



**CMBEC**

INTERIM REPORT **2014**

**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 2014 – Unaudited

	Note	For the six months ended 30 June	
		2014 Rmb'000	2013 Rmb'000
Turnover	2	305,670	358,763
Cost of sales		(242,099)	(280,218)
Gross profit		63,571	78,545
Other income	3	831	994
Other (losses)/gains, net	3	(1,544)	363
Selling expenses		(7,227)	(7,058)
Administrative expenses		(32,095)	(34,519)
Operating profit	4	23,536	38,325
Finance costs, net	5	(3,051)	(4,205)
Profit before income tax		20,485	34,120
Income tax expense	6	(3,635)	(5,121)
Profit for the period		16,850	28,999
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		7	37
<b>Total comprehensive income for the period</b>		<b>16,857</b>	<b>29,036</b>
Profit for the period attributable to:			
Equity holders of the Company		16,930	28,987
Non-controlling interests		(80)	12
		<b>16,850</b>	<b>28,999</b>
Total comprehensive income for the period attributable to:			
Equity holders of the Company		16,937	29,024
Non-controlling interests		(80)	12
		<b>16,857</b>	<b>29,036</b>
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	7	Rmb0.032	Rmb0.055

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014 – Unaudited

	Note	30 June 2014 Rmb'000	31 December 2013 Rmb'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Patents	9	3,095	3,503
Property, plant and equipment	10	232,783	247,627
Land use rights	10	29,086	21,377
Construction in progress	10	121,467	84,615
Prepayments		8,233	15,233
Deferred income tax assets		1,168	1,058
		<b>395,832</b>	373,413
<b>Current assets</b>			
Inventories		114,440	135,946
Trade and bills receivables	11	80,144	79,004
Other receivables and prepayments		22,981	17,629
Derivative financial instruments		–	2,554
Pledged bank balances	12	–	4,442
Cash and bank balances	12	120,235	64,790
		<b>337,800</b>	304,365
<b>Total assets</b>		<b>733,632</b>	677,778
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	13	52,970	52,970
Reserves	14	460,253	464,504
		<b>513,223</b>	517,474
<b>Non-controlling interests</b>		<b>2,001</b>	2,081
<b>Total equity</b>		<b>515,224</b>	519,555

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Note	30 June 2013 Rmb'000	31 December 2012 Rmb'000
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Deferred income tax liabilities		454	473
<b>Current liabilities</b>			
Trade payables	15	17,110	18,410
Other payables and accrued charges		27,723	32,536
Derivative financial instruments		646	–
Dividend payable	8	21,188	–
Income tax payable		587	1,804
Bank borrowings	16	150,700	105,000
		217,954	157,750
<b>Total liabilities</b>		<b>218,408</b>	<b>158,223</b>
<b>Total equity and liabilities</b>		<b>733,632</b>	<b>677,778</b>
<b>Net current assets</b>		<b>119,846</b>	<b>146,615</b>
<b>Total assets less current liabilities</b>		<b>515,678</b>	<b>520,028</b>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 – 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 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)
<b>Balance at 30 June 2013</b>	<b>52,970</b>	<b>161,805</b>	<b>261,625</b>	<b>476,400</b>	<b>1,757</b>	<b>478,157</b>
Balance at 1 January 2014	52,970	168,869	295,635	517,474	2,081	519,555
Profit for the period	–	–	16,930	16,930	(80)	16,850
Other comprehensive income						
– currency translation difference – Group	–	7	–	7	–	7
Final dividend for the year ended 31 December 2013	–	–	(21,188)	(21,188)	–	(21,188)
<b>Balance at 30 June 2014</b>	<b>52,970</b>	<b>168,876</b>	<b>291,377</b>	<b>513,223</b>	<b>2,001</b>	<b>515,224</b>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014 – Unaudited

	For the six months ended	
	30 June	
	2014	2013
	Rmb'000	Rmb'000
Cash flows from operating activities		
Cash generated from operations	53,684	37,617
Interest paid	(3,323)	(3,401)
Income tax paid	(4,981)	(5,295)
Net cash generated from operating activities	45,380	28,921
Cash flows from investing activities		
Purchase of property, plant and equipment	(332)	(161)
Proceeds from disposal of property, plant and equipment	9	4
Additions of construction in progress	(39,200)	(26,486)
Payment for purchase of land use rights	(985)	–
Decrease/(increase) in pledged bank balances	4,442	(349)
Increase in short-term bank deposits		
with maturities of over 3 months	(1,300)	(3,500)
Interest received	431	208
Net cash used in investing activities	(36,935)	(30,284)
Cash flows from financing activities		
New bank borrowings	125,700	80,000
Repayment of bank borrowings	(80,000)	(89,456)
Net cash generated from/(used in) financing activities	45,700	(9,456)
Net increase/(decrease) in cash and cash equivalents	54,145	(10,819)
Cash and cash equivalents at 1 January	63,190	106,578
Cash and cash equivalents at 30 June	117,335	95,759

## 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 2013 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 8 August 2014. 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 2013 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	
	2014 Rmb’000	2013 Rmb’000
Mainland China	144,198	170,754
Europe	62,072	76,561
Asia Pacific	58,414	77,447
America	28,587	27,672
Others	12,399	6,329
	<b>305,670</b>	<b>358,763</b>



## 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 Rmb732,371,000 (30 June 2013: Rmb 685,146,000), and the total of the Group's assets located in other country is Rmb1,261,000 (30 June 2013: Rmb 3,709,000).

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

	For the six months ended 30 June	
	2014 Rmb'000	2013 Rmb'000
<b>Other income</b>		
Sales of scrap materials	150	169
Government grants	455	234
Income from joint research and development of a patent	–	400
Others	226	191
	<b>831</b>	994
<b>Other (losses)/gains, net</b>		
Gain from disposal of a patent	500	500
Loss on disposal of property, plant and equipment	(625)	(10)
Fair value (losses)/gains on derivative financial instruments	(3,200)	1,678
Net exchange gains/(losses)	1,781	(1,805)
	<b>(1,544)</b>	363

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 4. OPERATING PROFIT

Operating profit is stated after charging the following:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>Rmb'000</b>	Rmb'000
Amortisation of patents	<b>408</b>	428
Amortisation of land use rights	<b>276</b>	263
Depreciation	<b>16,226</b>	17,482

### 5. FINANCE COSTS, NET

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>Rmb'000</b>	Rmb'000
Interest on bank loans – wholly repayable within five years	<b>4,062</b>	4,413
Interest capitalised	<b>(580)</b>	–
	<b>3,482</b>	4,413
Interest income on bank deposits	<b>(431)</b>	(208)
Net finance costs	<b>3,051</b>	4,205

### 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	
	2014 Rmb'000	2013 Rmb'000
Current income tax		
– Provision for CIT	3,764	5,127
Deferred income tax	(129)	(6)
	<b>3,635</b>	<b>5,121</b>

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	
	2014 Rmb'000	2013 Rmb'000
Profit before income tax	<b>20,485</b>	34,120
Calculated at the tax rates applicable to results of the respective consolidated entities	<b>3,139</b>	5,111
Income not subject to tax	–	(251)
Expenses not deductible for tax purposes	<b>481</b>	48
Tax losses for which no deferred income tax asset was recognised	<b>46</b>	217
Others	<b>(31)</b>	(4)
Income tax expense	<b>3,635</b>	<b>5,121</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 7. EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2014 is based on the profit attributable to the equity holders of the Company of approximately Rmb16,930,000 (for the six months ended 30 June 2013: Rmb28,987,000) and 529,700,000 shares (for the six months ended 30 June 2013: 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 2013: Nil).

### 8. DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2014 (Corresponding period in 2013: Nil).

In addition, the final dividend of Rmb0.04 (inclusive of tax) per share for the year ended 31 December 2013 which was recommended by the Directors on 10 March 2014 was approved by the shareholders at the Annual General Meeting on 12 May 2014. This final dividend, totalling approximately Rmb21,188,000 has been recognised as a liability in this financial information.

### 9. PATENTS

	Rmb'000
Net book value as at 1 January 2014	3,503
Amortisation	(408)
<hr/>	
Net book value as at 30 June 2014	<u>3,095</u>

### 10. CAPITAL EXPENDITURE

	Property, plant and equipment Rmb'000	Land use rights Rmb'000	Construction in progress Rmb'000
Net book value as at 1 January 2014	247,627	21,377	84,615
Transfer from construction in progress	1,684	–	(1,684)
Additions	332	7,985	38,536
Disposal	(634)	–	–
Depreciation/amortisation charge	(16,226)	(276)	–
<hr/>			
Net book value as at 30 June 2014	<u>232,783</u>	<u>29,086</u>	<u>121,467</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 11. TRADE AND BILLS RECEIVABLES

	<b>30 June 2014 Rmb'000</b>	31 December 2013 Rmb'000
Trade receivables (note (a))	<b>73,864</b>	78,304
Bills receivables (note (b))	<b>6,280</b>	700
	<b>80,144</b>	79,004

- (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:

	<b>30 June 2014 Rmb'000</b>	31 December 2013 Rmb'000
0 to 3 months	<b>72,775</b>	75,750
4 to 6 months	<b>789</b>	2,135
Over 6 months	<b>701</b>	820
	<b>74,265</b>	78,705
Provision for impairment of trade receivables	<b>(401)</b>	(401)
	<b>73,864</b>	78,304

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

## 12. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	<b>30 June 2014 Rmb'000</b>	31 December 2013 Rmb'000
Short-term bank deposits with original maturities of over 3 months	<b>2,900</b>	1,600
Cash and cash equivalents	<b>117,335</b>	63,190
	<b>120,235</b>	64,790
Pledged bank balances	<b>–</b>	4,442
	<b>120,235</b>	69,232

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	<b>30 June 2014 Rmb'000</b>	31 December 2013 Rmb'000
Denominated in:		
– Rmb	<b>116,938</b>	57,244
– USD	<b>3,261</b>	11,957
– Canadian Dollars	<b>10</b>	5
– Hong Kong Dollars	<b>26</b>	26
	<b>120,235</b>	69,232

**13. SHARE CAPITAL****Registered, issued and fully paid**

	<b>Share capital Number of shares at Rmb 0.10 each</b>	<b>Nominal value Rmb'000</b>
At 30 June 2014 and 31 December 2013	<b>529,700,000</b>	52,970

As at 30 June 2014 and 31 December 2013, 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 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

	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 2014	102,559	65,878	461	(29)	295,635	464,504
Profit for the period	–	–	–	–	16,930	16,930
Other comprehensive income						
– currency translation difference – Group	–	–	–	7	–	7
Final dividend for the year ended 31 December 2013	–	–	–	–	(21,188)	(21,188)
At 30 June 2014	102,559	65,878	461	(22)	291,377	460,253

## 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:

	<b>30 June 2014 Rmb'000</b>	31 December 2013 Rmb'000
0 to 6 months	<b>17,057</b>	18,292
7 to 12 months	<b>15</b>	46
Over 12 months	<b>38</b>	72
	<b>17,110</b>	18,410

### 16. BANK BORROWINGS

The carrying amounts of these bank borrowings approximate their fair values and all of them are denominated in Rmb.

The outstanding bank borrowings as at 30 June 2014 were unsecured and were repayable within one year.

As at 30 June 2014, the average effective interest rate of the bank borrowings was 5.7% (31 December 2013: 6.0%).

### 17. CONTINGENT LIABILITIES

As at 30 June 2014 and 31 December 2013, the Group did not have any material contingent liabilities.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**18. COMMITMENTS**

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

	<b>30 June 2014 Rmb'000</b>	31 December 2013 Rmb'000
Contracted but not provided for	–	–
Authorised but not contracted for	<b>23,591</b>	28,465
	<b>23,591</b>	28,465

(b) **Commitments under operating leases**

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2014, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	<b>30 June 2014 Rmb'000</b>	31 December 2013 Rmb'000
Not later than one year	<b>453</b>	449
Later than one year and not later than five years	–	225
	<b>453</b>	674

## **BUSINESS AND FINANCIAL REVIEW**

### **REVIEW AND PROSPECT**

In the first half of 2014, the Group maintained steady production and operation. The progress of project construction, international collaboration, research and development and management were advanced gradually in according to the plans in all aspects. The Group's development reflected a positive and head trend in general.

#### **Results**

The Group's turnover for the six months ended 30 June 2014 was approximately Rmb305,670,000, which represents a decrease of approximately 15% as compared to the corresponding period in last year. The net profit attributable to the equity holders of the Company was approximately Rmb16,930,000, which represents a decrease of approximately 42% as compared to the corresponding period in last year. In the first half of 2014, the Group's organic acid products were affected by the reduction in demand and changes in the market, some middle agents postponed or cancelled their orders, resulting in the decline of product sales volume of a certain level, as a result the Group's turnover and net profit have decreased compared to the corresponding period in last year. In addition, there was a fair value loss of approximately Rmb3,200,000 on derivative financial instruments used to hedge the sales of the Group that are denominated in United States dollars.

#### **Business Review**

The Group has made relentless efforts to achieve the targets on energy conservation, emission control, and improvements on production capacity and efficiency. With improved processes, the Group has successfully made a breakthrough of production bottleneck and managed to control energy consumption and save production costs on the one hand, while stabilizing the production on the other hand. In face of the complex domestic and international market situations, the Group adjusted its sales strategy so as to accelerate the exchange of information, grasp the market trend in advance and changes in the market, in order to open up different sales channel and to improve the reputation and customer awareness of the Changmao brand. Although the organic acid market is stagnant, our core sales team has obtained market information in advance and has flew repeatedly to Europe and America and visited important customers to seek for new sales channel and open up new markets through in-depth communication and strengthened cooperation with end customers.

In terms of management, the Group has always been committed to upgrading the quality management system and promoting the internationalisation of management systems. For a long time, the Group has been constantly improving its internal management and the Group's overall competitiveness through the effective implementation of the Quality Management System ISO9001, Environmental Management System ISO14001 and Food Safety System FSSC22000. The Group has adhered to the strengthening of management processes with safety standardisation. Production safety was ensured through meticulous execution of the approval, monitoring and training of safety management personnel in respect of safety operation. Meanwhile, the Group has also been conscientious in the implementation of environmental protection measures. On top of corporate earnings, the Group's social value is clearly reflected through its strict adherence to the pollutant discharge standards and active fulfilment of corporate social responsibilities.

## BUSINESS AND FINANCIAL REVIEW

Trademark strategy has also been a key project under the management tasks of the Group. On the basis of the achievement of the Group's logo  as a famous trademark in Jiangsu Province, it is also accredited as the "Renowned Trademark" in the PRC in early 2014. The accreditation as a "Renowned Trademark" is beneficial to the Group in terms of enhancing the image of the Changmao trademark as well as improving brand awareness and brand influence.

With the expansion of the scale of the Group's development, it is necessary for the Group's management manner and method to shift to that of large enterprises and become modern and scientific. In the first half of 2014, the Group has adopted a new ERP financial management system, and rearrange the information of the existing management model with the information technology platform. Use of ERP systems can optimize the supply chain management, reduce logistics costs, improve customer service levels, accelerate payable recovery efficiency, reduce operating costs, improve management standards, which helped the Group to achieve a greater competitive advantage amongst its peers.

### Research and Development

#### 1. Natural Organic Acids Project

The development project on "natural four-carbon series of edible organic acid" (produced from raw materials such as soybean dreg, corn and other renewable resources) has been in progress smoothly. In the first half of 2014, the Group obtained two patents related to natural fumaric acid, which provides a solid foundation for the development of natural organic acids, in particular fumaric acid. The Group continued to carry out the trial production of natural malic acid and actively proceeded with marketing promotion. Currently, several natural malic acid products have been introduced to the United States and European markets, and positive feedbacks from customers were received. A small amount of follow-up orders were received. The expansion of scale in the sales of natural organic acid will open the door for commercial production in the future.

The development of natural edible organic acid conforms to the idea of "living a natural and healthy life" promoted around the world. It is also the mainstream of the food additive market trend in the future, both domestically and overseas. Natural edible organic acid will definitely contribute to the growth of the Group.

#### 2. New Vitamin PQQ Project

In the first half of 2014, the Group has carried out the research work and made application on using new vitamin PQQ as a new feed additive. The study has indicated that, as chicken feed additives, PQQ can improve the egg-laying rate of laying hens, and accelerate the growth of broiler chickens. At present, this project is progressing well. The safety evaluation tests of PQQ, as well as the effectiveness experiments of PQQ as a new feed additive have been completed. Together with its cooperated research institute, the Group has commenced experimental study to evaluate the effect of PQQ on the effectiveness and tolerability of weaned piglets. The Group is actively preparing and improving the reporting details for submission to the Ministry of Agriculture for the application of using PQQ as a new feed additive.

## BUSINESS AND FINANCIAL REVIEW

### 3. Pharmaceutical Adjuvant Project

To extend its product chain and enhance added value of products, the Group actively carried out the development project of pharmaceutical adjuvant. The product breadth has extended from food additives to pharmaceutical adjuvant, and the Group has obtained the manufacture license to produce pharmaceutical adjuvant. Currently the Group's pharmaceutical adjuvant sample is being examined by the provincial Food and Drug Administration. These products have already attracted the attention of some international pharmaceutical manufacturers, who planned to review the Group's pharmaceutical adjuvant and include the Group into their lists of suppliers. To extend the scope of product portfolios, the Group will further increase the investment in research and development, and strengthen its cooperation with universities, research institutes and pharmaceutical manufacturers, as well as in the development of species in pharmaceutical adjuvant and the increase in its production scale.

### Outlook and Prospect

Despite the intense competition and uncertain economic and market situations at home and abroad, the Group is committed to improving the competitiveness of its core products. With the advantage of economies of scale and strong research and marketing capabilities, the Group will continue to explore new markets and get hold of new development opportunities through active development of new products and accelerated adjustments of product chains. The Group will continue to put efforts into the following areas:

#### (I) A wholly owned subsidiary of the Group – Changmao Biochemical Lianyungang Limited (常茂生物連雲港有限公司)

Changmao Biochemical Lianyungang Limited is a major development project of the Group in the next few years. Lianyungang has an excellent investment environment. It is suitable for large scale production of food additives and has better production cost advantages as compared to Changzhou. The construction of the new production plant in Lianyungang will further improve the Group's advantages in large-scale production and promote the updating and upgrading of the existing product chain. With the strategic goal in developing high value-added food additives and further improvement of the food additive series including acidulant and sweeteners, the project will provide supporting materials to high-end food manufacturers, bring in new dynamics to the Group, improve its overall competitiveness and become a new profit centre of the Group.

In the first half of 2014, the Group has basically completed the construction of the first set of maleic anhydride production unit. As obtaining approval from the local Government for the production unit to commence production will take some more time, the production commencement date needs to be postponed. The Group is trying to work with the local Government to complete the related examination and approval, and to ensure the smooth progress of the project.

## **BUSINESS AND FINANCIAL REVIEW**

### **(II) Advance the commencement of transforming the production lines to use butane to manufacture maleic anhydride in the Changzhou headquarter**

Due to delays in the Lianyungang project, the Group will advance the commencement of the transforming of the production lines to use butane to manufacture maleic anhydride with a production capacity of 20,000 tonnes in the Changzhou headquarter. It is expected that the transformation will be completed in 2016. Using butane instead of benzene as a raw material to manufacture maleic anhydride will significantly reduce costs and improve the competitiveness of downstream products. Current market price of butane is lower than that of benzene by over Rmb1,000 per tonne, Using butane instead of benzene as a raw material to manufacture maleic anhydride will help saving cost of Rmb1,000 to Rmb2,000 per tonne, reflecting a very obvious cost advantage. Moreover, the manufacturing process of maleic anhydride using butane is cleaner and more environmental friendly, which is in line with the trend of international food additives manufacturing. Market advantage can be achieved by using butane as a raw material for the production of fumaric acid, malic acid and other products, which is highly regarded by international food manufacturers. The Group focuses on its long-term benefit, with an aim to improve the gross margin of its downstream products and uplift the market competitiveness of existing products by reducing the raw material costs.

### **(III) Accelerating technology innovation and promoting product upgrade**

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

### **(IV) 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. The Group will set up a new product marketing team, to promote new product development and market expansion. 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.

### **(V) Building brand reputation and registering international trademarks**

To increase customer awareness and loyalty, 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**

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 to develop new functional food additives, natural food additives and nutraceutical products. The Group will continue to extend its production chain, expand its scale and strengthen its power, create new record and achieve new breakthroughs.

### **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 2014 in conjunction with the Directors.

### **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014.

### **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 (excluding sales through import-export agents in the PRC) accounted for approximately 53% (for the six months ended 30 June 2013: 52%) of the Group's turnover while domestic sales in the PRC accounted for approximately 47% (for the six months ended 30 June 2013: 48%) 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 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 2014, the Group had total outstanding bank borrowings of approximately Rmb150,700,000 (as at 31 December 2013: Rmb105,000,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2014 were unsecured. 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 2013: 6.0%).

Except for the bank borrowings disclosed above, as at 30 June 2014 and 31 December 2013, the Group did not have any committed borrowing facilities.

## BUSINESS AND FINANCIAL REVIEW

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 2014, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb23,591,000. 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 2014. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 29.8% and 23.3% as at 30 June 2014 and 31 December 2013 respectively. As at 30 June 2014, the Group's cash and cash equivalent amounted to Rmb117,335,000 (31 December 2013: Rmb63,190,000). The Directors believe that the Group is in a healthy financial position.

### EMPLOYEES

Including the Directors, as at 30 June 2014, the Group employed a total of 522 employees (30 June 2013: 516 employees). Total amount of staff costs for the six months ended 30 June 2014 was approximately Rmb30,099,000 (for the six months ended 30 June 2013: Rmb29,498,000). 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 2016, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before 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 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.

## *BUSINESS AND FINANCIAL REVIEW*

### **SIGNIFICANT INVESTMENTS**

There is no significant investments held by the Group as at 30 June 2014 and 31 December 2013.

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 2014.

### **CONTINGENT LIABILITIES**

As at 30 June 2014 and 31 December 2013, the Group did not have any material contingent liabilities.



## 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 2014, 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))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (n))
<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%	136,000	0.07%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	100%	135,000,000	39.30%	136,000	0.07%
Mr. Pan Chun	(Note (c))	-	-	(Note (c))	(Note (c))	-	-
Mr. Zeng Xian Biao	(Note (d))	-	-	(Note (d))	(Note (d))	-	-
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	-	-	66,000,000	19.21%	-	-
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))	-	-
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))	-	-

## DISCLOSURE OF INTERESTS

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (l))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (m))	Number of H Shares	Approximate percentage shareholding in the H Shares (Note (n))
<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))	-	-

*Notes:*

- (a) The 135,000,000 Foreign Shares are held by HK Xinsheng Ltd, the 2,500,000 Domestic Shares are held by Changzhou Xinsheng and the 136,000 H Shares are held by Bonus Sky Investments Limited. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares 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. Mr. Rui is the beneficial owner of 100% of the issued share capital of Bonus Sky Investments Limited. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.
- (b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares 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, Changzhou Xinsheng and Bonus Sky Investments Limited, details of which are set out in Note (a) above.
- (c) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares 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.

## DISCLOSURE OF INTERESTS

- (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. 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 2014.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2014.
- (n) The percentage is calculated based on the 183,700,000 H Shares in issue as at 30 June 2014.

## DISCLOSURE OF INTERESTS

Save as disclosed above, as at 30 June 2014, 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.

### 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 2014, 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 <i>(Note (f))</i>
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 <i>(Note (a))</i>	19.65%
Ms. Rakchanok Sae-lao	Interest of controlled corporation	67,500,000 <i>(Note (b))</i>	19.65%

## DISCLOSURE OF INTERESTS

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (f))
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%

## 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.

## DISCLOSURE OF INTERESTS

- (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 2014.

Save as disclosed above, as at 30 June 2014, 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.

## 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 2014.

### SHARE CAPITAL STRUCTURE

As at 30 June 2014, 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 was the chairman of the Board and the general manager (chief executive officer) of the Company for the period from 1 January 2014 to 31 March 2014. Mr. Rui Xin Sheng resigned as the general manager of the Company since 1 April 2014, but he still acts as the executive Director and chairman of the Board. The Company has been complied with Code provision A.2.1 of CG Code since 1 April 2014.

Code provision A.6.7 of CG Code stipulates that non-executive Directors should attend general meetings. Mr. Wang Jian Ping, Prof. Ouyang Ping Kai and Prof. Yang Sheng Li were unable to attend the annual general meeting of the Company that held on 12 May 2014 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 14 to the Listing Rules during the six months ended 30 June 2014.

### **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 2014.

*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

2013 Financial Statements	the Group's annual financial statements for the year ended 31 December 2013
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
ERP	Enterprise Resource Planning
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

## GLOSSARY

PRC	The People's Republic of China
PQQ	Pyrrloquinoline 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