



**CMBEC**

INTERIM REPORT **2015**

**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 2015 – Unaudited

	Note	For the six months ended 30 June	
		2015 Rmb'000	2014 Rmb'000
Sales revenue	5	267,415	305,670
Cost of sales		(216,198)	(242,099)
Gross profit		51,217	63,571
Other income	6	935	831
Other gains/(losses), net	6	2,969	(1,544)
Selling expenses		(7,349)	(7,227)
Administrative expenses		(30,915)	(32,095)
Operating profit		16,857	23,536
Finance costs, net	7	447	(3,051)
Profit before income tax	8	17,304	20,485
Income tax expense	9	(2,800)	(3,635)
Profit for the period		14,504	16,850
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		–	7
Total comprehensive income for the period		14,504	16,857
Profit for the period attributable to:			
Equity holders of the Company		14,845	16,930
Non-controlling interests		(341)	(80)
		14,504	16,850
Total comprehensive income for the period attributable to:			
Equity holders of the Company		14,845	16,937
Non-controlling interests		(341)	(80)
		14,504	16,857
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	10	Rmb0.028	Rmb0.032

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2015 – Unaudited

	Note	30 June 2015 Rmb'000	31 December 2014 Rmb'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Patents	12	1,923	2,314
Property, plant and equipment	13	267,107	283,926
Land use rights	13	28,401	28,744
Construction in progress	13	110,777	89,483
Deferred income tax assets		1,238	1,030
		<b>409,446</b>	405,497
<b>Current assets</b>			
Inventories		96,542	125,004
Trade and bills receivables	14	76,700	75,759
Other receivables and prepayments		20,251	16,315
Derivative financial instruments		702	–
Income tax recoverable		1,103	293
Pledged bank balances	15	2,293	7,724
Cash and bank balances	15	58,023	61,703
		<b>255,614</b>	286,798
<b>Total assets</b>		<b>665,060</b>	692,295
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	16	52,970	52,970
Reserves	17	483,760	480,568
		<b>536,730</b>	533,538
<b>Non-controlling interests</b>		<b>1,935</b>	2,276
<b>Total equity</b>		<b>538,665</b>	535,814

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Note	30 June 2015 Rmb'000	31 December 2014 Rmb'000
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Deferred income tax liabilities		328	343
<b>Current liabilities</b>			
Trade and bills payables	18	24,853	39,771
Other payables and accrued charges		29,561	26,125
Derivative financial instruments		–	242
Dividend payable	11	11,653	–
Bank borrowings	19	60,000	90,000
		<b>126,067</b>	156,138
<b>Total liabilities</b>		<b>126,395</b>	156,481
<b>Total equity and liabilities</b>		<b>665,060</b>	692,295
<b>Net current assets</b>		<b>129,547</b>	130,660
<b>Total assets less current liabilities</b>		<b>538,993</b>	536,157

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015- 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 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>
<b>Balance at 1 January 2015</b>	<b>52,970</b>	<b>172,304</b>	<b>308,264</b>	<b>533,538</b>	<b>2,276</b>	<b>535,814</b>
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>14,845</b>	<b>14,845</b>	<b>(341)</b>	<b>14,504</b>
<b>Final dividend for the year ended 31 December 2014</b>	<b>-</b>	<b>-</b>	<b>(11,653)</b>	<b>(11,653)</b>	<b>-</b>	<b>(11,653)</b>
<b>Balance at 30 June 2015</b>	<b>52,970</b>	<b>172,304</b>	<b>311,456</b>	<b>536,730</b>	<b>1,935</b>	<b>538,665</b>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015 – Unaudited

	For the six months ended	
	30 June	
	2015	2014
	Rmb'000	Rmb'000
Cash flows from operating activities		
Cash generated from operations	46,769	53,684
Interest paid	(2,194)	(3,323)
Income tax paid	(3,833)	(4,981)
Net cash generated from operating activities	40,742	45,380
Cash flows from investing activities		
Purchase of property, plant and equipment	(40)	(332)
Proceeds from disposal of property, plant and equipment	16	9
Additions of construction in progress	(20,276)	(39,200)
Payment for purchase of land use rights	–	(985)
Decrease in pledged bank balances	5,431	4,442
Decrease/(increase) in short-term bank deposits with maturities of over 3 months	500	(1,300)
Interest received	447	431
Net cash used in investing activities	(13,922)	(36,935)
Cash flows from financing activities		
New bank borrowings	70,000	125,700
Repayment of bank borrowings	(100,000)	(80,000)
Net cash (used in)/generated from financing activities	(30,000)	45,700
Net (decrease)/increase in cash and cash equivalents	(3,180)	54,145
Cash and cash equivalents at 1 January	57,503	63,190
Cash and cash equivalents at 30 June	54,323	117,335

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Changmao Biochemical Engineering Company Limited is a joint stock limited company incorporated in the PRC. The Company listed its H shares on the Growth Enterprise Market of the Stock Exchange on 28 June 2002 and the listing of its H shares was transferred to the Main Board of the Stock Exchange on 28 June 2013. The principal activities of Group are the production and sale of organic acids.

The address of the Company's registered office is No.1228 Chang Jiang Bei Road, New North Zone, Changzhou City, Jiangsu Province, 213034, the PRC.

These condensed consolidated interim financial statements are presented in Renminbi, unless otherwise stated.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This 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 2014 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 12 August 2015. 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 2014 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.

### 3. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

#### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

There have been no changes in the risk management policies since year end.

#### 4.2 Fair value estimation

Financial instruments carried at fair value are analysed by valuation method below. Different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 30 June 2015, the Group had several foreign exchange forward contracts assets of carrying amounts of Rmb702,000 (31 December 2014: liabilities of Rmb242,000), which were measured by level 2 of the fair value measurement hierarchy.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. SALES REVENUE AND SEGMENT INFORMATION

Executive directors are identified as the chief operating decision maker. Management has determined the operating segments based on the information reported to the executive Directors for the purposes of allocating resources and assessing performance.

The Group is engaged in the production and 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 HKFRS 8.

	<b>For the six months ended 30 June</b>	
	<b>2015</b>	2014
	<b>Rmb'000</b>	Rmb'000
Mainland China	<b>130,917</b>	144,198
Europe	<b>50,942</b>	62,072
Asia Pacific	<b>63,851</b>	58,414
America	<b>14,195</b>	28,587
Others	<b>7,510</b>	12,399
	<b>267,415</b>	305,670

The Asia Pacific region includes Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand.

The analysis of sales revenue 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 sales revenue achieved for individual segment is not substantially out of line with the Group's overall ratio of profit to sales revenue.

Substantially all of the Group's assets are located in Mainland China.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	For the six months ended 30 June	
	2015 Rmb'000	2014 Rmb'000
<b>Other income</b>		
Sales of scrap materials	14	150
Government grants	209	455
Others	712	226
	<b>935</b>	<b>831</b>
<b>Other gains/(losses), net</b>		
Gain from disposal of a patent	–	500
Loss on disposal of property, plant and equipment	–	(625)
Fair value gains/(losses) on derivative financial instruments	944	(3,200)
Net exchange gains	2,025	1,781
	<b>2,969</b>	<b>(1,544)</b>

## 7. FINANCE COSTS, NET

	For the six months ended 30 June	
	2015 Rmb'000	2014 Rmb'000
Interest on bank loans – wholly repayable within five years	2,002	4,062
Interest capitalised	(2,002)	(580)
	–	3,482
Interest income on bank deposits	(447)	(431)
Net finance costs	<b>(447)</b>	<b>3,051</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 8. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

	For the six months ended 30 June	
	2015 Rmb'000	2014 Rmb'000
Amortisation of patents	391	408
Amortisation of land use rights	343	276
Depreciation	17,607	16,226
Provision for inventories to net realisable value	1,844	–

### 9. 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%.

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

	For the six months ended 30 June	
	2015 Rmb'000	2014 Rmb'000
Current income tax		
– Provision for CIT	2,979	3,764
– Under-provision in prior year	44	–
Deferred income tax	(223)	(129)
	<b>2,800</b>	<b>3,635</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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:

	<b>For the six months ended 30 June</b>	
	<b>2015 Rmb'000</b>	2014 Rmb'000
Profit before income tax	<b>17,304</b>	20,485
Calculated at the tax rates applicable to results of the respective consolidated entities	<b>2,390</b>	3,139
Income not subject to tax	<b>(142)</b>	–
Expenses not deductible for tax purposes	–	481
Tax losses for which no deferred income tax asset was recognised	<b>474</b>	46
Under-provision in prior year	<b>44</b>	–
Others	<b>34</b>	(31)
Income tax expense	<b>2,800</b>	3,635

### 10. EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2015 is based on the profit attributable to the equity holders of the Company of approximately Rmb14,845,000 (for the six months ended 30 June 2014: Rmb16,930,000) and 529,700,000 shares (for the six months ended 30 June 2014: 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 2014: Nil).

### 11. DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2015 (Corresponding period in 2014: Nil).

In addition, the final dividend of Rmb0.022 (inclusive of tax) per share for the year ended 31 December 2014 which was recommended by the Directors on 16 March 2015 was approved by the shareholders at the Annual General Meeting on 8 May 2015. This final dividend, totalling approximately Rmb11,653,000 has been recognised as a liability in this financial information.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12. PATENTS

	Rmb'000
Net book value as at 1 January 2015	2,314
Amortisation	(391)
<hr/>	
Net book value as at 30 June 2015	<u>1,923</u>

## 13. CAPITAL EXPENDITURE

	Property, plant and equipment <i>Rmb'000</i>	Land use rights Rmb'000	Construction in progress Rmb'000
Net book value as at 1 January 2015	283,926	28,744	89,483
Transfer from construction in progress	764	–	(764)
Additions	40	–	22,058
Disposal	(16)	–	–
Depreciation/amortisation charge	(17,607)	(343)	–
<hr/>			
Net book value as at 30 June 2015	<u>267,107</u>	<u>28,401</u>	<u>110,777</u>

## 14. TRADE AND BILLS RECEIVABLES

	30 June 2015 Rmb'000	31 December 2014 Rmb'000
Trade receivables ( <i>note (a)</i> )	71,056	75,759
Bills receivables ( <i>note (b)</i> )	5,644	–
<hr/>		
	<u>76,700</u>	<u>75,759</u>

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

	30 June 2015 Rmb'000	31 December 2014 Rmb'000
0 to 3 months	69,264	71,883
4 to 6 months	1,478	3,676
Over 6 months	807	693
<hr/>		
	<u>71,549</u>	<u>76,252</u>
Less: Provision for impairment of trade receivables	(493)	(493)
<hr/>		
	<u>71,056</u>	<u>75,759</u>

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 15. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	30 June 2015 Rmb'000	31 December 2014 Rmb'000
Short-term bank deposits with original maturities of over 3 months	3,700	4,200
Cash and cash equivalents	54,323	57,503
Cash and bank balances	58,023	61,703
Pledged bank balances	2,293	7,724
<b>Total</b>	<b>60,316</b>	<b>69,427</b>

	30 June 2015 Rmb'000	31 December 2014 Rmb'000
Denominated in:		
– Rmb	53,862	62,757
– USD	6,428	6,644
– Hong Kong Dollars	26	26
	<b>60,316</b>	<b>69,427</b>

## 16. SHARE CAPITAL

## Registered, issued and fully paid

	Share capital	
	Number of shares at Rmb 0.10 each	Nominal value Rmb'000
At 30 June 2015 and 31 December 2014	529,700,000	52,970

As at 30 June 2015 and 31 December 2014, 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

## 17. 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 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)
<b>At 30 June 2014</b>	<b>102,559</b>	<b>65,878</b>	<b>461</b>	<b>(22)</b>	<b>291,377</b>	<b>460,253</b>

	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 2015	102,559	69,284	461	-	308,264	480,568
Profit for the period	-	-	-	-	14,845	14,845
Final dividend for the year ended 31 December 2014	-	-	-	-	(11,653)	(11,653)
<b>At 30 June 2015</b>	<b>102,559</b>	<b>69,284</b>	<b>461</b>	<b>-</b>	<b>311,456</b>	<b>483,760</b>

## 18. TRADE AND BILLS PAYABLES

	30 June 2015 Rmb'000	31 December 2014 Rmb'000
Trade payables	18,404	16,587
Bills payables	6,449	23,184
	<b>24,853</b>	<b>39,771</b>

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

	30 June 2015 Rmb'000	31 December 2014 Rmb'000
0 to 6 months	18,235	16,306
7 to 12 months	52	235
Over 12 months	117	46
	<b>18,404</b>	<b>16,587</b>

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 19. 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 2015 were unsecured and were repayable within one year.

As at 30 June 2015, the average effective interest rate of the bank borrowings was 4.9% (31 December 2014: 5.5%).

### 20. CONTINGENT LIABILITIES

As at 30 June 2015 and 31 December 2014, the Group did not have any material contingent liabilities.

### 21. COMMITMENTS

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

	<b>30 June 2015 Rmb'000</b>	31 December 2014 Rmb'000
Contracted but not provided for	–	–
Authorised but not contracted for	<b>7,881</b>	14,015
	<b>7,881</b>	14,015

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2015, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	<b>30 June 2015 Rmb'000</b>	31 December 2014 Rmb'000
Not later than one year	<b>217</b>	225
Later than one year and not later than five years	<b>208</b>	–
	<b>425</b>	225

## **BUSINESS AND FINANCIAL REVIEW**

### **REVIEW AND PROSPECT**

In the first half of 2015, the Group maintained steady production and operation. Project construction made headway as planned. The progress of international collaboration, research and development and management were satisfactory in all aspects. The Group's development reflected a positive and healthy trend in general.

#### **Results for the First Half Year**

The Group's sales revenue for the 6 months ended 30 June 2015 was approximately Rmb267,415,000, which represents a decrease of approximately 13% as compared to that in the corresponding period in last year. Net profit attributable to the equity holders of the Company was approximately Rmb14,845,000, which represents a decrease of approximately 12% as compared to that in the corresponding period in last year. Gross margin was approximately 19%, which represents a slight decrease as compared to that in the corresponding period in last year. With different levels of decline in the prices of organic acids on the international market, the selling prices of the Group's main products has been declined too and affected the performance and profit level of the Group.

#### **Business Review**

In face of the complex and challenging domestic and international market situations, the Group has made relentless efforts to achieve the targets on energy conservation, emission control, and improvements on production capacity and efficiency in the whole production processes. With continuous improved processes, the Group has successfully made a breakthrough of production bottleneck, brought the advantage of large scale production into play and managed to control production costs and ensure the quality of products, and satisfied the market demand in both domestic and international markets.

Since 2015, the sales volume of the Group's organic acid products, such as tartaric acid, malic acid, increased over last year due to their good quality and brand name. However the selling prices of these products were affected by the market and continued to drop, resulting in certain degree of decline in the Group's sales revenue as compared to the corresponding period in last year, and also resulted in the decline in the Group's net profit. Facing the competitive organic acid market, the Group has adjusted its sales strategy. The Group has obtained market information in advance, grasped the market trend and has flew repeatedly to Europe and America and visited important customers directly to seek for new sales channels and open up new markets through in-depth communication and strengthened direct cooperation with end customers.

In terms of management, the Group has always been committed to product quality and strict control, and constantly upgraded its management system. In the first half of this year, the Group completed the renewal audits of the food safety systems FSSC22000, quality control system ISO9001, and environmental management system ISO14000, which are the highest standards in each field. The Group's work in terms of management has been to the highest international standards. Strict standards are set on management work so that the Group can provide satisfactory products to domestic and international customers with quality assurance.

## **BUSINESS AND FINANCIAL REVIEW**

For a long time, 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.

### **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 2015, the Group continued carrying out the trial production of natural malic acid with an aim to improve the production process and reduce production costs. The Group has 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. 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 help upgrade the Group's existing production chain and will definitely contribute to the growth of the Group.

#### **2. New Vitamin PQQ Project**

In 2015, the Group has continued carrying out the research work on the application of using new vitamin PQQ as a new feed additive and research work on related medium scale production. The study has indicated that, as a chicken feed additive, PQQ can improve the egg-laying rate of laying hens, and accelerate the growth of broiler chickens. As a pig feed additive, PQQ can enhance effectiveness and tolerability on the growth 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. The Group will continue to perfect the above work and strive for obtaining the approval for the new feed additive as soon as possible.

#### **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 and amended the business license to include pharmaceutical adjuvant into the business scope of the Group. Pharmaceutical adjuvant is the Group's focus in the long run. It will further enrich the Group's product range, optimise the product structure of the Group, and expand the market to enhance the performance of existing products.

## BUSINESS AND FINANCIAL REVIEW

### 4. Pharmaceutical Intermediaries

In the past two years, some new types of anticancer drugs and diabetes drugs have been approved for sale in the market, the market of pharmaceutical intermediates which are new products developed by the Group, as a side chain of these drugs, also gradually opens. The Group will continue to actively develop and co-operate with its partners on follow-up and new pharmaceutical intermediates, expand the scope of the Group's pharmaceutical intermediates, and continue to extend the Group's product chain.

### Key Projects

#### 1. 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 has a strategic goal of developing high value-added food additives and further improving the food additive series including acidulant and sweeteners. It will further improve the Group's advantages in large-scale production and promote the updating and upgrading of the existing product chain. The project will bring in new dynamics to the Group, improve its overall competitiveness and become a new profit centre of the Group.

#### 2. Commencement of transforming the production lines to use butane to manufacture maleic anhydride in the Changzhou headquarter

The Group has commenced transforming the production lines to use butane to manufacture maleic anhydride with a current production capacity of 20,000 tonnes in the Changzhou headquarter. Preparatory work has been carried out orderly. Using butane instead of benzene as a raw material to manufacture maleic anhydride will significantly reduce costs and improve the competitiveness of downstream products. Based on the raw material conversion rate, using butane instead of benzene as a raw material to manufacture maleic anhydride will consume fewer raw material per tonne, reflecting a very obvious cost advantage. Moreover, the manufacturing process of maleic anhydride using butane is cleaner and more environmental friendly as the emission of carbon dioxide can be largely reduced, 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.

## **BUSINESS AND FINANCIAL REVIEW**

### **Outlook and Prospect**

Despite the uncertain economic situations and intense market competition 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 chain. The Group will continue to put efforts into the following areas:

#### **1. International development**

The Group continues to aim at stable production and expand sales network and at the same time to expand internationally. With the accelerating pace of the development of Changmao Group, it is difficult to achieve rapid and substantial growth by just relying solely on exporting products with its existing platform. Changmao's sustainable development will be restricted if it just stays in its current operation model. The Group needs to seek international cooperation in different dimensions, including the introduction of new technologies and products, which will promote Changmao onto an international platform, and make its development faster and better.

#### **2. 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.

#### **3. Adjusting sales strategies and attracting high-end customers**

The Group will strive to attract major customers and end-customers by optimising its sales structure, tapping the market potential, and developing a steady, sustainable market for its products. This will help open new international sales aspects, enable direct access by end customers and expand international sales networks. It will also facilitate steady growth in sales, and constantly improve the economic efficiency. For new products, the Group will set up a marketing team, to promote new product development and market expansion.

There will be opportunities and challenges in the future. The Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application areas. At the same time, the Group will capitalise on its research and production strength to develop new functional food additives, natural food additives, pharmaceutical intermediaries 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.

## **BUSINESS AND FINANCIAL REVIEW**

### **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 2015 in conjunction with the Directors.

### **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015.

### **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 51% (for the six months ended 30 June 2014: 53%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 49% (for the six months ended 30 June 2014: 47%) of sales revenue.

### **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure 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 2015, the Group had total outstanding bank borrowings of approximately Rmb60,000,000 (as at 31 December 2014: Rmb90,000,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2015 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 4.9% per annum (31 December 2014: 5.5%).

Except for the bank borrowings disclosed above, as at 30 June 2015 and 31 December 2014, 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 2015, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb7,881,000. These capital commitments are mainly used for 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.

## **BUSINESS AND FINANCIAL REVIEW**

The Group did not have any charge on its assets as at 30 June 2015. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 19.0% and 22.6% as at 30 June 2015 and 31 December 2014 respectively. As at 30 June 2015, the Group's cash and cash equivalent amounted to Rmb54,323,000 (31 December 2014: Rmb57,503,000). The Directors believe that the Group is in a healthy financial position.

### **EMPLOYEES**

Including the Directors, as at 30 June 2015, the Group employed a total of 533 employees (30 June 2014: 522 employees). Total amount of staff costs for the six months ended 30 June 2015 was approximately Rmb31,757,000 (for the six months ended 30 June 2014: Rmb30,099,000). 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 Rmb40 million (the "Target Profit"):

- (a) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;
- (b) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to the 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 2015 and 31 December 2014.

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 2015.

### **CONTINGENT LIABILITIES**

As at 30 June 2015 and 31 December 2014, 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 2015, 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 and 100,000 Class "B" shares. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Mr. Rui is the beneficial owner of 100% of the issued share capital of Bonus Sky Investments Limited. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.
- (b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd, Changzhou Xinsheng and Bonus Sky Investments Limited, details of which are set out in Note (a) above.
- (c) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. He is also the registered holder and beneficial owner of 200,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.

## DISCLOSURE OF INTERESTS

- (d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.
- (e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares.
- (f) Prof. Ouyang is the registered holder and beneficial owner of 4,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.
- (g) Prof. Yang is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.
- (h) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.
- (i) Mr. Lu is the registered holder and beneficial owner of 220,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.
- (j) Mr. Zhang is the registered holder and beneficial owner of 800 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares. Mr. Zhang is the registered holder and beneficial owner of 120,000 shares in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares.
- (k) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class "B" shares in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares and 100,000 Class "B" shares.
- (l) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 30 June 2015.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2015.
- (n) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2015.

## DISCLOSURE OF INTERESTS

Save as disclosed above, as at 30 June 2015, 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 2015, 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 2015.

Save as disclosed above, as at 30 June 2015, 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 2015.

### SHARE CAPITAL STRUCTURE

As at 30 June 2015, the category of the issued shares of the Company is as follows:

	<b>No. of Shares</b>
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
	<hr/>
	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.6.7 of CG Code stipulates that non-executive Directors should attend general meetings. Mr. Pan Chun, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Wang Jian Ping, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li, Ms. Wei Xin and Ms. Au Fung Lan were unable to attend the annual general meeting of the Company that held on 8 May 2015 due to prior business commitment.

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 2015.

## 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 2015.

*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

2014 Financial Statements	the Group's annual financial statements for the year ended 31 December 2014
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