



CMBEC

INTERIM REPORT **2017**

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 2017 – Unaudited

	Note	For the six months ended 30 June	
		2017 Rmb'000	2016 Rmb'000
Revenue	5	321,939	296,974
Cost of sales		(285,347)	(234,724)
Gross profit		36,592	62,250
Other income	6	8,629	1,367
Other (losses)/gains, net	6	(2,939)	1,426
Selling expenses		(9,018)	(8,630)
Administrative expenses		(32,969)	(31,235)
Operating profit		295	25,178
Finance (costs)/income, net	7	(35)	144
Profit before income tax	8	260	25,322
Income tax expense	9	59	(4,917)
Profit for the period		319	20,405
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		(1)	–
Total comprehensive income for the period		318	20,405
Profit for the period attributable to:			
Equity holders of the Company		608	20,716
Non-controlling interests		(289)	(311)
		319	20,405
Total comprehensive income for the period attributable to:			
Equity holders of the Company		607	20,716
Non-controlling interests		(289)	(311)
		318	20,405
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	10	Rmb0.001	Rmb0.039

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017 – Unaudited

	Note	30 June 2017 Rmb'000	31 December 2016 Rmb'000
ASSETS			
Non-current assets			
Patents	12	786	828
Property, plant and equipment	13	287,196	305,923
Land use rights	13	26,993	27,373
Construction in progress	13	83,412	59,574
Deferred income tax assets		7,034	7,163
		405,421	400,861
Current assets			
Inventories		90,116	101,711
Trade and bills receivables	14	96,611	94,487
Other receivables and prepayments		30,421	23,189
Income tax recoverable		2,188	328
Pledged bank balances	15	7,770	5,066
Cash and bank balances	15	56,890	50,716
		283,996	275,497
Total assets		689,417	676,358
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	52,970	52,970
Reserves	17	523,604	533,591
		576,574	586,561
Non-controlling interests		2,003	2,292
Total equity		578,577	588,853

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

		30 June	31 December
		2017	2016
	<i>Note</i>	Rmb'000	Rmb'000
LIABILITIES			
Non-current liabilities			
Other payable		2,656	2,121
Deferred income tax liabilities		379	340
		3,035	2,461
Current liabilities			
Trade and bills payables	18	43,037	29,667
Other payables and accrued charges		13,515	25,366
Income tax payable		13	11
Dividend payable	11	10,594	–
Bank borrowings	19	40,646	30,000
		107,805	85,044
Total liabilities		110,840	87,505
Total equity and liabilities		689,417	676,358

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – 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 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
Balance at 1 January 2017	52,970	181,813	351,778	586,561	2,292	588,853
Profit for the period	-	-	608	608	(289)	319
Other comprehensive income – currency translation difference – Group	-	(1)	-	(1)	-	(1)
Final dividend for the year ended 31 December 2016	-	-	(10,594)	(10,594)	-	(10,594)
Balance at 30 June 2017	52,970	181,812	341,792	576,574	2,003	578,577

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 – Unaudited

	For the six months ended 30 June	
	2017 Rmb'000	2016 Rmb'000
Cash flows from operating activities		
Cash generated from operations	24,689	19,661
Interest paid	(698)	(1,090)
Income tax paid	(1,631)	(4,254)
Net cash generated from operating activities	22,360	14,317
Cash flows from investing activities		
Purchase of property, plant and equipment	(33)	(8)
Proceeds from disposal of property, plant and equipment	6,087	112
Additions of construction in progress	(31,036)	(15,234)
Government grants received	40	311
(Increase)/decrease in pledged bank balances	(2,704)	8,245
Increase in short-term bank deposits with maturities of over 3 months	(3,450)	(1,300)
Interest received	240	284
Net cash used in investing activities	(30,856)	(7,590)
Cash flows from financing activities		
New bank borrowings	51,221	30,000
Repayment of bank borrowings	(40,000)	(80,000)
Net cash generated from/(used) in financing activities	11,221	(50,000)
Net increase/(decrease) in cash and cash equivalents	2,725	(43,273)
Effect of foreign exchange rate changes	(1)	–
Cash and cash equivalents at 1 January	47,816	93,191
Cash and cash equivalents at 30 June	50,540	49,918

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 acid products.

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 2016 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 16 August 2017. 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 2016 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 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 FINANCIAL RISK MANAGEMENT

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 2016.

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

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 acid products. 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	
	2017 Rmb'000	2016 Rmb'000
Mainland China	144,838	148,461
Europe	52,678	60,716
Asia Pacific	89,441	70,315
America	31,700	14,437
Others	3,282	3,045
	321,939	296,974

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2017, all of the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb398,387,000 (31 December 2016: Rmb393,698,000) are located in Mainland China.

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

	For the six months ended 30 June	
	2017	2016
	Rmb'000	Rmb'000
Other income		
Sales of scrap materials	268	215
Government grants	7,372	311
Others	989	841
	8,629	1,367
Other (losses)/gains, net		
Loss on disposal of property, plant and equipment	(1,725)	(24)
Fair value gains on derivative financial instruments	–	192
Net exchange gains	(1,214)	1,258
	(2,939)	1,426

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 FINANCE (COSTS)/INCOME, NET

	For the six months ended 30 June	
	2017 Rmb'000	2016 Rmb'000
Interest on bank borrowings	(758)	(1,175)
Less: amounts capitalised on qualified assets	483	1,035
	(275)	(140)
Interest income on bank deposits	240	284
Finance (costs)/income, net	(35)	144

8 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

	For the six months ended 30 June	
	2017 Rmb'000	2016 Rmb'000
Amortisation of patents	42	320
Amortisation of land use rights	380	342
Depreciation	18,906	17,658

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	
	2017	2016
	Rmb'000	Rmb'000
Current income tax		
– Provision for CIT	(251)	4,862
– Under-provision in prior year	24	2
Deferred income tax	168	53
	(59)	4,917

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	
	2017 Rmb'000	2016 Rmb'000
Profit before income tax	260	25,322
Calculated at the tax rates applicable to results of the respective consolidated entities	(588)	2,995
Income not subject to tax	–	(29)
Expenses not deductible for tax purposes	–	4
Tax losses for which no deferred income tax asset was recognised	522	2,052
Under-provision in prior year	24	2
Others	(17)	(107)
Income tax expense	(59)	4,917

10 EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2017 is based on the profit attributable to the equity holders of the Company of approximately Rmb608,000 (for the six months ended 30 June 2016: Rmb20,716,000) and 529,700,000 shares (for the six months ended 30 June 2016: 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 2016: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2017 (Corresponding period in 2016: Nil).

In addition, the final dividend of Rmb0.020 (inclusive of tax) per share for the year ended 31 December 2016 which was recommended by the Directors on 16 March 2017 was approved by the shareholders at the Annual General Meeting on 12 May 2017. This final dividend, totalling approximately Rmb10,594,000 has been recognised as a liability in this financial information.

12 PATENTS

	Rmb'000
Net book value as at 1 January 2017	828
Amortisation	(42)
<hr/>	
Net book value as at 30 June 2017	786

13 CAPITAL EXPENDITURE

	Property, plant and equipment Rmb'000	Land use rights Rmb'000	Construction in progress Rmb'000
Net book value as at 1 January 2017	305,923	27,373	59,574
Transfer from construction in progress	7,958	–	(7,958)
Additions	33	–	31,796
Disposal	(7,812)	–	–
Depreciation/amortisation charge	(18,906)	(380)	–
<hr/>			
Net book value as at 30 June 2017	287,196	26,993	83,412

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2017	2016
	Rmb'000	Rmb'000
Trade receivables (<i>note (a)</i>)	89,020	92,807
Bills receivables (<i>note (b)</i>)	7,591	1,680
	96,611	94,487

- (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
	2017	2016
	Rmb'000	Rmb'000
0 to 3 months	85,514	90,547
4 to 6 months	3,073	2,320
Over 6 months	2,144	1,651
	90,731	94,518
Less: Provision for impairment of trade receivables	(1,711)	(1,711)
	89,020	92,807

- (b) The maturity dates of bills receivables are ranged from 60 to 150 days.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	30 June 2017 Rmb'000	31 December 2016 Rmb'000
Short-term bank deposits with original maturities of over 3 months	6,350	2,900
Cash and cash equivalents	50,540	47,816
Cash and bank balances	56,890	50,716
Pledged bank balances	7,770	5,066
Total	64,660	55,782
	30 June 2017 Rmb'000	31 December 2016 Rmb'000
Denominated in:		
– Rmb	54,356	50,214
– USD	10,266	5,527
– Hong Kong Dollars	38	41
	64,660	55,782

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 2017 and 31 December 2016	529,700,000	52,970

As at 30 June 2017 and 31 December 2016, 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	Exchange 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
	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Exchange reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2017	102,559	78,791	461	2	351,778	533,591
Profit for the period	–	–	–	–	608	608
Other comprehensive income – currency translation difference – Group	–	–	–	(1)	–	(1)
Final dividend for the year ended 31 December 2016	–	–	–	–	(10,594)	(10,594)
At 30 June 2017	102,559	78,791	461	1	341,792	523,604

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18 TRADE AND BILLS PAYABLES

	30 June 2017 Rmb'000	31 December 2016 Rmb'000
Trade payables	17,138	12,781
Bills payables	25,899	16,886
	43,037	29,667

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

	30 June 2017 Rmb'000	31 December 2016 Rmb'000
0 to 6 months	16,913	12,547
7 to 12 months	19	133
Over 12 months	206	101
	17,138	12,781

(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 USD (31 December 2016: all denominated in Rmb).

The outstanding bank borrowings as at 30 June 2017 were unsecured and were repayable within one year.

As at 30 June 2017, the average effective interest rate of the bank borrowings was 2.6% (31 December 2016: 3.9%).

20 CONTINGENT LIABILITIES

As at 30 June 2017 and 31 December 2016, the Group did not have any material contingent liabilities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21 COMMITMENTS

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

	30 June 2017 Rmb'000	31 December 2016 Rmb'000
Authorised but not contracted for	2,459	3,702

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2017, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2017 Rmb'000	31 December 2016 Rmb'000
Not later than one year	538	255
Later than one year and not later than five years	538	–
	1,076	255

BUSINESS AND FINANCIAL REVIEW

BUSINESS REVIEW AND OUTLOOK

Results for the Half Year

The Group's sales revenue for the six months ended 30 June 2017 was approximately Rmb321,939,000, which represented an increase of approximately 8.4% as compared to that in the corresponding period in last year. Net profit attributable to the equity holders of the Company was approximately Rmb608,000, which represented a decrease of approximately 97% as compared to that in the corresponding period in last year.

In the first half of 2017, the Group's production and operation, research and management were progressed smoothly. The Group's development reflected a positive and healthy trend in general. The Group continued to steadily enhance its core competencies in terms of technology, quality, equipment, resources, personnel and management. In the first half of 2017, the production of the Group's maleic anhydride production lines in Changzhou has been suspended for transformation, the Group has to source maleic anhydride from external suppliers. The price of maleic anhydride has surged by over 40% in the first half year. Since the Group has entered into most of the annual sales orders and fixed the selling price in accordance with the prices of raw materials before the price surge, resulting in a significant reduction in the gross margin of the Group in the first half of the year. In addition, suspension of production of maleic anhydride caused the Group to incur extra energy costs such as steam cost and other manufacturing cost, which made Group lost the advantage brought by the production chain in the short-run and significantly reduced the Group's consolidated net profit.

Management processes

In terms of management, the Group has been always committed to the highest standard, and constantly upgrades its management system. In addition, the Group has effectively managed elements 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.

Safety management is the top priority of the Group's day-to-day management. 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, constantly self-correction in the production process and implantation of the safety enhancement.

As a production enterprise, the Group has also been conscientious in the implementation of environmental protection measures imposed by the government and by improving the self-monitoring process to ensure the strict adherence to the 3 major types of pollutant discharge standards. On top of corporate earnings, the Group's social value is clearly reflected and corporate social responsibilities are actively fulfilled.

BUSINESS AND FINANCIAL REVIEW

Research and Development

1. New Vitamin PQQ Project

In 2017, 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 Group has been doing research on the detection method of PQQ in a mixed feed. At the same time, the Group is also continuing to improve PQQ's production technologies, reduce production costs and improve market competitiveness and lay a good foundation for the future development of the market.

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 actively promoted pharmaceutical adjuvants of aspartame, DL-malic acid and L-malic acid and has slightly increase their sales. Recently, the China Food and Drug Administration has made changes to the procedures for the approval of new pharmaceutical adjuvants. The Group will actively respond to the changes in order to obtain the production approval of fumaric acid and maleic acid for pharmaceutical adjuvants as soon as possible. Pharmaceutical adjuvant is the Group's focus in the medium to 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.

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 carry out collaboration on research combining academic theories and actual production technology and actively develop new pharmaceutical intermediaries, expand the scope of the Group's pharmaceutical intermediaries, and continue to extend the Group's product chain.

BUSINESS AND FINANCIAL REVIEW

Key Projects

1. Transforming the production lines to use butane to manufacture maleic anhydride in the Changzhou headquarter

In the first half of this year, the Group has suspended the production of maleic anhydride for carrying out the transformation of the maleic anhydride production lines with annual production capacity of 20,000 tonnes in the Changzhou headquarter. At present, a set of 10,000 tonnes annual production capacity maleic anhydride production line has been successfully operating and the stability of production is under adjustment. Another set of 10,000 tonnes annual production capacity maleic anhydride production line will be completed and put into operation by the end of this year.

The transformation of production lines affected the amount of maleic anhydride produced. The Group has to purchase maleic anhydride from external suppliers to ensure the normal production of its downstream products, thereby increasing the energy costs and some other costs, and lost the advantage brought by producing upstream products to support its downstream products, and has affected the Group's economic efficiency in the short-run. However, the change of raw material is beneficial to the Group in the long-run. 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 cost-saving 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. 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 and in line with the trend of international food additives manufacturing. 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.

2. Development of Changmao Biochemical Lianyungang Limited (常茂生物連雲港有限公司)

The construction projects of Lianyungang Changmao are progressing steadily. However, it is still at the early stage of Lianyungang factory's operation, the factory did not reach a large-scale production and the operating costs were high. It has not made a positive impact on the Group's economic performance.

BUSINESS AND FINANCIAL REVIEW

Lianyungang Changmao is a major development project of the Group in recent years. The first set of maleic anhydride production line with an annual capacity of 10,000 tonnes is producing products stably in each month recently and has almost reached its full capacity. 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 through enhancing the advantage of 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.

Outlook and Prospect

Despite the uncertain economic situations and intense market competition at home and abroad, the Group endeavours to maximise the production capacity. 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. Nurturing High-Potential Employees for the Group's sustainability

Qualified personnel are very important strategic resources for enterprise development. The Group will plan to gradually carry out training program on scientific research, production, sales and management for employees. It will constantly improve the recruitment and training of personnel. It will use mechanisms to form an excellent environment, create opportunities, enhancing the work quality of employees, and provide new elements for the development of the Group.

2. Persisting in internationalisation to help expansion of the Group

The Group continues to aim at stable production and expand sales network and at the same time will strive to expand internationally. Changmao is an export-oriented enterprise, over 50% of its products are exported to overseas in 2016. With the accelerating pace of the Group, there is a need to use an international platform to stimulate its growth speed. 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.

BUSINESS AND FINANCIAL REVIEW

3. 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 which are safe, environmental friendly and with strong competitiveness, highlighting its focus and increasing speed. 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.

4. 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 2017 in conjunction with the Directors.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017.

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 55% (for the six months ended 30 June 2016: 50%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 45% (for the six months ended 30 June 2016: 50%) of sales revenue.

BUSINESS AND FINANCIAL REVIEW

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the period, the Group did not use forward contracts to hedge its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had total outstanding bank borrowings of approximately Rmb40,646,000 (as at 31 December 2016: Rmb30,000,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2017 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 2.6% per annum (31 December 2016: 3.9%).

Except for the bank borrowings disclosed above, as at 30 June 2017 and 31 December 2016, 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 2017, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb2,459,000. These capital commitments are mainly used for the transformation of production lines in the Changzhou plant. 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 2017. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 16.1% and 12.9% as at 30 June 2017 and 31 December 2016 respectively. As at 30 June 2017, the Group's cash and cash equivalent amounted to Rmb50,540,000 (31 December 2016: Rmb47,816,000). The Directors believe that the Group is in a healthy financial position.

BUSINESS AND FINANCIAL REVIEW

EMPLOYEES

Including the Directors, as at 30 June 2017, the Group employed a total of 563 employees (30 June 2016: 547 employees). Total amount of staff costs for the six months ended 30 June 2017 was approximately Rmb35,991,000 (for the six months ended 30 June 2016: Rmb32,400,000). 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"):

- (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 2017 and 31 December 2016.

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 2017.

CONTINGENT LIABILITIES

As at 30 June 2017 and 31 December 2016, 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 2017, 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%	844,000	0.46%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	100%	135,000,000	39.30%	844,000	0.46%
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%	2,400,000	1.31%

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>Director</i>							
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 844,000 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.

DISCLOSURE OF INTERESTS

- (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. Mr. Yu's wife is also the beneficial owner of 2,400,000 H 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.

DISCLOSURE OF INTERESTS

- (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 2017.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2017.
- (n) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2017.

Save as disclosed above, as at 30 June 2017, 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 2017, 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))	Number of H Shares	Approximate Percentage shareholding in the H Shares (Note (h))
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 and beneficial owner	66,000,000 (Note (c))	19.21%	2,400,000 (Note (c))	1.31%

DISCLOSURE OF INTERESTS

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (g))	Number of H Shares	Approximate Percentage shareholding in the H Shares (Note (h))
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.

DISCLOSURE OF INTERESTS

- (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. Ms. Lam Mau is also the beneficial owner of 2,400,000 H shares.
- (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 2017.
- (h) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2017.

Save as disclosed above, as at 30 June 2017, 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 2017.

SHARE CAPITAL STRUCTURE

As at 30 June 2017, 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, 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 12 May 2017 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 2017.

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 2017.

16 August 2017

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

2016 Financial Statements	the Group's annual financial statements for the year ended 31 December 2016
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

GLOSSARY

New HKFRSs	New standards, amendments and interpretations of Hong Kong Financial Reporting Standards
PRC	The People's Republic of China
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