu with the domestic shares and promoter foreign shares in all aspects and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and trade in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

13. RESERVES

	Share premium	Statutory common reserve	Retained earnings	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January 2009	87,159	38,729	190,074	315,962
Transfer of profit to statutory reserve	–	3,976	(3,976)	–
Profit and total comprehensive income for the period	–	–	43,203	43,203
Final dividend for the year ended 31 December 2008	–	–	(10,256)	(10,256)
	<hr/>			
At 31 December 2009	87,159	42,705	219,045	348,909

	Share premium	Statutory common reserve	Retained earnings	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January 2010	87,159	42,705	219,045	348,909
Profit and total comprehensive income for the period	–	–	27,042	27,042
	<hr/>			
At 30 June 2010	87,159	42,705	246,087	375,951

14. TRADE AND BILLS PAYABLES

	30 June 2010 Rmb'000	31 December 2009 Rmb'000
Trade payables (Note (a))	28,707	13,464
Bills payable (Note (b))	23,891	15,491
	<hr/>	<hr/>
	52,598	28,955
	<hr/> <hr/>	<hr/> <hr/>

(a) The ageing analysis of trade payables is as follows:

	30 June 2010 Rmb'000	31 December 2009 Rmb'000
0 to 6 months	28,668	13,427
7 to 12 months	5	6
Over 12 months	34	31
	<hr/>	<hr/>
	28,707	13,464
	<hr/> <hr/>	<hr/> <hr/>

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

15. BANK BORROWINGS

Bank borrowings are analysed as follows:

	30 June 2010 Rmb'000	31 December 2009 Rmb'000
Unsecured, short-term bank borrowings	140,000	130,000
	<hr/> <hr/>	<hr/> <hr/>

All bank borrowings were repayable within one year.

All the Group's borrowings are denominated in Renminbi. The carrying amounts of these bank borrowings approximate their fair values.

As at 30 June 2010, the effective interest rates of the bank borrowings were as follows:

	30 June 2010	31 December 2009
Short-term bank borrowings, at fixed rate	5.1%	5.1%

16. CONTINGENT LIABILITIES

As at 30 June 2010 and 31 December 2009, the Group did not have any material contingent liabilities.

17. COMMITMENTS

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

	30 June 2010 <i>Rmb'000</i>	31 December 2009 <i>Rmb'000</i>
Contracted but not provided for	-	-
Authorised but not contracted for	-	-
	-	-

(b) **Commitments under operating leases**

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2010, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2010 <i>Rmb'000</i>	31 December 2009 <i>Rmb'000</i>
Not later than one year	356	341
Later than one year and not later than five years	–	180
	<hr/> <u>356</u>	<hr/> <u>521</u>

(c) **Other commitments**

At 30 June 2010, the Group had an outstanding commitment amounting to Rmb43,120,000 in respect of the repurchase of the Company's shares from a shareholder (At 31 December 2009: Rmb 64,680,000) (Note 11).

18. RELATED PARTY TRANSACTIONS

The Group entered into the following significant transactions in the ordinary course of business with a shareholder, Shuguang Factory, and its subsidiary during the six months ended 30 June 2010:

	For the six months ended 30 June	
	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>
Purchases of raw materials from Shuguang Factory	399	3
Transportation expenses charged by the subsidiary of Shuguang Factory	107	194
	<hr/> <u>107</u>	<hr/> <u>194</u>

REVIEW AND PROSPECT

Business Review

In the first half of 2010, the production and operation of the Group were stable while its international collaboration projects, research and development and management condition generally achieved the goals of the Group. The Group developed in a healthy direction with a fairly fast economic growth pace and increasing economic vitality.

The Group recorded a turnover of approximately Rmb125,254,000 in the second quarter of 2010 which represented an increase of 10% compared to the corresponding period in last year; and a net profit of approximately Rmb16,558,000, which represented an increase of 42% compared to the corresponding period in last year. The Group recorded a turnover of approximately Rmb219,953,000 for the six months ended 30 June 2010 which represented an increase of 15% compared to the corresponding period in last year; and a net profit of approximately Rmb27,042,000, which represented an increase of 30% compared to the corresponding period in last year.

The Group's yearly target is to focus on increasing the efficiency of the production lines, and refined its production and operating process. It has optimised its production technology and made break troughs to reduce consumption of raw materials and effectively controlled its production costs. It has also further improved its product quality to satisfy the international market through enhancement in quality control and environmental management. It has given full play of its strength of production of scale and grasped new opportunities.

The global economy is recovering slowly and tortuously. Facing this complicated and tough situation, the Group applied flexible sales strategies and actively seized the opportunities in market expansion, including visiting customers by the sales team, participating trade fairs, enhancing services to customers, making use of internet sales platform, to increase brand awareness and customer recognition. These strategies were effective in helping the Group to consolidate its existing business and explore new markets and new business opportunities.

Future and Prospect

The international and domestic economic situation is filled with increasing uncertainties in 2010 and the competition in the industry has all the time been fierce. As such, the Group will fortify further its ability to adapt market change; make use of its advantage in production with economy of scale, strong research and sales ability; increase its pace on adjusting its product mix; and explore new markets continuously to seize new development opportunities.

A. Product upgrading through product structure optimization

Innovation in technology is a key element to improve competitiveness and for continuing development. The Group therefore will make a lot of effect in technology innovation. It will consolidate its existing research resources and manpower to extend its production chain, create a reasonable product structure and upgrading its products by way of launching competitive new product group in an organised way through its advantage on research and development, promote product development from low value-added products to high value added ones and natural food additives. It will also explore nutraceutical product business, focus on core products, make use of advantage of scale production and expand into the biomedical domain, which will create new growing points for the Group.

B. Intensifying market exploration effort through expansion of sales network

The pace of corporate development is determined by personnel quality. An outstanding corporate management team is particularly needed. The Group will put its business strength into full play by strengthening team building, optimizing personnel structure, enhancing personnel quality and reinforcing professional skills, and will realize all-rounded, balanced and coordinated development through fine management. The Group will actively bring in new model of sales with an aim to enlarge sales network and increase sales.

C. *Perfecting talent structure system and enhancing corporate management standard*

Based on the need of the development strategy, the Group will focus on innovating human resource management, and optimize personnel structure to strengthen team building. Through the full implementation of ISO 14001, HACCP and Guide for Standardization System, the Group has break through the international environmental protection barrier so that it can extend its market further in Europe and American which helped to coordinate the Group's sustainable development.

D. *Persisting in establishment of brand reputation*

Quality builds a brand name, which in turn wins the market. Under the precondition of carrying forward proprietary innovation, the Group will emphasize product quality and brand name to continuously enhance product reputation, recognition and goodwill in 2010 with an aim to zealously build brand effect, promote corporate culture, explore product market and drive corporate development unto a new level.

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 area. At the same time, the Group will capitalize on its production and research strength to develop new functional food additives, natural food additives, medicinal intermediaries and nutraceutical products based on the existing technologies. The Group will continue to extend its production chain and create new growth.

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. Turnover for the six months ended 30 June 2010 increased by 15% as compared to that in the corresponding period in last year. In terms of percentage, export sales (including sales through import-export agents in the PRC) accounted for approximately 62% (for the six months ended 30 June 2009: 67%) of the Group's turnover while domestic sales in the PRC accounted for approximately 38% (for the six months ended 30 June 2009: 33%) of turnover.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had total outstanding bank borrowings of Rmb140 million (as at 31 December 2009: Rmb130 million), all of which were repayable within one year. The interest rate of the outstanding bank loans is approximately 5.1% per annum (31 December 2009: 5.1%).

Except for the bank borrowings disclosed above, as at 30 June 2010 and 31 December 2009, the Group did not have any committed borrowing facilities.

The Group did not have any charge on its assets during the six months ended 30 June 2010. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 34.1% and 31.0% as at 30 June 2010 and 31 December 2009 respectively. As at 30 June 2010, the Group's cash and cash equivalent amounted to Rmb76,796,000 (31 December 2009: Rmb 76,132,000). The Directors believe that the Group is in a healthy financial position.

CAPITAL STRUCTURE OF THE COMPANY

The H shares of the Company were listed on the GEM on 28 June 2002. There has been no change in the capital structure of the Company since that date.

On 8 September 2009, the Company entered into the Repurchase Agreement with a shareholder, Shuguang Factory, pursuant to which, the Company has conditionally agreed to repurchase and Shuguang Factory has conditionally agreed to sell 154,000,000 domestic shares of the Company, being Shuguang Factory's entire interest in the Company and 22.52% of the entire issued capital of the Company, at a consideration of Rmb86,240,000. The Repurchased Shares will be cancelled after completion of the transaction. The Repurchase Agreement and the transactions contemplated thereunder were approved by the independent shareholders in attendance in person or by proxy at the extraordinary general meeting and at the relevant class meetings held on 8 December 2009.

As at 30 June 2010, the Company paid instalments of Rmb43,120,000 to Shuguang Factory in accordance with the Repurchase Agreement. The Company expects to settle the remaining portion of the consideration in 2011. The Company expects that all the procedures of the Share Repurchase will be completed in the second half of 2010. Upon completion, the share capital will be reduced accordingly and the excess of the consideration paid over the nominal value of the Repurchased Shares will also be accounted for as a reduction of the equity of the Company. For details of the transaction, please refer to the circular dated 23 October 2009 and the announcements dated 11 September 2009 and 8 December 2009 respectively issued by the Company.

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.

EMPLOYEES

Including the Directors, as at 30 June 2010, the Group employed a total of 515 employees (30 June 2009: 490 employees). Total amount of staff costs for the six months ended 30 June 2010 was approximately Rmb17,291,000 (for the six months ended 30 June 2009: Rmb15,486,000). The increase in staff cost was mainly due to the increase in number of employees and salary increment. Employees are remunerated in accordance with the nature of the job and also on individual merit. The Company also formulated a staff incentive scheme under which for the year ending 31 December 2013, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and minority interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb40 million (the "Target Profit"):

- (a) a sum equivalent 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 equivalent to 5% of the amount in excess of the Target Profit will be payable to the deputy 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 equivalent 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save as the Share Repurchase stated in the paragraph headed “Capital Structure of the Company” above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities for the six months ended 30 June 2010.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Group as at 30 June 2010 and 31 December 2009.

The Group has no plans for material investments or capital assets.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD

There is no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2010.

CONTINGENT LIABILITIES

As at 30 June 2010 and 31 December 2009, the Group did not have any material contingent liabilities.

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

As at 30 June 2010, the interests (including interests in shares and short positions) of the Directors, the supervisors of the Company (“Supervisors”) or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“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) Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (l))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (m))
<i>Director</i>					
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian (Note (a))	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	1.14%	135,000,000	48.04%

	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))
<i>Director</i>					
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	23.49%
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))
<i>Supervisor</i>					
Ms. Zhou Rui Juan	(Note (h))	-	-	(Note (h))	(Note (h))
Mr. Lu He Xing	(Note (i))	-	-	(Note (i))	(Note (i))
Mr. Wan Yi Dong	(Note (j))	-	-	(Note (j))	(Note (j))
Prof. Jiang Yao Zhong	(Note (k))	-	-	(Note (k))	(Note (k))

Notes:

- (a) The 135,000,000 promoter foreign shares of the Company (“Foreign Shares”) are held by Hong Kong Xinsheng Pioneer Investment Company Limited (“HK Xinsheng Ltd”) and the 2,500,000 domestic shares of the Company (“Domestic Shares”) are held by 常州新生化科技開發有限公司 (“Changzhou Xinsheng”). The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each. 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. 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 of HK\$1 each 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 of HK\$1 each and 100,000 Class “B” shares of HK\$1 each. 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 and Changzhou Xinsheng, 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 of HK\$1 each 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 of HK\$1 each and 100,000 Class “B” shares of HK\$1 each. He is also the registered holder and beneficial owner of 200,000 shares of HK\$0.01 each in Hong Kong Bio-chemical Advanced Technology Company Limited (“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 of HK\$0.01 each.

- (d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares of HK\$0.01 each 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 of HK\$0.01 each. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class “B” shares of HK\$1 each 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 of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.
- (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 of HK\$1 each 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 of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.
- (g) Prof. Yang is the registered holder and beneficial owner of 2,000 Class “B” shares of HK\$1 each 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 of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.
- (h) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares of HK\$0.01 each 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 of HK\$0.01 each.
- (i) Mr. Lu is the registered holder and beneficial owner of 220,000 shares of HK\$0.01 each 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 of HK\$0.01 each.

- (j) Mr. Wan is the registered holder and beneficial owner of 4,000 Class “B” shares of HK\$1 each 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 of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.
- (k) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class “B” shares of HK\$1 each 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 of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.
- (l) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 30 June 2010.
- (m) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

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

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

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

So far as known to the Directors, as at 30 June 2010, the following, not being a Director, Supervisor or chief executives of the Company, had interests or short positions in the shares or underlying 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 Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (e))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (f))
常州曙光化工厂 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	-	-
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	-	-	135,000,000	48.04%
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	-	-	67,500,000	24.02%

Name of Shareholder	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (e))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (f))
Union Top Development Limited	Interest of controlled corporation	-	-	67,500,000 (Note (a))	24.02%
Ms. Rakchanok Sae-lao	Interest of controlled corporation	-	-	67,500,000	24.02% (Note (b))
Jomo Limited	Beneficial owner	-	-	66,000,000	23.49%
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	-	-	66,000,000 (Note (c))	23.49%
上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited)	Beneficial owner	62,500,000	28.54%	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (d))	28.54%	-	-

Notes:

- (a) Union Top Development Limited is the beneficial owner of 37.03% of the issued share capital of Hong Kong Bio-chemical Advanced Technology Investment Company Limited, 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 Hong Kong Bio-chemical Advanced Technology Investment Company Limited. Hong Kong Bio-chemical Advanced Technology Investment Company Limited is the registered holder and beneficial owner of 67,500,000 Foreign Shares.

- (c) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares.
- (d) Shanghai Technology Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai Technology Investment Company Limited, which is the registered holder and beneficial owner of 62,500,000 Domestic Shares.
- (e) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 30 June 2010.
- (f) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, the Directors are not aware of any person, not being a Director, Supervisor or chief executives of the Company, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

COMPETING BUSINESS

None of the Directors, Supervisors or management shareholders of the Company and their respective associate (as defined in the GEM Listing Rules) has an interest in a business which competes with the business of the Group.

SHARE CAPITAL STRUCTURE

As at 30 June 2010, the category of the issued shares of the Company is as follows:

	<i>No. of Shares</i>
H shares (<i>Note (a)</i>)	183,700,000
Domestic Shares (<i>Note (b)</i>)	219,000,000
Foreign Shares (<i>Note (c)</i>)	281,000,000
	<hr/>
	683,700,000
	<hr/> <hr/>

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 GEM.
- (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.

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.

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Mr. Rui Xin Sheng is the Chairman of the Board and the General Manager of the Company. Save that, the Company has complied with the code provisions of the Code on Corporate Governance Practice as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2010.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2010, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.46 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE

The Company has established an audit committee in June 2002 with written terms of reference in compliance with GEM Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group, to review the Group's financial information and to review the audit plan, audit findings and independence of the Auditor of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters of the Group including a review of the unaudited interim results for the six months ended 30 June 2010 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 10 August 2010

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 and Ms. Wei Xin are the independent non-executive Directors.