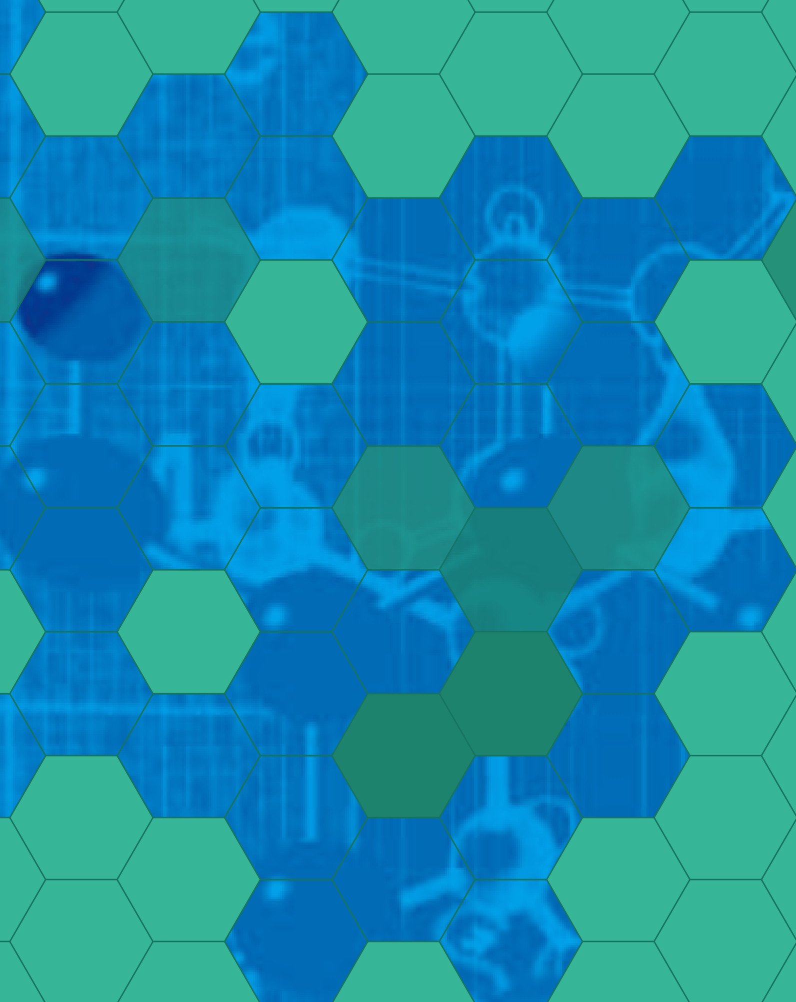

INTERIM REPORT 2018

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – Unaudited

		For the six months ended 30 June	
		2018	2017
	Note	**Rmb'000**	Rmb'000
Revenue	5	**317,307**	321,939
Cost of sales		**(257,431)**	(285,347)
Gross profit		**59,876**	36,592
Other income	6	**2,387**	8,629
Other gains/(losses), net	6	**241**	(2,939)
Selling expenses		**(8,125)**	(9,018)
Administrative expenses		**(38,829)**	(32,969)
Operating profit		**15,550**	295
Finance costs, net	7	**(417)**	(35)
Profit before income tax	8	**15,133**	260
Income tax expense/(credit)	9	**(1,228)**	59
Profit for the period		**13,905**	319
Other comprehensive income			
Item that may be reclassified to profit or loss			
– currency translation difference		**–**	(1)
Total comprehensive income for the period		**13,905**	318
Profit for the period attributable to:			
Equity holders of the Company		**14,197**	608
Non-controlling interests		**(292)**	(289)
		13,905	319
Total comprehensive income for the period attributable to:			
Equity holders of the Company		**14,197**	607
Non-controlling interests		**(292)**	(289)
		13,905	318
Earnings per share for profit attributable to equity holders of the Company			
– basic and diluted	10	**Rmb0.027**	Rmb0.001

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018 – Unaudited

	Note	30 June 2018 Rmb'000	31 December 2017 Rmb'000
ASSETS			
Non-current assets			
Patents	12	**702**	744
Property, plant and equipment	13	**293,114**	299,237
Land use rights	13	**26,293**	26,642
Construction in progress	13	**87,377**	79,826
Deferred income tax assets		**11,725**	8,788
Bank deposits	15	**–**	1,700
		419,211	416,937
Current assets			
Inventories		**98,758**	115,335
Trade and bills receivables	14	**89,944**	87,148
Other receivables and prepayments		**18,319**	23,466
Income tax recoverable		**–**	1,223
Pledged bank balances	15	**11,536**	15,671
Cash and bank balances	15	**64,971**	72,602
		283,528	315,445
Total assets		**702,739**	732,382
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**52,970**	52,970
Reserves	17	**540,574**	526,377
		593,544	579,347
Non-controlling interests		**1,318**	1,610
Total equity		**594,862**	580,957

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Note	**30 June 2018 Rmb'000**	31 December 2017 Rmb'000
LIABILITIES			
Non-current liabilities			
Other payable		**2,182**	2,430
Deferred income tax liabilities		**456**	484
		2,638	2,914
Current liabilities			
Trade and bills payables	18	**48,904**	73,505
Other payables and accrued charges		**25,881**	20,988
Income tax payable		**2,988**	11
Bank borrowings	19	**27,466**	54,007
		105,239	148,511
Total liabilities		**107,877**	151,425
Total equity and liabilities		**702,739**	732,382

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 – Unaudited

	Attributable to equity holders of the Company					
	Share capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling Interest**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
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
Balance at 1 January 2018	**52,970**	**182,981**	**343,396**	**579,347**	**1,610**	**580,957**
Profit for the period	**–**	**–**	**14,197**	**14,197**	**(292)**	**13,905**
Balance at 30 June 2018	**52,970**	**182,981**	**357,593**	**593,544**	**1,318**	**594,862**

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018 – Unaudited

	For the six months ended 30 June	
	2018	2017
	Rmb'000	Rmb'000
Cash flows from operating activities		
Cash generated from operations	**32,229**	24,689
Interest paid	**(756)**	(698)
Income tax refunded/(paid)	**7**	(1,631)
Net cash generated from operating activities	**31,480**	22,360
Cash flows from investing activities		
Purchase of property, plant and equipment	**–**	(33)
Proceeds from disposal of property, plant and equipment	**57**	6,087
Additions of construction in progress	**(20,016)**	(31,036)
Government grants received	**1,024**	40
Decrease/(increase) in pledged bank balances	**4,135**	(2,704)
Decrease/(increase) in short-term bank deposits with maturities of over 3 months	**650**	(3,450)
Interest received	**214**	240
Net cash used in investing activities	**(13,936)**	(30,856)
Cash flows from financing activities		
New bank borrowings	**34,513**	51,221
Repayment of bank borrowings	**(60,738)**	(40,000)
Net cash (used in)/generated from financing activities	**(26,225)**	11,221
Net (decrease)/increase in cash and cash equivalents	**(8,681)**	2,725
Effect of foreign exchange rate changes	**–**	(1)
Cash and cash equivalents at 1 January	**68,752**	47,816
Cash and cash equivalents at 30 June	**60,071**	50,540

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 2017 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 8 August 2018. This condensed consolidated interim financial information has not been audited.

Save as disclosed below, the accounting policies used in preparing the condensed consolidated interim financial statements are consistent with those used in the 2017 Financial Statements.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HKFRS 9 Financial Instruments – Impact of adoption

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The new guidance does not have a significant impact on the classification and measurement of its financial assets.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

There is no significant impact on the accounting for the Group's hedging relationships under the new hedge accounting rules as the Group does not have any such hedging.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group does not has such items except for one type of financial assets, trade receivables, that is subject to HKFRS 9's new expected credit loss model.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology did not affect the Group's retained earnings and equity. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Group has applied the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 have not been restated.

HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

Nature of change

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

The Group engaged in the production and sales of organic acids products, which are recognised in profit or loss when a group entity has delivered products to the customers, the customer has accepted the products and collectability of the related receivables is reasonably assured.

The Group has applied the new accounting policy from 1 January 2018. The adoption of HKFRS 15 did not have any material impact on the Group's condensed consolidated interim financial information.

(b) Impact of standards issued but not yet applied by the Group

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of Rmb523,000, see note 21.

The commitments may be covered by the exception for short-term and low-value leases. Accordingly, the Group does not expect the new standard to have a significant impact on the Group's consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Date of adoption by the Group
The standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 2017.

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 2017.

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

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 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	
	2018	2017
	Rmb'000	Rmb'000
Mainland China	**158,712**	144,838
Europe	**50,104**	52,678
Asia Pacific	**82,973**	89,441
America	**18,941**	31,700
Others	**6,577**	3,282
	317,307	321,939

The Asia Pacific region mainly includes Hong Kong, Indonesia, Australia, India, Thailand and Japan.

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 2018, all of the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb407,486,000 (31 December 2017: Rmb408,149,000) are located in Mainland China.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	For the six months ended 30 June	
	2018	2017
	Rmb'000	Rmb'000
Other income		
Sales of scrap materials	**19**	268
Government grants	**1,272**	7,372
Others	**1,096**	989
	2,387	8,629
Other gains/(losses), net		
Loss on disposal of property, plant and equipment	**(30)**	(1,725)
Net exchange gains/(losses)	**271**	(1,214)
	241	(2,939)

7 FINANCE COSTS, NET

	For the six months ended 30 June	
	2018	2017
	Rmb'000	Rmb'000
Interest on bank borrowings	**(631)**	(758)
Less: amounts capitalised on qualified assets	**–**	483
	(631)	(275)
Interest income on bank deposits	**214**	240
Finance costs, net	**(417)**	(35)

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	
	2018	2017
	Rmb'000	Rmb'000
Amortisation of patents	**42**	42
Amortisation of land use rights	**349**	380
Depreciation	**16,821**	18,906

9 INCOME TAX EXPENSE/(CREDIT)

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	
	2018	2017
	Rmb'000	Rmb'000
Current income tax		
– Provision for CIT	**4,201**	(251)
– (Over)/under-provision in prior year	**(7)**	24
Deferred income tax	**(2,966)**	168
Income tax expense/(credit)	**1,228**	(59)

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	
	2018	2017
	Rmb'000	Rmb'000
Profit before income tax	**15,133**	260
Calculated at the tax rates applicable to results of the respective consolidated entities	**946**	(588)
Expenses not deductible for tax purposes	**3**	–
Tax losses for which no deferred income tax asset was recognised	**299**	522
(Over)/under-provision in prior year	**(7)**	24
Others	**(13)**	(17)
Income tax expense/(credit)	**1,228**	(59)

10 EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2018 is based on the profit attributable to the equity holders of the Company of approximately Rmb14,197,000 (for the six months ended 30 June 2017: Rmb608,000) and 529,700,000 shares (for the six months ended 30 June 2017: 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 2017: Nil).

11 DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2018 (Corresponding period in 2017: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12 PATENTS

	Rmb'000
Net book value as at 1 January 2018	744
Amortisation	(42)
Net book value as at 30 June 2018	702

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 2018	299,237	26,642	79,826
Transfer from construction in progress	10,785	–	(10,785)
Additions	–	–	18,336
Disposal	(87)	–	–
Depreciation/amortisation charge	(16,821)	(349)	–
Net book value as at 30 June 2018	293,114	26,293	87,377

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND BILLS RECEIVABLES

	30 June 2018 Rmb'000	31 December 2017 Rmb'000
Trade receivables *(note (a))*	**82,192**	86,248
Bills receivables *(note (b))*	**7,752**	900
	89,944	87,148

(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 2018 Rmb'000	31 December 2017 Rmb'000
0 to 3 months	**80,862**	83,330
4 to 6 months	**2,766**	2,919
Over 6 months	**387**	1,984
	84,015	88,233
Less: Provision for impairment of trade receivables	**(1,823)**	(1,985)
	82,192	86,248

(b) The maturity dates of bills receivables are ranged from 60 to 180 days.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	30 June 2018 Rmb'000	31 December 2017 Rmb'000
Long-term bank deposits	–	1,700
Short-term bank deposits with original maturities of over 3 months	4,900	3,850
Cash and cash equivalents	60,071	68,752
Cash and bank balances	64,971	74,302
Pledged bank balances	11,536	15,671
Total	76,507	89,973

	30 June 2018 Rmb'000	31 December 2017 Rmb'000
Denominated in:		
– Rmb	65,667	67,735
– USD	10,806	22,198
– Hong Kong Dollars	34	40
	76,507	89,973

The conversion of Renminbi denominated balances into foreign currencies and the remittance of these funds out of the Mainland China is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

16 SHARE CAPITAL

Registered, issued and fully paid

	Share capital	
	Number of shares at Rmb0.10 each	**Nominal value**
		Rmb'000
At 30 June 2018 and 31 December 2017	529,700,000	52,970

As at 30 June 2018 and 31 December 2017, 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.

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 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

	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 2018	102,559	79,961	461	–	343,396	526,377
Profit for the period	–	–	–	–	14,197	14,197
At 30 June 2018	102,559	79,961	461	–	357,593	540,574

18 TRADE AND BILLS PAYABLES

	30 June 2018 Rmb'000	31 December 2017 Rmb'000
Trade payables	**10,450**	21,267
Bills payables	**38,454**	52,238
	48,904	73,505

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

	30 June 2018 Rmb'000	31 December 2017 Rmb'000
0 to 6 months	**10,191**	21,062
7 to 12 months	**58**	7
Over 12 months	**201**	198
	10,450	21,267

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19 BANK BORROWINGS

The bank borrowings are denominated in:

	30 June 2018 Rmb'000	31 December 2017 Rmb'000
– Rmb	**1,000**	5,000
– USD	**26,466**	49,007
	27,466	54,007

The carrying amounts of these bank borrowings approximate their fair values.

The outstanding bank borrowings as at 30 June 2018 were unsecured and were repayable within one year.

As at 30 June 2018, the average effective interest rate of the bank borrowings was 3.4% (31 December 2017: 2.7%)

20 CONTINGENT LIABILITIES

As at 30 June 2018 and 31 December 2017, 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 2018 Rmb'000	31 December 2017 Rmb'000
Authorised but not contracted for	**2,719**	7,261

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2018, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2018 Rmb'000	31 December 2017 Rmb'000
Not later than one year	**523**	518
Later than one year and not later than five years	**–**	248
	523	766

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 2018 was approximately Rmb317,307,000, which is approximately the same level as compared to that in last year. Net profit attributable to the equity holders of the Company was approximately Rmb14,197,000, which represented an increase in 22 times as compared to that in last year.

In the first half of 2018, the requirements for safety and environmental protection by the government authorities continued to be more stringent. The changes in domestic and international environment were extremely complicated. Compared with 2017, the Group is facing with higher operational pressures. At the same time, the suspension of production of Lianyungang Changmao due to government policies and its rectification on safety and environment protection have brought new challenges to the Group. Faced with this severe domestic and international situation, the Group has worked together to actively respond to it. With the concerted efforts of all employees, the Group adhered to develop with innovation, overcame difficulties, and has consolidated its work and made great progress on production, operation, research and development, management and other aspects. The economic benefits have also been significantly improved and the Group develops towards a positive and healthy direction.

The significant increase in net profit of the Group during the reporting period compared to the same period last year was due to:

(1) The Group had insisted to apply the concept of innovation on development, optimised the production and technical process through continuous technological innovation. It has tapped potentials and transformed the existing production lines, and improved product quality and production efficiency, reduced production costs. At the same time, the Group has actively promoted the automation and intelligent transformation process has reduced the increasing labor costs and increasingly safety and environmental risks.

(2) In 2017, the Group suspended production and transformed the maleic anhydride production line in the Changzhou factory. It had to purchase maleic anhydride from external suppliers. The market was affected by the government policy on cutting overcapacity, and the raw material prices soared. The average price of the maleic anhydride rose by more than 40% in the past year. In addition, the suspension of the maleic anhydride production line has increased the Group's energy (steam) costs, and made it lost the upstream and downstream product supporting advantage. This year, the stability of the maleic anhydride market and the completion of transformation and operation of the Changzhou maleic anhydride production line, have gradually began to reduce the production cost of the Group.

BUSINESS AND FINANCIAL REVIEW

(3) The Group's project of low-pressure steam pipe network and cold pipe network through the comprehensive utilisation of energy with the collaboration with thermal power plant under the butane-method for production of maleic anhydride has achieved obvious results since the second quarter, greatly reduced energy costs.

(4) The Group has actively responded to market changes, learned the lessons of last year, adjusted sales strategies and product prices in a timely manner, reduced intermediate circulation links, and worked hard to develop potential customers with high potential to consolidate long-term customers and large customers. It has also adjusted the procurement strategy in a timely manner, worked with suppliers to reduce raw material fluctuations, strengthen relationships with suppliers to pursue a win-win situation. The above measures have shown results in the Group's profit growth and risk control.

(5) At the current stage of domestic supply-side structural reform, policies that require to ratify safety and environmental protection, the Group's continuous attachment of importance and investment in safety and environmental protection has gradually turned into a competitive advantage.

Management processes

For a long time, the Group has carried out various management tasks around the purpose of "creating value for customers and creating benefits for the company". The Group has been always committed to the highest standard, and constantly upgrades its management system to improve the working environment and efficiency and promote the Group's long-term healthy development.

Safety management is the top priority of the Group. 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. It also passed the second-level safety production standardization assessment of Jiangsu Province.

This year, the state has put forward new requirements for environmental governance and pollution prevention. Based on the new situation, the Group earnestly implements various measures required by the national, provincial and municipal levels for environmental protection and lays a solid foundation for environmental protection. On one hand, the Group continued to increase investment in environmental protection, adopting new technologies to reduce emissions of the three kinds of wastes; on the other hand, it has continuously improved its self-monitoring system to ensure that the three kinds of wastes discharge to meet the continuously increasing stringent new standards, thereby actively fulfilling corporate social responsibility and reflecting the Group's social value apart from corporate profits.

BUSINESS AND FINANCIAL REVIEW

The Group has increased its investment in intelligent management, adopted computer process management and control, standardised management and improved efficiency. Improving office automation has enabled all employees to participate in risk identification and control, enhanced their responsibility and execution of their duties, and significantly improved the management level.

Research and Development

1. **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 increased their sales in this year. The Group is actively perfecting its application 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 and will contribute to the Group's future earnings.

2. **Active Pharmaceutical Ingredients ("API") Project**

   Since the beginning of this year, the Group has promoted the L-Malic acid API research project. The project has now entered the medium trail stage. The Group's other API, sodium pantothenate, was tested in three batches in the third quarter of last year. The products produced met all quality standards. At present, the Group is conducting stability review, and apply for approval from the State Drug Administration in the second half of this year.

Key Projects

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

   In the first half of 2018, the Group has completed the technical transformation project of the (20,000 tonnes/year) maleic anhydride production line using butane as the raw material in its Changzhou headquarters, which is currently operating at full capacity. It was the first in China to transfer a production line which was originally using benzene as the raw material to produce maleic anhydride, which increased the difficulty of the project and different challenges were encountered. However, with the joint efforts of the project team and the staff of the maleic anhydride production line, difficulties were overcome and the project was successfully completed and finally achieved stable production.

   The butane-method for production of maleic anhydride reduces carbon dioxide emissions by using butane instead of benzene as the raw material. It is in line with China's increasing environmental and safety policy requirements. On the other hand, it reduces the safety risks in the production of food additives, conforms to the trend of international food additive production, and is also a major achievement of the Group's long-term economic benefits by controlling production costs from the source and enhancing the market competitiveness of the Group's products.

BUSINESS AND FINANCIAL REVIEW

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

   Since the end of 2017, certain enterprises in Lianyungang Industrial Park has continued to experience safety and environmental accidents, which have been exposed by the media to cause relatively bad social impact. In early 2018, Jiangsu Provincial authority requested of all the enterprises in the chemical park of Lianyungang to suspend production. Lianyungang Changmao is located in the said chemical park and cannot be exempted from the production suspension policy.

   Since its incorporation, Lianyungang Changmao has strictly complied with various laws and regulations and carried out plant construction and project approval work in accordance with national regulations. Safety and environmental protection work is a top priority. However, the suspension of production in the Lianyungang chemical park has affected the economic benefits of the Group. During the suspension of production, Lianyungang Changmao actively carried out the post-infrastructure preparation work and implemented the post-project procedures, self-inspection of risk factors such as safety and environmental protection, and fully prepared for returning to production at any time.

Outlook and Prospect

Facing the complicated international and domestic economic situation, the Group will continue to maintain product quality advantages and brand advantages under the premise of adapting to new safety and environmental protection requirements, promote maximum production capacity, reduce consumption and tap potential to improve product competitiveness. In the future, the Group will continue to work on the following aspects:

1. **Accelerating technology innovation and promoting product upgrade**

   Science and technology are primary productive forces. 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.

BUSINESS AND FINANCIAL REVIEW

2. **Improve safety and environmental protection to resist policy risks**
   With the continuous high pressure from the domestic safety and environmental protection requirements in this year, the small and medium enterprises that failed to meet the standards were accelerated to be eliminated. The industry further concentrated on powerful enterprises, and the supply and demand structure continued to improve. The laws and regulations related to safety and environmental protection have been gradually improved. The Group's long-term focus on safety and environmental protection investment will be transformed into a competitive advantage. The Group has the ability to seize this opportunity and will actively respond to the high pressure situation of safety and environmental protection, and will put the guiding ideology into execution, detailly perform the basic work, and pave the way for the Group's sustainable development, improve the Group's competitiveness, and reduce the impact of policy risks on production and operation.

3. **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.

4. **Adhere to the international vision and establish a win-win relationship with customers**
   The Group will focus on market trends, continually to enhance its ability to control the market, actively adjust its sales and procurement strategies, and strive to open up markets at home and abroad. It will establish a closer cooperation and win-win relationship with customers to jointly resist risk shocks and make the Group develop faster and better.

Looking forward, there will be opportunities and challenges. 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.

BUSINESS AND FINANCIAL REVIEW

REVIEW OF FINANCIAL STATEMENTS

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 in conjunction with the Directors.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018.

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 2017: 55%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 50% (for the six months ended 30 June 2017: 45%) 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 did not use forward contracts to hedge its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had total outstanding bank borrowings of approximately Rmb27,466,000 (as at 31 December 2017: Rmb54,007,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2018 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 3.4% per annum (31 December 2017: 2.7%).

Except for the bank borrowings disclosed above, as at 30 June 2018 and 31 December 2017, 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.

BUSINESS AND FINANCIAL REVIEW

As at 30 June 2018, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb2,719,000. These capital commitments are mainly used for the improvement of production lines. 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 2018. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 15.4% and 20.7% as at 30 June 2018 and 31 December 2017 respectively. As at 30 June 2018, the Group's cash and cash equivalent amounted to Rmb60,071,000 (31 December 2017: Rmb68,752,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors, as at 30 June 2018, the Group employed a total of 483 employees (30 June 2017: 563 employees). Total amount of staff costs for the six months ended 30 June 2018 was approximately Rmb32,983,000 (for the six months ended 30 June 2017: Rmb35,991,000). The decrease in staff cost was mainly due to the decrease in average 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 Rmb 40 million (the "Target Profit"):

(a) a sum equivalents 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 equivalents 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 equivalents to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

BUSINESS AND FINANCIAL REVIEW

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Group as at 30 June 2018 and 31 December 2017.

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 2018.

CONTINGENT LIABILITIES

As at 30 June 2018 and 31 December 2017, 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 2018, 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))*
Director							
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%	1,692,000	0.92%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation *(Note (b))*	2,500,000	100%	135,000,000	39.30%	1,692,000	0.92%
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))*
Director							
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation *(Note (e))*	–	–	66,000,000	19.21%	2,620,000	1.43%
Prof. Ouyang Ping Kai	*(Note (f))*	–	–	*(Note (f))*	*(Note (f))*	–	–
Prof. Yang Sheng Li	*(Note (g))*	–	–	*(Note (g))*	*(Note (g))*	–	–
Supervisor							
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 1,692,000 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. Mr. Yu’s wife, Ms. Lam Mau, is also the beneficial owner of 2,620,000 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.

DISCLOSURE OF INTERESTS

(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 2018.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2018.

(n) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2018.

DISCLOSURE OF INTERESTS

Save as disclosed above, as at 30 June 2018, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Appendix 10 of the Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

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

So far as known to the Directors, as at 30 June 2018, the following, not being a Director, Supervisor or chief executives of the Company, had 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 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 (e))*	Number of H Shares	Approximate Percentage shareholding in the H Shares *(Note (f))*
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%	–	–
Jomo Limited	Beneficial owner	66,000,000	19.21%	–	–

DISCLOSURE OF INTERESTS

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares *(Note (e))*	Number of H Shares	Approximate Percentage shareholding in the H Shares *(Note (f))*
Ms. Lam Mau	Interest of spouse and interest of controlled corporation and beneficial owner	66,000,000 *(Note (a))*	19.21%	2,620,000 *(Note (a))*	1.43%
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 (b))*	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 (c))*	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 (d))*	18.20%	–	–

Notes:

(a) 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 2,620,000 H shares.

DISCLOSURE OF INTERESTS

(b) 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.

(c) 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.

(d) 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.

(e) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 30 June 2018.

(f) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2018.

Save as disclosed above, as at 30 June 2018, 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 2018.

SHARE CAPITAL STRUCTURE

As at 30 June 2018, the category of the issued shares of the Company is as follows:

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

Notes:

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

(b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in Rmb and issued to the promoters of the Company.

(c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

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

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 18 May 2018 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 2018.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors.

The spouse of Mr. Yu Xiao Ping ("**Mr. Yu**"), a non-executive Director, has overlooked the Model Code and purchased 220,000 H Shares of the Company at an average price of HKD0.8564 from the market on 1 February 2018 which was within the prohibition period (from 6 January 2018 to 16 March 2018) and has forgotten to first notify in writing the Company's chairman or a designated director and has not obtained a written acknowledgement as set out in Rule B.8 of the Model Code. Subsequently, Mr. Yu notified the Company the above transactions and acknowledged his breach of the Model Code. He undertook that he will comply with the required standards as set out in the Model Code in the future. Save as disclosed above, he does not have any record in breach of notification requirement for his dealings in the Company's shares since he became a Director in December 1992.

The Company has maintained an effective system in monitoring the director's dealings (including a notification mechanism) to ensure compliance with the Model Code. In particular, the Company has notified all Directors the prohibition period on 12 December 2017. The Board is of the view that the guidelines and procedures for the director's dealings of shares in the Company are adequate and effective.

OTHER INFORMATION

Keeping track of the Directors' dealings by the Company totally depends on whether the Directors take the initiative to ask for approval from the Company. In order to avoid similar incidents in the future, the Company reminded all the Directors at the Directors' meeting of the Company on 16 March 2018 the importance of complying with the Model Code in their dealings of the Company's shares and in submission of notifications. The Company will also emphasize and remind the Directors to avoid similar incidents in the prohibition period in the future. The Company also provides briefings to update and refresh the Directors' knowledge and skills on the latest developments regarding the Model Code, to ensure compliance and enhance their awareness of good corporate government practices.

The Company had also made specific enquiry of all Directors in relation to the compliance of the Model Code. Save for the above, the Company was not aware of any non-compliance with the Model Code for the six months ended 30 June 2018.

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

2017 Financial Statements	the Group's annual financial statements for the year ended 31 December 2017
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
Lianyungang Changmao	Changmao Biochemical Lianyungang Limited
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
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