



CMBEC

INTERIM REPORT **2016**

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)

CONTENTS

Condensed Consolidated Financial Statements	2
Notes to Condensed Consolidated Financial Statements	7
Business and Financial Review	20
Disclosure of Interests	27
Other information	34
Glossary	37

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – Unaudited

	Note	For the six months ended 30 June	
		2016 Rmb'000	2015 Rmb'000
Revenue	5	296,974	267,415
Cost of sales		(234,724)	(216,198)
Gross profit		62,250	51,217
Other income	6	1,367	935
Other gains, net	6	1,426	2,969
Selling expenses		(8,630)	(7,349)
Administrative expenses		(31,235)	(30,915)
Operating profit		25,178	16,857
Finance income, net	7	144	447
Profit before income tax	8	25,322	17,304
Income tax expense	9	(4,917)	(2,800)
Profit and total comprehensive income for the period		20,405	14,504
Profit and total comprehensive income for the period attributable to:			
Equity holders of the Company		20,716	14,845
Non-controlling interests		(311)	(341)
		20,405	14,504
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	10	Rmb0.039	Rmb0.028

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016 – Unaudited

	Note	30 June 2016 Rmb'000	31 December 2015 Rmb'000
ASSETS			
Non-current assets			
Patents	12	870	1,190
Property, plant and equipment	13	262,752	276,296
Land use rights	13	27,716	28,058
Construction in progress	13	106,258	94,655
Deferred income tax assets		2,534	2,549
		400,130	402,748
Current assets			
Inventories		115,175	130,199
Trade and bills receivables	14	100,257	71,037
Other receivables and prepayments		15,723	21,599
Pledged bank balances	15	585	8,830
Cash and bank balances	15	53,818	95,791
		285,558	327,456
Total assets		685,688	730,204
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	52,970	52,970
Reserves	17	521,133	514,189
		574,103	567,159
Non-controlling interests		1,837	2,148
Total equity		575,940	569,307

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

		30 June	31 December
		2016	2015
	<i>Note</i>	Rmb'000	Rmb'000
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		302	264
Current liabilities			
Trade and bills payables	18	24,702	41,936
Other payables and accrued charges		28,353	26,496
Derivative financial instruments		254	446
Income tax payable		2,365	1,755
Dividend payable	11	13,772	–
Bank borrowings	19	40,000	90,000
		109,446	160,633
Total liabilities		109,748	160,897
Total equity and liabilities		685,688	730,204

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016- 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 2015	52,970	172,304	308,264	533,538	2,276	535,814
Profit for the period	-	-	14,845	14,845	(341)	14,504
Final dividend for the year ended 31 December 2014	-	-	(11,653)	(11,653)	-	(11,653)
Balance at 30 June 2015	52,970	172,304	311,456	536,730	1,935	538,665
Balance at 1 January 2016	52,970	177,203	336,986	567,159	2,148	569,307
Profit for the period	-	-	20,716	20,716	(311)	20,405
Final dividend for the year ended 31 December 2015	-	-	(13,772)	(13,772)	-	(13,772)
Balance at 30 June 2016	52,970	177,203	343,930	574,103	1,837	575,940

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016 – Unaudited

	For the six months ended 30 June	
	2016 Rmb'000	2015 Rmb'000
Cash flows from operating activities		
Cash generated from operations	19,661	46,560
Interest paid	(1,090)	(2,194)
Income tax paid	(4,254)	(3,833)
Net cash generated from operating activities	14,317	40,533
Cash flows from investing activities		
Purchase of property, plant and equipment	(8)	(40)
Proceeds from disposal of property, plant and equipment	112	16
Additions of construction in progress	(15,234)	(20,276)
Government grants received	311	209
Decrease in pledged bank balances	8,245	5,431
(Increase)/decrease in short-term bank deposits with maturities of over 3 months	(1,300)	500
Interest received	284	447
Net cash used in investing activities	(7,590)	(13,713)
Cash flows from financing activities		
New bank borrowings	30,000	70,000
Repayment of bank borrowings	(80,000)	(100,000)
Net cash used in financing activities	(50,000)	(30,000)
Net decrease in cash and cash equivalents	(43,273)	(3,180)
Cash and cash equivalents at 1 January	93,191	57,503
Cash and cash equivalents at 30 June	49,918	54,323

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 financial statements are presented in Renminbi, unless otherwise stated.

2. 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 2015 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 18 August 2016. 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 2015 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 2015.

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 interim condensed consolidated financial information does 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 consolidated financial statements for the year ended 31 December 2015.

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 2016, the Group had several foreign exchange forward contracts liabilities of carrying amounts of Rmb254,000 (31 December 2015: liabilities of Rmb446,000), which were measured by level 2 of the fair value measurement hierarchy.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. 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.

	For the six months ended 30 June	
	2016	2015
	Rmb'000	Rmb'000
Mainland China	148,461	130,917
Europe	60,716	50,942
Asia Pacific	70,315	63,851
America	14,437	14,195
Others	3,045	7,510
	296,974	267,415

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

As at 30 June 2016, all of the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb397,596,000 (31 December 2015: Rmb400,199,000) are located in Mainland China.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER INCOME AND OTHER GAINS, NET

	For the six months ended 30 June	
	2016 Rmb'000	2015 Rmb'000
Other income		
Sales of scrap materials	215	14
Government grants	311	209
Others	841	712
	1,367	935
Other gains, net		
Loss on disposal of property, plant and equipment	(24)	–
Fair value gains on derivative financial instruments	192	944
Net exchange gains	1,258	2,025
	1,426	2,969

7. FINANCE INCOME, NET

	For the six months ended 30 June	
	2016 Rmb'000	2015 Rmb'000
Interest on bank borrowings	(1,175)	(2,002)
Less: amount capitalised on qualifying assets	1,035	2,002
	(140)	–
Interest income on bank deposits	284	447
Finance income, net	144	447

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	
	2016 Rmb'000	2015 Rmb'000
Amortisation of patents	320	391
Amortisation of land use rights	342	343
Depreciation	17,658	17,607
Provision for inventories to net realisable value	–	1,844

9. INCOME TAX EXPENSE

PRC CIT is provided for 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. The Company, being qualified as a New and High Technology Enterprise, is entitled to a preferential CIT rate of 15%. 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	
	2016 Rmb'000	2015 Rmb'000
Current income tax		
– Provision for CIT	4,862	2,979
– Under-provision in prior year	2	44
Deferred income tax	53	(223)
	4,917	2,800

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:

	For the six months ended 30 June	
	2016 Rmb'000	2015 Rmb'000
Profit before income tax	25,322	17,304
Calculated at the tax rates applicable to results of the respective consolidated entities	2,995	2,390
Income not subject to tax	(29)	(142)
Expenses not deductible for tax purposes	4	–
Tax losses for which no deferred income tax asset was recognised	2,052	474
Under-provision in prior year	2	44
Others	(107)	34
Income tax expense	4,917	2,800

10. EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2016 is based on the profit attributable to the equity holders of the Company of approximately Rmb20,716,000 (for the six months ended 30 June 2015: Rmb14,845,000) and 529,700,000 shares (for the six months ended 30 June 2015: 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 2015: Nil).

11. DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2016 (Corresponding period in 2015: Nil).

In addition, the final dividend of Rmb0.026 (inclusive of tax) per share for the year ended 31 December 2015 which was recommended by the Directors on 16 March 2016 was approved by the shareholders at the Annual General Meeting on 16 May 2016. This final dividend, totalling approximately Rmb13,772,000 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 2016	1,190
Amortisation	(320)
<hr/>	
Net book value as at 30 June 2016	870

13. CAPITAL EXPENDITURE

	Property, plant and equipment	Land use rights	Construction in progress
	Rmb'000	Rmb'000	Rmb'000
Net book value as at 1 January 2016	276,296	28,058	94,655
Transfer from construction in progress	4,242	–	(4,242)
Additions	8	–	15,845
Disposal	(136)	–	–
Depreciation/amortisation charge	(17,658)	(342)	–
<hr/>			
Net book value as at 30 June 2016	262,752	27,716	106,258

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2016	2015
	Rmb'000	Rmb'000
Trade receivables (<i>note (a)</i>)	95,863	71,037
Bills receivables (<i>note (b)</i>)	4,394	–
	100,257	71,037

- (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	31 December
	2016	2015
	Rmb'000	Rmb'000
0 to 3 months	92,384	68,793
4 to 6 months	2,791	2,055
Over 6 months	1,129	656
	96,304	71,504
Less: Provision for impairment of trade receivables	(441)	(467)
	95,863	71,037

- (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 2016 Rmb'000	31 December 2015 Rmb'000
Short-term bank deposits with original maturities of over 3 months	3,900	2,600
Cash and cash equivalents	49,918	93,191
<hr/>		
Cash and bank balances	53,818	95,791
Pledged bank balances	585	8,830
<hr/>		
Total	54,403	104,621
<hr/>		
	30 June 2016 Rmb'000	31 December 2015 Rmb'000
Denominated in:		
– Rmb	48,852	95,594
– USD	5,510	8,999
– Hong Kong Dollars	41	28
<hr/>		
	54,403	104,621
<hr/>		

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2016 and 31 December 2015	529,700,000	52,970

As at 30 June 2016 and 31 December 2015, 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	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)
At 30 June 2015	102,559	69,284	461	311,456	483,760
	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2016	102,559	74,183	461	336,986	514,189
Profit for the period	–	–	–	20,716	20,716
Final dividend for the year ended 31 December 2015	–	–	–	(13,772)	(13,772)
At 30 June 2016	102,559	74,183	461	343,930	521,133

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. TRADE AND BILLS PAYABLES

	30 June 2016 Rmb'000	31 December 2015 Rmb'000
Trade payables	22,757	12,504
Bills payables	1,945	29,432
	24,702	41,936

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

	30 June 2016 Rmb'000	31 December 2015 Rmb'000
0 to 6 months	22,626	12,361
7 to 12 months	32	44
Over 12 months	99	99
	22,757	12,504

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

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 2016 were unsecured and were repayable within one year.

As at 30 June 2016, the average effective interest rate of the bank borrowings was 4.1% (31 December 2015: 4.4%)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. CONTINGENT LIABILITIES

As at 30 June 2016 and 31 December 2015, 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:

	30 June 2016 Rmb'000	31 December 2015 Rmb'000
Authorised but not contracted for	8,912	14,740

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2016, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2016 Rmb'000	31 December 2015 Rmb'000
Not later than one year	488	479
Later than one year and not later than five years	–	239
	488	718

BUSINESS AND FINANCIAL REVIEW

BUSINESS REVIEW AND OUTLOOK

In the first half of 2016, the Group maintained steady production and operation. Project construction made headway as planned. The progress of international collaboration, research and development and management were satisfactorily 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 six months ended 30 June 2016 was approximately Rmb296,974,000, which represented an increase of approximately 11% as compared to that in the corresponding period in last year. Net profit attributable to the equity holders of the Company was approximately Rmb20,716,000, which represented an increase of approximately 39.5% as compared to that in the corresponding period in last year, but lower than that in the second half of 2015.

Since 2016, having the advantages in quality and brand, the Group achieved a steady increase in sales volume of its organic acid products such as tartaric acid and malic acid, etc. International oil price continued to rise since the second quarter and the impact of over-capacity still exists. However, price of raw material is still relatively low in recent years. The Group is able to seize good market opportunities, optimise product structure and stabilised its pricing strategy. With the efforts of our employees, we were able to produce stably, expand sales, improve management and increase both the sales revenue and net profit in the first half year.

Business Review

2016 is the first year of the "Thirteen-Five" plan, the Group achieved an overall stable development trend by overcoming the impacts of weak recovery in the international economy and the adverse effects on production and operation as a result of slow domestic economic growth. Faced with fierce international and domestic market competitions, the Group's priority is to ensure product quality and safety. It has brought the advantage of large scale production into play and strived to open up international and domestic markets, reduced consumption to improve product competitiveness, saved energy and reduce discharge to create a better production environment, and by virtue of its strong research and marketing capabilities, accelerated the adjustment in product structure, continued to expand into new markets and gained new development opportunities.

In the first half of 2016, having the advantages in quality and brand, the Group achieved a steady increase in sales volume of its organic acid products including tartaric acid and malic acid, and the sweetener, aspartame, as compared to that in the corresponding period in last year. Facing the competitive market, the Group optimised product structure, stabilised its pricing strategy and adjusted its sales strategy. The Group has obtained market information in advance, and has flew repeatedly to Europe and America and visited important customers directly to seek for new sales channels and to open up new markets through in-depth communication and strengthening direct cooperation with end customers.

BUSINESS AND FINANCIAL REVIEW

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 2016, the Group passed the audit of FSSC22000, which represents the highest standards in food safety system, the audit of ISO9001 in the quality control system, and the renewal of ISO14001 certificate in relation to the environmental management system. 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.

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 to ensure the strict adherence to the pollutant discharge standards. On top of corporate earnings, the Group's social value is clearly reflected and corporate social responsibilities are actively fulfilled.

In addition, this year the Group has strengthen its site management, effectively managed elements such as people, machines, materials, methods, and other factors of production with respect to position setting and fixation to improve the working environment and efficiency and help the Group's long-term healthy development.

Research and Development

1. New Vitamin PQQ Project

In 2016, 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.

2. 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. The Group has obtained the manufacture license to produce pharmaceutical adjuvant. 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

3. **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 intermediaries, which are new products developed by the Group and 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 intermediaries, expand the scope of the Group's pharmaceutical intermediaries, 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)**

In the first half of this year, Changmao Biochemical Lianyungang Limited began the production of L- aspartic acid and the production volume is stable. In addition, the obtaining of approval in relation to the project of producing maleic anhydride by using butane is still in progress. It is expected it can be formally put into production in the third quarter of this year.

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 further improving the food additive series including acidulant and sweeteners. It will further improve the Group's advantages in large-scale production. 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**

In the first half year, 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. Safety evaluation report has been preliminary reviewed; environmental evaluation work is improving after taking expert opinion. It is expected that the transformation will be completed within this year.

BUSINESS AND FINANCIAL REVIEW

Using butane instead of benzene as a raw material to manufacture maleic anhydride will 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. The cost of butane per tonne is less than that of benzene per tonne. These factors combined will create a very obvious cost advantage. Moreover, the manufacturing process of maleic anhydride using butane is cleaner and more environmentally 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.

Outlook and Prospect

Despite the uncertain economic situations and intense market competition at home and abroad, the Group used the advantage of economies of scale and strong research and marketing capabilities to improve the competitiveness of its core products. 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 will strive 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 international talents to develop new 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 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.

BUSINESS AND FINANCIAL REVIEW

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 further improve the sales volume of products and continuously to increase economic benefits.

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, 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.

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 2016 in conjunction with the Directors.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016.

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 50% (for the six months ended 30 June 2015: 51%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 50% (for the six months ended 30 June 2015: 49%) 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.

BUSINESS AND FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group had total outstanding bank borrowings of approximately Rmb40,000,000 (as at 31 December 2015: Rmb90,000,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2016 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 4.1% per annum (31 December 2015: 4.4%).

Except for the bank borrowings disclosed above, as at 30 June 2016 and 31 December 2015, 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 2016, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb8,912,000. 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.

The Group did not have any charge on its assets as at 30 June 2016. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 16.0% and 22.0% as at 30 June 2016 and 31 December 2015 respectively. As at 30 June 2016, the Group's cash and cash equivalent amounted to Rmb49,918,000 (31 December 2015: Rmb93,191,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors, as at 30 June 2016, the Group employed a total of 547 employees (30 June 2015: 533 employees). Total amount of staff costs for the six months ended 30 June 2016 was approximately Rmb32,400,000 (for the six months ended 30 June 2015: Rmb31,757,000). The increase in staff cost was mainly due to increase in number of staff. 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 2019, 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"):

BUSINESS AND FINANCIAL REVIEW

- (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 2016 and 31 December 2015.

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

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD

There was no material acquisitions and disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2016.

CONTINGENT LIABILITIES

As at 30 June 2016 and 31 December 2015, 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 2016, 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))	- -

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))
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	-	-	66,000,000	19.21%	-	-
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))	-	-
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))	-	-
<i>Supervisor</i>							
Ms. Zhou Rui Juan	(Note (h))	-	-	(Note (h))	(Note (h))	-	-
Mr. Lu A 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.

DISCLOSURE OF INTERESTS

- (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.
- (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.

DISCLOSURE OF INTERESTS

- (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 2016.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2016.
- (n) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2016.

Save as disclosed above, as at 30 June 2016, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS

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

So far as known to the Directors, as at 30 June 2016, the following, not being a Director, Supervisor or chief executives of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (g))
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%
Union Top Development Limited	Interest of controlled corporation	67,500,000 (Note (a))	19.65%
Ms. Rakchanok Sae-lao	Interest of controlled corporation	67,500,000 (Note (b))	19.65%
Jomo Limited	Beneficial owner	66,000,000	19.21%
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	66,000,000 (Note (c))	19.21%

DISCLOSURE OF INTERESTS

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (g))
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 S&T 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%
上海科技創業投資有限公司 (Shanghai Technology Entrepreneur Investment Company*, formerly 上海科技投資公司)	Interest of controlled corporation	62,500,000 (Note (e))	18.20%
上海科技創業投資(集團)有限公司 (Shanghai S&T Venture Capital (Group) Co., Ltd.*)	Interest of controlled corporation	62,500,000 (Note (f))	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 S&T 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 Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai S&T 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) Shanghai S&T Venture Capital (Group) Co., Ltd is the beneficial owner of 100% of the issued capital of Shanghai Technology Entrepreneur Investment Company. Shanghai Technology Entrepreneur Investment Company is the beneficial owner of 62.3% of the issued capital of Shanghai S&T 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.
- (g) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 30 June 2016.

Save as disclosed above, as at 30 June 2016, the Directors are not aware of any person, not being a Director, Supervisor or chief executives of the Company, have interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

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

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

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities for the six months ended 30 June 2016.

SHARE CAPITAL STRUCTURE

As at 30 June 2016, 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
	<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.

OTHER INFORMATION

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

At present, there are no applicable PRC laws and regulations governing the rights attached to the Foreign Shares. Jingtian & Gongcheng, the legal adviser to the Company as to PRC Law, have advised the Company that until new laws or regulations are introduced in this respect, holders of Foreign Shares shall have the same rights and obligations as those of the holders of Domestic Shares (in particular, in respect of the right to attend and vote in the general meetings and class meetings and to receive notice of such meetings in the same manner applicable to holders of Domestic Shares), except that holders of Foreign Shares shall enjoy the following rights:

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;
- (c) disputes between holders of Domestic Shares and Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Foreign Shares and overseas listed foreign shares; and
- (d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

OTHER INFORMATION

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, Ms. Leng Yi Xin, 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 16 May 2016 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 2016.

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 2016.

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

2015 Financial Statements	the Group's annual financial statements for the year ended 31 December 2015
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

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