

Interim Report 2011



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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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 2011 together with the unaudited comparative figures for corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2011 – Unaudited

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2011 Rmb'000	2010 Rmb'000	2011 Rmb'000	2010 Rmb'000
Turnover	2	161,674	125,254	303,876	219,953
Cost of sales		(132,494)	(93,820)	(243,784)	(165,218)
Gross profit		29,180	31,434	60,092	54,735
Other income		507	1,337	1,344	3,273
Other losses, net		(511)	(131)	(820)	(374)
Selling expenses		(2,632)	(2,019)	(5,319)	(4,643)
Administrative expenses		(8,501)	(11,595)	(25,140)	(22,369)
Operating profit	3	18,043	19,026	30,157	30,622
Finance costs, net	4	(2,035)	(1,695)	(3,476)	(3,341)
Share of profit of an associate		313	1,834	4,941	3,938
Profit before income tax		16,321	19,165	31,622	31,219
Income tax expense	5	(2,466)	(2,703)	(4,250)	(4,325)
Profit for the period		13,855	16,462	27,372	26,894
Other comprehensive income – currency translation difference		(5)	–	15	–
Total comprehensive income for the period		13,850	16,462	27,387	26,894

	For the three months ended 30 June		For the six months ended 30 June	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Profit for the period attributable to:				
Equity holders of the Company	13,961	16,558	27,332	27,042
Non-controlling interests	(106)	(96)	40	(148)
	<u>13,855</u>	<u>16,462</u>	<u>27,372</u>	<u>26,894</u>
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	6 <i>Rmb0.026</i>	<i>Rmb0.024</i>	<i>Rmb0.052</i>	<i>Rmb0.040</i>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2011 – Unaudited

		30 June 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
	Note		
ASSETS			
Non-current assets			
Patents	8	7,151	7,611
Property, plant and equipment	9	248,958	259,253
Land use rights	9	22,691	22,954
Construction in progress	9	53,384	34,302
Investment in an associate		33,348	28,407
Prepayments		3,096	3,096
Deferred income tax assets		698	603
		<hr/>	<hr/>
		369,326	356,226
		<hr/>	<hr/>
Current assets			
Inventories		135,498	117,945
Trade and bills receivables	10	66,007	78,553
Other receivables and prepayments		17,326	16,685
Derivative financial instruments		339	44
Pledged bank balances		612	14,493
Cash and cash equivalents		79,342	47,150
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		299,124	274,870
		<hr/>	<hr/>
Total assets		668,450	631,096

	Note	30 June 2011 Rmb'000	31 December 2010 Rmb'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	52,970	52,970
Reserves	12	358,898	354,328
		411,868	407,298
Non-controlling interests		1,074	1,034
		412,942	408,332
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		960	976
Current liabilities			
Trade and bills payables	13	24,792	37,925
Other payables and accrued charges		48,003	73,693
Dividend payable	7	22,777	–
Income tax payable		1,976	3,170
Bank borrowings	14	157,000	107,000
		254,548	221,788
Total liabilities		255,508	222,764
Total equity and liabilities		668,450	631,096
Net current assets		44,576	53,082
Total assets less current liabilities		413,902	409,308

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011- Unaudited

	Attributable to equity holders of the Company				Non-controlling	
	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 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
Balance at 1 January 2011	52,970	152,549	201,779	407,298	1,034	408,332
Profit for the period	-	-	27,332	27,332	40	27,372
Other comprehensive income – currency translation difference – Group	-	15	-	15	-	15
Final dividend for the year ended 31 December 2010	-	-	(22,777)	(22,777)	-	(22,777)
Balance at 30 June 2011	52,970	152,564	206,334	411,868	1,074	412,942

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2011 – Unaudited

	For the six months ended 30 June	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Net cash generated from operating activities	10,883	32,312
Net cash used in investing activities	(7,131)	(20,088)
Net cash used in financing activities	28,440	(11,560)
Net increase in cash and cash equivalents	32,192	664
Cash and cash equivalents at 1 January	47,150	76,132
Cash and cash equivalents at 30 June	79,342	76,796

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 8 August 2011. 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 2010 (the “2010 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 2010 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	
	2011	2010
	<i>Rmb'000</i>	<i>Rmb'000</i>
Mainland China	163,472	104,496
Europe	53,106	47,443
Asia Pacific	61,375	37,467
America	19,908	16,873
Others	6,015	13,674
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	303,876	219,953
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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	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Amortisation of patents	230	230	460	459
Amortisation of land use rights	131	131	263	263
Depreciation	7,536	6,944	15,031	14,000

4. FINANCE COSTS, NET

	For the three months ended 30 June		For the six months ended 30 June	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Interest on bank loans – wholly repayable within five years	2,155	1,804	3,791	3,516
Interest income on bank deposits	(120)	(109)	(315)	(175)
Net finance costs	2,035	1,695	3,476	3,341

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 statement of comprehensive income represents:

	For the three months ended 30 June		For the six months ended 30 June	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Current income tax				
– Provision for CIT	2,531	2,659	4,347	4,227
– Under-provision in prior year	–	62	14	62
Deferred income tax	(65)	(18)	(111)	36
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	2,466	2,703	4,250	4,325

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	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Profit before income tax	16,321	19,165	31,622	31,219
Adjustment: Share of profit of an associate	(313)	(1,834)	(4,941)	(3,938)
	16,008	17,331	26,681	27,281
Calculated at the tax rates applicable to results of the respective consolidated entities	2,453	2,533	4,218	3,987
Income not subject to tax	(24)	(40)	(52)	(29)
Expenses not deductible for tax purposes	2	-	2	8
Tax losses for which no deferred income tax asset was recognised	103	148	228	297
Utilisation of tax losses for which no deferred income tax asset was recognised	(68)	-	(160)	-
Under-provision in prior year	-	62	14	62
Income tax expense	2,466	2,703	4,250	4,325

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2011 is based on the profit attributable to the equity holders of the Company of approximately Rmb13,961,000 (for the three months ended 30 June 2010: Rmb16,558,000) and 529,700,000 shares (for the three months ended 30 June 2010: 683,700,000 shares) weighted average number of shares in issue during the period.

The calculation of earnings per share for the six months ended 30 June 2011 is based on the profit attributable to the equity holders of the Company of approximately Rmb27,332,000 (for the six months ended 30 June 2010: Rmb27,042,000) and 529,700,000 shares (for the six months ended 30 June 2010: 683,700,000 shares) weighted average number of shares in issue during the period.

The Company has no dilutive potential shares in issue during the period (2010: Nil).

7. DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2011 (corresponding period in 2010: Nil).

In addition, the final dividend of Rmb0.043 (inclusive of tax) per share for the year ended 31 December 2010 which was recommended by the Directors on 8 March 2011 was approved by the shareholders at the Annual General Meeting on 6 May 2011. This final dividend, totalling approximately Rmb22,777,000 has been recognised as a liability in this financial information.

8. PATENTS

	<i>Rmb'000</i>
Net book value as at 1 January 2011	7,611
Amortisation	(460)
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Net book value as at 30 June 2011	<u><u>7,151</u></u>

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 2011	259,253	22,954	34,302
Transfer from construction in progress	4,748	–	(4,748)
Additions	20	–	23,830
Disposal	(32)	–	–
Depreciation/amortisation charge	(15,031)	(263)	–
Net book value as at 30 June 2011	248,958	22,691	53,384

10. TRADE AND BILLS RECEIVABLES

	30 June 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
Trade receivables (<i>note (a)</i>)	65,257	78,553
Bills receivables (<i>note (b)</i>)	750	–
	66,007	78,553

- (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 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
0 to 3 months	63,164	77,808
4 to 6 months	1,510	423
Over 6 months	914	653
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Provision for impairment of trade receivables	65,588	78,884
	(331)	(331)
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	<u>65,257</u>	<u>78,553</u>

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

11. 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 2011 and 31 December 2010	529,700,000	52,970
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As at 30 June 2011 and 31 December 2010, the share capital of the Company composed of 65 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.

12. RESERVES

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Translation reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <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
At 30 June 2010	87,159	42,705	-	-	246,087	375,951

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Translation reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2011	102,559	49,504	461	25	201,779	354,328
Profit for the period	-	-	-	-	27,332	27,332
Other comprehensive income – currency translation difference – Group	-	-	-	15	-	15
Final dividend for the year ended 31 December 2010	-	-	-	-	(22,777)	(22,777)
At 30 June 2011	102,559	49,504	461	40	206,334	358,898

13. TRADE AND BILLS PAYABLES

	30 June 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
Trade payables (Note (a))	24,792	21,445
Bills payable (Note (b))	-	16,480
	24,792	37,925

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

	30 June 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
0 to 6 months	24,706	21,229
7 to 12 months	43	181
Over 12 months	43	35
	24,792	21,445
	24,792	21,445

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

14. BANK BORROWINGS

Bank borrowings are analysed as follows:

	30 June 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
Unsecured, short-term bank borrowings	157,000	107,000
	157,000	107,000

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 2011, the effective interest rates of the bank borrowings were as follows:

	30 June 2011	31 December 2010
Short-term bank borrowings, at fixed rate	5.8%	4.9%
Short-term bank borrowings, at floating rate	5.8%	5.4%
	5.8%	5.4%

15. CONTINGENT LIABILITIES

As at 30 June 2011 and 31 December 2010, the Group did not have any material contingent liabilities.

16. COMMITMENTS

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

	30 June 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
Contracted but not provided for	–	–
Authorised but not contracted for	11,425	9,158
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	11,425	9,158
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(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2011, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2011 <i>Rmb'000</i>	31 December 2010 <i>Rmb'000</i>
Not later than one year	407	174
Later than one year and not later than five years	407	–
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	814	174
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17. RELATED PARTY TRANSACTIONS

Transactions with an associate – Group

On 29 June 2010, Shanghai Medical Life Science Research Centre Limited (“Shanghai Life Science”), a subsidiary of the Company, entered into a cooperation agreement with Changzhou Lanling Pharmaceutical Production Co., Ltd. (“Lanling Pharm”), an associate of the Company, in relation to the joint research and development of new drug products with patent of lentinan hexaose owned by Shanghai Life Science. Income received by Shanghai Life Science from Lanling Pharm during the period was:

	For the six months ended 30 June	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Income from joint research and development of a patent	400	–

REVIEW AND PROSPECT

Business Review

In the first half of 2011, the production and operation of the Group were stable while its international collaboration projects, research and development and management condition achieved the goals of the Group. The Group developed with a fairly fast economic growth pace and increasing economic vitality.

The Group recorded a turnover of approximately RMB303,876,000 for the six months ended 30 June 2011, which represented an increase of 38% compared to the corresponding period in last year; and the net profit was approximately RMB27,332,000, which was at a similar level as compared to the corresponding period in last year. In this year, the prices of raw materials derived from petroleum increased much more than the market prices of the products, which had a negative impact on the growth of profits in the first half year. Consequently, the net profit does not grow with a similar extent as the rise in sales revenue.

The Group's yearly target is to focus on increasing the efficiency of the production lines, increasing the production volume and reducing the wastage rate to give full play of its strength of production of scale. It has further improved its product quality to satisfy the international market through enhancement in quality control and environmental management and its products are well recognized by the old and new customers. It has optimized its production technology and made break troughs to reduce consumption of raw materials and increase the competitiveness of its products, which made the outstanding contribution to the Group's economic benefits.

Facing the complicated and tough situation at home and abroad, the Group applied flexible sales strategies including direct contact with more end-customers and with the elimination of intermediary parties to increase its competitiveness in the markets. In the meantime, the Group's outstanding sales team actively seized the opportunities in market expansion to explore new market and new application arena for its core products, continuously promote brand recognition and awareness laid the foundation for continuous sales growth.

Future and Prospect

China shows a strong economic recovery in year 2011. The complicated international economic situation and fierce competition within the industry will apparently generate new opportunities as well as challenges for future development. The Group will further improve its ability to adapt the international market change and explore the domestic market. It will also make use of its advantage in production with economy of scale and strong research and sales ability to implement advanced international standardization management, with an aim to realize its long-term objectives of product innovation, product transformation and product upgrading in unceasing pursuit of enlargement and expansion.

(I) *Optimisation of product structure*

Innovation in technology is a key element to improve competitiveness and for continuing development. While focusing on its core products and making use of its advantage in production with economy of scale, the Group will make a lot of effort in technology innovation. It will consolidate its existing research resources and manpower to upgrade its products by means of launching competitive new product group in an organized way through research and development. In 2011, the natural food additives project will be implemented as scheduled, laying a solid foundation for future development.

(II) *Developing market for new products through expansion of sales network*

The Group will continuously enhance its sales personnel quality and the overall quality of the sales team. The Group will develop new sales channels and new application area to explore potential market. It will establish new overseas office to expand and serve the overseas market in a bid to enlarge the sales network globally and to secure a steady increase in sales.

In 2011, the Group's Healthy Companion brand (攜康牌) Vitamin K calcium tablet (維K鈣片) and Coenzyme Q10 Vitamin E capsule (輔酶Q10維E膠囊) that had obtained the approval for healthcare food from the State Food and Drug Administration, will face directly the consumers with effective healthcare results and explore a broader consumer market along with the year-on-year gradual increase in the healthcare consumption of the people. Upon certification of the new Active Pharmaceutical Ingredients ("APIs") related production and sales work will be fully implemented, expecting to target a broader room for profit making.

(III) 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 ISO9001, ISO14001, HACCP (Hazard Analysis and Critical Control Point) and Guide for Standardization System, the Group has broken through the international environmental protection barrier so that it can extend its market further in Europe and America, and attain the most optimized order for corporate development. The Group was accredited as a "Green Corporation" in Changzhou City in March 2011, which helped to coordinate the Group's sustainable development.

(IV) Establishment of brand reputation and enhancement of competitiveness

The Group builds its brand name with good product quality and gains customers with its brand name. In year 2011, the Group was accredited as 江蘇省品質信用等級A級企業 (Enterprise with Quality Credit Grade A in Jiangsu Province), which strengthened the customers' confidence on the Group's product. In line with the expanding product group, the Group will, through its innovative and perfect services, endeavor to promote advances in quality, create both unique and popular reputations for brand upgrading of various products including the title of "Famous Brand Product of Jiangsu Province" for L(+)-tartaric acid and building of branded product group, so as to strengthen customer satisfaction and loyalty for Changmao Brand.

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, APIs, medicinal intermediaries, and nutraceutical products. 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. In terms of percentage, export sales (including sales through import-export agents in the PRC) accounted for approximately 53% (for the six months ended 30 June 2010: 62%) of the Group's turnover while domestic sales in the PRC accounted for approximately 47% (for the six months ended 30 June 2010: 38%) 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 2011, the Group had total outstanding bank borrowings of Rmb157 million (as at 31 December 2010: Rmb107 million), all of which were repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The interest rate of the outstanding bank loans is approximately 5.8% per annum (31 December 2010: 5.2%).

Except for the bank borrowings disclosed above, as at 30 June 2011 and 31 December 2010, the Group did not have any committed borrowing facilities.

As at 30 June 2011, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb11,425,000. These capital commitments are mainly used for expansion of production lines in the next year. 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 six months ended 30 June 2011. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 38.2% and 35.3% as at 30 June 2011 and 31 December 2010 respectively. As at 30 June 2011, the Group's cash and cash equivalent amounted to Rmb79,342,000 (31 December 2010: Rmb47,150,000). 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 for the six months ended 30 June 2011.

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 2011, the Group employed a total of 580 employees (30 June 2010: 515 employees). Total amount of staff costs for the six months ended 30 June 2011 was approximately Rmb18,973,000 (for the six months ended 30 June 2010: Rmb 17,291,000). 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 non-controlling interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb 40 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 equivalents 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 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.

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 its listed securities for the six months ended 30 June 2011.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Group as at 30 June 2011 and 31 December 2010.

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 2011.

CONTINGENT LIABILITIES

As at 30 June 2011 and 31 December 2010, 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 2011, 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	3.85%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	3.85%	135,000,000	48.04%
Mr. Pan Chun	(Note (c))	-	-	(Note (c))	(Note (c))

	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))
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 (ii))	-	-	(Note (ii))	(Note (ii))
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 65,000,000 Domestic Shares in issue as at 30 June 2011.
- (m) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 30 June 2011.

Save as disclosed above, as at 30 June 2011, 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 2011, 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))
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%
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 (Note (b))	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))
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	96.15%	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (d))	96.15%	-	-

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 65,000,000 Domestic Shares in issue as at 30 June 2011.
- (f) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 30 June 2011.

Save as disclosed above, as at 30 June 2011, 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 2011, 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>)	65,000,000
Foreign Shares (<i>Note (c)</i>)	281,000,000
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	529,700,000
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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 2011.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2011, 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 2011 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 8 August 2011

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.