



CMBEC

INTERIM REPORT

2013

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)

(Stock Code: 954)

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013 – Unaudited

	Note	For the six months ended 30 June	
		2013 Rmb'000	2012 Rmb'000
Turnover	2	358,763	314,463
Cost of sales		(280,218)	(256,823)
Gross profit		78,545	57,640
Other income	3	994	4,873
Other gains, net	3	363	11,241
Selling expenses		(7,058)	(8,062)
Administrative expenses		(34,519)	(31,403)
Operating profit	4	38,325	34,289
Finance costs, net	5	(4,205)	(5,319)
Share of profit of an associate		–	342
Profit before income tax		34,120	29,312
Income tax expense	6	(5,121)	(5,048)
Profit for the period		28,999	24,264
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		37	(73)
Total comprehensive income for the period		29,036	24,191
Profit for the period attributable to:			
Equity holders of the Company		28,987	24,491
Non-controlling interests		12	(227)
		28,999	24,264
Total comprehensive income for the period attributable to:			
Equity holders of the Company		29,024	24,418
Non-controlling interests		12	(227)
		29,036	24,191
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	7	Rmb0.055	Rmb0.046

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2013 – Unaudited

	Note	30 June 2013 Rmb'000	31 December 2012 Rmb'000
ASSETS			
Non-current assets			
Patents	9	4,471	4,899
Property, plant and equipment	10	246,562	259,261
Land use rights	10	21,640	21,903
Construction in progress	10	72,739	50,920
Prepayments		13,821	13,991
Deferred income tax assets		859	877
		360,092	351,851
Current assets			
Inventories		112,764	108,480
Trade and bills receivables	11	90,517	74,550
Other receivables and prepayments		17,995	14,638
Derivative financial instruments		2,185	507
Pledged bank balances	12	4,443	4,094
Cash and bank balances	12	100,859	108,178
		328,763	310,447
Total assets		688,855	662,298
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	52,970	52,970
Reserves	14	423,430	409,238
		476,400	462,208
Non-controlling interests		1,757	1,745
Total equity		478,157	463,953

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Note	30 June 2013 Rmb'000	31 December 2012 Rmb'000
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		631	655
Current liabilities			
Trade payables	15	28,247	20,878
Other payables and accrued charges		29,808	30,008
Dividend payable	8	14,832	–
Income tax payable		2,180	2,348
Bank borrowings	16	135,000	144,456
		210,067	197,690
Total liabilities		210,698	198,345
Total equity and liabilities		688,855	662,298
Net current assets		118,696	112,757
Total assets less current liabilities		478,788	464,608

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013- Unaudited

	Attributable to equity holders of the Company				Non- controlling Interest	Total
	Share capital	Other reserves	Retained earnings	Total		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2012	52,970	156,636	215,989	425,595	1,632	427,227
Profit for the period	-	-	24,491	24,491	(227)	24,264
Other comprehensive income						
– currency translation difference – Group	-	(73)	-	(73)	-	(73)
Final dividend for the year ended 31 December 2011	-	-	(12,713)	(12,713)	-	(12,713)
Balance at 30 June 2012	52,970	156,563	227,767	437,300	1,405	438,705
Balance at 1 January 2013	52,970	161,768	247,470	462,208	1,745	463,953
Profit for the period	-	-	28,987	28,987	12	28,999
Other comprehensive income						
– currency translation difference – Group	-	37	-	37	-	37
Final dividend for the year ended 31 December 2012	-	-	(14,832)	(14,832)	-	(14,832)
Balance at 30 June 2013	52,970	161,805	261,625	476,400	1,757	478,157

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2013 – Unaudited

	For the six months ended	
	30 June	
	2013	2012
	Rmb'000	Rmb'000
Net cash generated from operating activities	28,921	34,849
Net cash used in investing activities	(30,284)	(21,730)
Net cash used in financing activities	(9,456)	(5,420)
Net (decrease)/increase in cash and cash equivalents	(10,819)	7,699
Cash and cash equivalents at 1 January	106,578	59,635
Cash and cash equivalents at 30 June	95,759	67,334

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information has been prepared in accordance with applicable disclosure provisions of Listing Rules, including compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial statements should be read in conjunction with the 2012 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 16 August 2013. This condensed consolidated interim financial information has not been audited.

The accounting policies used in preparing the condensed consolidated interim financial statements are consistent with those used in the 2012 Financial Statements. The New HKFRSs which have become effective in this period have no material impact on the accounting policies in the Group’s condensed consolidated 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.

Management determines the operating segments based on the information reported to the Group’s chief operating decision maker. Executive directors are identified as the chief operating decision maker. The Group is engaged in the production and sale of organic acids. Resources of the Group are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, and the executive directors consider the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirement of Hong Kong Financial Reporting Standard 8.

	For the six months ended	
	30 June	
	2013	2012
	Rmb’000	Rmb’000
Mainland China	170,754	160,906
Europe	76,561	80,033
Asia Pacific	77,447	42,396
America	27,672	24,370
Others	6,329	6,758
	358,763	314,463

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

The total of the Group's assets located in Mainland China is Rmb685,146,000 (30 June 2012: Rmb684,511,000), and the total of the Group's assets located in other country is Rmb3,709,000 (30 June 2012: Rmb2,020,000).

3 OTHER INCOME AND OTHER GAINS, NET

	For the six months ended	
	30 June	
	2013	2012
	Rmb'000	Rmb'000
Other income		
Sales of scrap materials	169	218
Government grants	234	4,107
Income from joint research and development of a patent	400	400
Others	191	148
	994	4,873
Other gains, net		
Gain on disposal of an associate	–	11,230
Gain from disposal of a patent	500	–
Loss on disposal of property, plant and equipment	(10)	(46)
Fair value gain on financial asset at fair value through profit and loss	–	87
Fair value gains/(losses) on derivative financial instruments	1,678	(509)
Net exchange (losses)/gains	(1,805)	479
	363	11,241

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 OPERATING PROFIT

Operating profit is stated after charging the following:

	For the six months ended 30 June	
	2013 Rmb'000	2012 Rmb'000
Amortisation of patents	428	443
Amortisation of land use rights	263	263
Depreciation	17,482	17,375
	<hr/>	<hr/>

5 FINANCE COSTS, NET

	For the six months ended 30 June	
	2013 Rmb'000	2012 Rmb'000
Interest on bank loans – wholly repayable within five years	4,413	5,552
Interest income on bank deposits	(208)	(233)
	<hr/>	<hr/>
Net finance costs	4,205	5,319

6 INCOME TAX EXPENSE

PRC 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%.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	For the six months ended 30 June	
	2013	2012
	Rmb'000	Rmb'000
Current income tax		
– Provision for CIT	5,127	5,148
Deferred income tax	(6)	(100)
	5,121	5,048

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 six months ended 30 June	
	2013	2012
	Rmb'000	Rmb'000
Profit before income tax	34,120	29,312
Adjustment: Share of profit of an associate	–	(342)
	34,120	28,970
Calculated at the tax rates applicable to results of the respective consolidated entities	5,111	4,231
Income not subject to tax	(251)	(13)
Expenses not deductible for tax purposes	48	80
Tax losses for which no deferred income tax asset was recognised	217	189
Others	(4)	561
Income tax expense	5,121	5,048

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2013 is based on the profit attributable to the equity holders of the Company of approximately Rmb28,987,000 (for the six months ended 30 June 2012: Rmb24,491,000) and 529,700,000 shares (for the six months ended 30 June 2012: 529,700,000 shares) weighted average number of shares in issue during the period.

The Company has no dilutive potential shares in issue during the period (corresponding period in 2012: Nil).

8 DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2013 (Corresponding period in 2012: Nil).

In addition, the final dividend of Rmb0.028 (inclusive of tax) per share for the year ended 31 December 2012 which was recommended by the Directors on 6 March 2013 was approved by the shareholders at the Annual General Meeting on 16 May 2013. This final dividend, totalling approximately Rmb14,832,000 has been recognised as a liability in this financial information.

9 PATENTS

	Rmb'000
Net book value as at 1 January 2013	4,899
Amortisation	(428)
	<hr/>
Net book value as at 30 June 2013	<u>4,471</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 CAPITAL EXPENDITURE

	Property, plant and equipment	Land use rights	Construction in progress
	Rmb'000	Rmb'000	Rmb'000
Net book value as at 1 January 2013	259,261	21,903	50,920
Transfer from construction in progress	4,636	–	(4,636)
Additions	161	–	26,455
Disposal	(14)	–	–
Depreciation/amortisation charge	(17,482)	(263)	–
	<hr/>	<hr/>	<hr/>
Net book value as at 30 June 2013	246,562	21,640	72,739

11 TRADE AND BILLS RECEIVABLES

	30 June 2013	31 December 2012
	Rmb'000	Rmb'000
Trade receivables (note (a))	85,657	73,220
Bills receivables (note (b))	4,860	1,330
	<hr/>	<hr/>
	90,517	74,550

- (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 2013	31 December 2012
	Rmb'000	Rmb'000
0 to 3 months	82,865	71,772
4 to 6 months	1,673	915
Over 6 months	1,535	949
	<hr/>	<hr/>
Provision for impairment of trade receivables	86,073	73,636
	(416)	(416)
	<hr/>	<hr/>
	85,657	73,220

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	30 June 2013 Rmb'000	31 December 2012 Rmb'000
Short-term bank deposits with original maturities of over 3 months	5,100	1,600
Cash and cash equivalents	95,759	106,578
	100,859	108,178
Pledged bank balances	4,443	4,094
	105,302	112,272
	30 June 2013 Rmb'000	31 December 2012 Rmb'000
Denominated in:		
– Rmb	76,096	95,545
– USD	29,145	14,674
– Canadian Dollars	35	2,026
– Hong Kong Dollars	26	27
	105,302	112,272

13 SHARE CAPITAL
Registered, issued and fully paid

	Share capital	
	Number of shares at Rmb 0.10 each	Nominal value Rmb'000
At 30 June 2013 and 31 December 2012	529,700,000	52,970

As at 30 June 2013 and 31 December 2012, the share capital of the Company composed of 2.5 million Domestic Shares, 343.5 million Foreign Shares and 183.7 million H shares. The H Shares rank pari passu with the Domestic Shares and 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 RESERVES

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2012	102,559	53,622	461	(6)	215,989	372,625
Profit for the period	–	–	–	–	24,491	24,491
Other comprehensive income						
– currency translation difference – Group	–	–	–	(73)	–	(73)
Final dividend for the year ended 31 December 2011	–	–	–	–	(12,713)	(12,713)
At 30 June 2012	102,559	53,622	461	(79)	227,767	384,330

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2013	102,559	58,883	461	(135)	247,470	409,238
Profit for the period	–	–	–	–	28,987	28,987
Other comprehensive income						
– currency translation difference – Group	–	–	–	37	–	37
Final dividend for the year ended 31 December 2012	–	–	–	–	(14,832)	(14,832)
At 30 June 2013	102,559	58,883	461	(98)	261,625	423,430

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 TRADE PAYABLES

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

	30 June 2013 Rmb'000	31 December 2012 Rmb'000
0 to 6 months	28,168	20,754
7 to 12 months	11	63
Over 12 months	68	61
	28,247	20,878

16 BANK BORROWINGS

Bank borrowings are analysed as follows:

The carrying amounts of these bank borrowings approximate their fair values and are denominated in the following currencies:

	30 June 2013 Rmb'000	31 December 2012 Rmb'000
Rmb	135,000	115,000
USD	–	29,456
	135,000	144,456

All bank borrowings were repayable within one year.

The outstanding bank borrowings as at 30 June 2013 were unsecured. As at 31 December 2012, bank borrowings of Rmb29,456,000 were secured by a USD bank deposit of Rmb4,089,000.

As at 30 June 2013, the average effective interest rate of the bank borrowings was 5.7% (31 December 2012: 5.8%).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17 CONTINGENT LIABILITIES

As at 30 June 2013 and 31 December 2012, the Group did not have any material contingent liabilities.

18 COMMITMENTS

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

	30 June 2013 Rmb'000	31 December 2012 Rmb'000
Contracted but not provided for	10,333	35,931
Authorised but not contracted for	22,187	4,753
	32,520	40,684

(b) **Commitments under operating leases**

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2013, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2013 Rmb'000	31 December 2012 Rmb'000
Not later than one year	457	199
Later than one year and not later than five years	228	–
	685	199

BUSINESS AND FINANCIAL REVIEW

REVIEW AND PROSPECT

Business review

In the first half of 2013, the Group maintained steady production and operation, achieved satisfactory sales performance. Project construction made headway as planned. International collaboration, research and development and management were satisfactorily operated. The Group's development reflected a positive and health trend in general.

The Group's turnover for the six months ended 30 June 2013 was Rmb358,763,000, which has increased by 14.1% as compared to that for the corresponding period in 2012 while the net profit for the six months ended 30 June was Rmb28,987,000, which has increased by 18.4% as compared to that for the corresponding period in 2012.

In the first half year, although the raw material price and staff costs have continuously increased and the market was highly competitive, the Group focused on technological improvements and meeting market demand for the products. The Group used flexible marketing strategies and enhanced the market competitiveness of its products. The continuous increase in production scale has partly offset the impact of increase in raw material price and staff costs to the production costs and produced a positive impact on the Group's gross margin, which rose from 18.3% in the corresponding period in last year to 21.9% in the current period.

In terms of sales, the Group's excellent sales team grasp the market situation and seize key customers to explore the sales market of the core products. Through enhancing the Changmao brand recognition in domestic and overseas markets and the effort of the Group's sales team, the Group continues to maintain a growth in sales. The sales of malic acid and tartaric acid which are the Group's major products, were good and made a contribution to the net profit growth of the Group in the first half of 2013 as they enjoyed high reputation in both domestic and overseas market by its consistently excellent quality.

To ensure growth in sales, the Group continuous to focus on increasing the efficiency of the production lines, increasing production volume and reducing the wastage rate and energy consumption. It has optimised its production technology and made break-throughs to effectively control its production costs and given full play to the advantages of economy of scale. The Group's measures have given fully guarantee to the product quality and at the same time increased the production volume, which ensured the continuous growth in sales.

For a long time, through the effective implementation of the Group's quality management system ISO9001, environmental management system ISO14001 and food safety system FSSC22000, and constantly improvement on the internal management, the Group has improved its comprehensive competitiveness. Meanwhile, through standardised safety management, the Group has meticulously approved and monitored its safety operation and management training to ensure production safety of the Group. For environmental enforcement, the Group conscientiously implemented a series of measures to ensure compliance of the relevant regulations on discharging wastage. The Group actively fulfilled corporate social responsibility, reflecting the value other than earnings.

BUSINESS AND FINANCIAL REVIEW

Future and Outlook

Domestic and overseas economic conditions are facing more and more uncertainties, and there will always be fierce competition. In response, the Group will further enhance its ability to fend off market fluctuations, speed up the adjustment of its product mix by economies of scale as well as strong research and development and marketing capability, continue to develop new products and continue to expand into new markets to capture growth opportunities. In 2013, the Group will concentrate on the following areas:

(I) Accelerating technology innovation and promoting product upgrade

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

(II) Adjusting sales strategies and attracting high-end customers

The Group will strive to attract major customers and end-customers by optimising its sales structure, tap the market potential, and developing a steady, sustainable market for its products. It will further cooperate with a number of locally and internationally renowned food companies for its major products including tartaric acid, malic acid and aspartame. This will help open new international sales aspects, direct access by end customers and expand international sales networks. It will also facilitate steady growth in sales, and constantly improve the economic efficiency.

(III) Building brand reputation and registering international trademarks

The Group builds its brand name with high product quality, promotes its brand with trademarks and gains customers with its brand name. It will continue to implement a strategic plan for its brand, gradually upgrade the level of its trademarks and register trademarks overseas systematically. The Group will enhance its global brand awareness, continue its brand upgrade, improve its customers' satisfaction with and loyalty to Changmao brand, and increase its market share.

BUSINESS AND FINANCIAL REVIEW

(IV) Establishment and operation of a wholly owned subsidiary – Changmao Biochemical Lianyungang Limited

Changmao Biochemical Lianyungang Limited will be the new focus of the Group's future development. The infrastructure work of the phase 1 of the new factory has been carried out in an orderly manner. Lianyungang is suitable for investment and mass production of food additives, and enjoys lower production cost compare to Changzhou. The establishment and operation of this subsidiary will further enhance the advantage of economies of scale of the Group. Projects such as manufacturing maleic anhydride with butane, a new raw material, and the fumaric acid and natural organic acid production lines will also be fully implemented in Lianyungang. It will also promote the upgrade of the existing production chain, which is in line with the strategic target of developing high value-added food additives. Besides, this will further perfect food additives series like sweeteners and acidulants so as to provide raw materials to high-end food producers worldwide, bring new drivers to the Group's development and will be the new profit centre of the Group.

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 capitalise on its research and production strength and through continuous innovation to develop new functional food additives, natural food additives and nutraceutical products. The Group will extend its production chain to create new growth points and bring a better investment return to its shareholders.

REVIEW OF FINANCIAL STATEMENTS

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013 in conjunction with the Directors.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013.

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 59% (for the six months ended 30 June 2012: 55%) of the Group's turnover while domestic sales in the PRC accounted for approximately 41% (for the six months ended 30 June 2012: 45%) of turnover.

BUSINESS AND FINANCIAL REVIEW

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 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 2013, the Group had total outstanding bank borrowings of approximately Rmb135 million (as at 31 December 2012: Rmb144,456,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2013 were unsecured. As at 31 December 2012, bank borrowings of Rmb29,456,000 were secured by a USD bank deposit of Rmb4,089,000. The Company expects to renew the bank borrowings in due time if necessary. The interest rate of the outstanding bank loans is approximately 5.7% per annum (31 December 2012: 5.8%).

Except for the bank borrowings disclosed above, as at 30 June 2013 and 31 December 2012, the Group did not have any committed borrowing facilities.

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

As at 30 June 2013, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb32,520,000. These capital commitments are mainly used for expansion of production lines and the construction of a new plant in Lianyungang. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets as at 30 June 2013. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 30.6% and 29.9% as at 30 June 2013 and 31 December 2012 respectively. As at 30 June 2013, the Group's cash and cash equivalent amounted to Rmb95,759,000 (31 December 2012: Rmb106,578,000). The Directors believe that the Group is in a healthy financial position.

BUSINESS AND FINANCIAL REVIEW

EMPLOYEES

Including the Directors, as at 30 June 2013, the Group employed a total of 516 employees (30 June 2012: 624 employees). Total amount of staff costs for the six months ended 30 June 2013 was approximately Rmb29,498,000 (for the six months ended 30 June 2012: Rmb25,332,000). The increase in staff cost was mainly due to 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 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.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Group as at 30 June 2013 and 31 December 2012.

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

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD

There was no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2013.

CONTINGENT LIABILITIES

As at 30 June 2013 and 31 December 2012, the Group did not have any material contingent liabilities.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 16 August 2013

DISCLOSURE OF INTERESTS

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 2013, the interests (including interests in shares and short positions) of the Directors, the Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

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

DISCLOSURE OF INTERESTS

Notes:

- (a) The 135,000,000 Foreign Shares are held by HK Xinsheng Ltd and the 2,500,000 Domestic Shares are held by 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 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.

DISCLOSURE OF INTERESTS

- (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. Zhang is the registered holder and beneficial owner of 800 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. Mr. Zhang is the registered holder and beneficial owner of 120,000 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.
- (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 2,500,000 Domestic Shares in issue as at 30 June 2013.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2013.

Save as disclosed above, as at 30 June 2013, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS

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 2013, 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 Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (f))	Number of H Shares	Approximate Percentage shareholding in the H Shares (Note (g))
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%	-	-
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%	-	-
Union Top Development Limited	Interest of controlled corporation	67,500,000 (Note (a))	19.65%	-	-
Ms. Rakchanok Sae-lao	Interest of controlled corporation	67,500,000 (Note (b))	19.65%	-	-
Jomo Limited	Beneficial owner	66,000,000	19.21%	-	-
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	66,000,000 (Note (c))	19.21%	-	-
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%	-	-
上海科技創業投資股份有限公司 (Shanghai Technology Entrepreneur Investment Company Limited, formerly 上海科技投資股份有限公司)	Interest of controlled corporation	62,500,000 (Note (d))	18.20%	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (e))	18.20%	-	-
錫聯國際投資有限公司	Beneficial owner	-	-	11,112,000	6.05%

DISCLOSURE OF INTERESTS

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 Entrepreneur Investment Company Limited is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited, which is the registered holder and beneficial owner of 62,500,000 Foreign Shares.
- (e) Shanghai Technology Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai Technology Entrepreneur Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.
- (f) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 30 June 2013.
- (g) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2013.

Save as disclosed above, as at 30 June 2013, 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 underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

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.

OTHER INFORMATION

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 2013.

SHARE CAPITAL STRUCTURE

As at 30 June 2013, the category of the issued shares of the Company is as follows:

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

Notes:

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

The H Shares of the Company were listed on the GEM on 28 June 2002. The listing of the H Shares of the Company was subsequently transferred from GEM to the Main Board of the Stock Exchange on 28 June 2013.

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

OTHER INFORMATION

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

Code provision A.2.1 of CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Rui Xin Sheng, the chairman of the Board, also acts as the general manager (chief executive officer) of the Company. Since Mr. Rui Xin Sheng is well aware of the Group's business and operation, the Company considers that it is in the best interest of the Company for Mr. Rui Xin Sheng to act as the general manager of the Company.

Code provision A.6.7 of CG Code stipulates that non-executive Directors should attend general meetings. Mr. Zeng Xian Biao, Mr. Wang Jian Ping, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin were unable to attend the annual general meeting and extraordinary general meeting of the Company that held on 16 May 2013 due to prior business commitment.

OTHER INFORMATION

Save for the above, the Company has complied with the code provisions of Corporate Governance Code and Corporate Governance Report as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules (from 1 January 2013 to 27 June 2013) and in Appendix 14 to the Listing Rules (with effect from 28 June 2013, on which date the listing of the H Shares were transferred from GEM to Main Board) during the six months ended 30 June 2013.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the Model Code for the six months ended 30 June 2013.

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

GLOSSARY

2012 Financial Statements	the Group's annual financial statements for the year ended 31 December 2012
Board	Board of Directors of the Company
CG Code	Corporate Governance Code
Changmao or the Company	Changmao Biochemical Engineering Company Limited
Changzhou Xinsheng	常州新生生化科技開發有限公司
CIT	Company Income Tax
Director(s)	Director(s) of the Company
Domestic Shares	Domestic shares of the Company
Foreign Shares	Foreign shares of the Company
GEM	Growth Enterprise Market of the Exchange
Group	the Company and its subsidiaries
HK Biochem Ltd	Hong Kong Bio-chemical Advanced Technology Company Limited
HK Xinsheng Ltd	Hong Kong Xinsheng Pioneer Investment Company Limited
H Shares	H shares of the Company
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
New HKFRSs	New standards, amendments and interpretations of Hong Kong Financial Reporting Standards
PRC	The People's Republic of China

GLOSSARY

PQQ	Pyrrroloquinoline quinone
Rmb	Renminbi
SFO	Securities and Futures Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited
Supervisor(s)	Supervisor(s) of the Company
USD	United States Dollars