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常茂生物化學工程股份有限公司
Changmao Biochemical Engineering Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 954)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

	For the six months ended 30 June	
	2019	2018
	Rmb'000	Rmb'000
Revenue	297,891	317,307
Profit for the period attributable to the equity holders of the Company	42,528	14,197

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019.

* For identification purpose only

The Board is pleased to present the unaudited results of the Group for the six months ended 30 June 2019 together with the unaudited comparative figures for corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 – Unaudited

		For the six months ended 30 June	
		2019	2018
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Revenue	5	297,891	317,307
Cost of sales		(203,036)	(257,431)
Gross profit		94,855	59,876
Other income	6	1,705	2,387
Other gains, net	6	359	241
Selling expenses		(7,371)	(8,125)
Administrative expenses		(40,647)	(37,304)
Reversal of loss allowance/(loss allowance) on financial asset		215	(1,525)
Operating profit		49,116	15,550
Finance costs, net	7	(338)	(417)
Profit before income tax	8	48,778	15,133
Income tax expense	9	(6,479)	(1,228)
Profit for the period		42,299	13,905
Other comprehensive income Item that may be reclassified to profit or loss – currency translation difference		2	–
Total comprehensive income for the period		42,301	13,905
Profit for the period attributable to:			
Equity holders of the Company		42,528	14,197
Non-controlling interests		(229)	(292)
		42,299	13,905
Total comprehensive income for the period attributable to:			
Equity holders of the Company		42,530	14,197
Non-controlling interests		(229)	(292)
		42,301	13,905
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	10	Rmb0.080	Rmb0.027

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019 – Unaudited

		30 June 2019	31 December 2018
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
ASSETS			
Non-current assets			
Patents	12	618	660
Property, plant and equipment	13	277,247	292,537
Land use rights	13	25,594	25,943
Construction in progress	13	96,609	87,531
Deferred income tax assets		16,831	13,949
		416,899	420,620
Current assets			
Inventories		122,452	108,024
Trade and bills receivables	14	75,895	98,672
Other receivables and prepayments		21,210	16,830
Pledged bank balances	15	4,012	2,774
Cash and bank balances	15	96,544	85,098
		320,113	311,398
Total assets		737,012	732,018
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	52,970	52,970
Reserves	17	592,948	576,903
		645,918	629,873
Non-controlling interests		765	994
Total equity		646,683	630,867

		30 June 2019	31 December 2018
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
LIABILITIES			
Non-current liabilities			
Other payable		1,694	1,945
Deferred income tax liabilities		532	494
		<u>2,226</u>	<u>2,439</u>
Current liabilities			
Trade and bills payables	18	28,022	19,781
Contracted liabilities, other payables and accruals		30,704	37,055
Derivative financial instrument		304	—
Income tax payable		2,088	2,565
Dividend payable		26,485	—
Bank borrowings	19	500	39,311
		<u>88,103</u>	<u>98,712</u>
Total liabilities		<u>90,329</u>	<u>101,151</u>
Total equity and liabilities		<u>737,012</u>	<u>732,018</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 – Unaudited

	Attributable to equity holders of the Company				Non-	
	Share	Other	Retained	Total	controlling	Total
	capital	reserves	Earnings		Interest	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
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	<u>52,970</u>	<u>182,981</u>	<u>357,593</u>	<u>593,544</u>	<u>1,318</u>	<u>594,862</u>
Balance at 1 January 2019	52,970	190,254	386,649	629,873	994	630,867
Profit for the period	–	–	42,528	42,528	(229)	42,299
Other comprehensive income						
– currency translation						
difference – Group	–	2	–	2	–	2
Final dividend for the year						
ended 31 December 2018	–	–	(26,485)	(26,485)	–	(26,485)
Balance at 30 June 2019	<u>52,970</u>	<u>190,256</u>	<u>402,692</u>	<u>645,918</u>	<u>765</u>	<u>646,683</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 – Unaudited

	For the six months ended 30 June	
	2019	2018
	Rmb'000	Rmb'000
Cash flows from operating activities		
Cash generated from operations	73,519	32,229
Interest paid	(551)	(756)
Income tax (paid)/refunded	(9,800)	7
Net cash generated from operating activities	63,168	31,480
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	21	57
Additions of construction in progress	(12,637)	(20,016)
Government grants received	352	1,024
(Increase)/decrease in pledged bank balances	(1,238)	4,135
Decrease in short-term bank deposits with maturities of over 3 months	550	650
Interest received	151	214
Net cash used in investing activities	(12,801)	(13,936)
Cash flows from financing activities		
New bank borrowings	500	34,513
Repayment of bank borrowings	(38,873)	(60,738)
Net cash used in financing activities	(38,373)	(26,225)
Net increase/(decrease) in cash and cash equivalents	11,994	(8,681)
Effect of foreign exchange rate changes	2	—
Cash and cash equivalents at 1 January	81,398	68,752
Cash and cash equivalents at 30 June	93,394	60,071

Notes:

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 2018 Financial Statements.

This condensed consolidated interim financial information was approved for issue on 8 August 2019. 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 2018 Financial Statements. Other 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.

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 and make retrospective adjustments as a result of adopting HKFRS 16 Leases. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Changes in accounting policies

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

(a) Adjustments recognised on adoption of HKFRS 16

As at 1 January 2019, the Group has a non-cancellable operating lease in respect of rental of office. The remaining terms of the operating lease was less than 12 months. The Group has accounted for this lease as short-term lease under the practical expedients permitted by the standard. As such, there was no material impact on the Group's condensed consolidated interim financial statements for the period.

The following table reconciles the operating lease commitments as disclosed in note 31(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 <i>Rmb'000</i>
Operating lease commitments at 31 December 2018	260
Less: short-term leases with remaining lease term ending on or before 31 December 2019	(260)
Total lease liabilities recognised at 1 January 2019	–

(b) The Group's leasing activities and how these are accounted for

The Group has leased an office premises. The leases are typically made for fixed periods of 2 years. The lease agreement does not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, lease of property, plant and equipment was classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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 2018.

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 2018.

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	
	2019	2018
	Rmb'000	<i>Rmb'000</i>
Mainland China	147,912	158,712
Europe	65,639	50,104
Asia Pacific	58,517	82,973
America	18,882	18,941
Others	6,941	6,577
	297,891	317,307

Europe region mainly includes the Great British, Germany, Turkey, Spain and Italy whereas 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 2019, all of the Group's non-current assets (other than the deferred income tax assets) amounted to Rmb400,068,000 (31 December 2018: Rmb406,671,000) are located in Mainland China.

6 OTHER INCOME AND OTHER GAINS, NET

	For the six months ended 30 June	
	2019	2018
	<i>Rmb'000</i>	<i>Rmb'000</i>
Other income		
Sales of scrap materials	35	19
Government grants	597	1,272
Others	1,073	1,096
	<u>1,705</u>	<u>2,387</u>
Other gains, net		
Loss on disposal of property, plant and equipment	(18)	(30)
Net exchange gains	681	271
Fair value losses on derivative financial instruments	(304)	—
	<u>359</u>	<u>241</u>

7 FINANCE COSTS, NET

	For the six months ended 30 June	
	2019	2018
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest on bank borrowings	(489)	(631)
Interest income on bank deposits	151	214
	<u>(338)</u>	<u>(417)</u>

8 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

	For the six months ended 30 June	
	2019	2018
	Rmb'000	Rmb'000
Amortisation of patents	42	42
Amortisation of land use rights	349	349
Depreciation	16,825	16,821
	<u>16,825</u>	<u>16,821</u>

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	
	2019	2018
	Rmb'000	Rmb'000
Current income tax		
– Provision for CIT	9,205	4,201
– Under/(over)-provision in prior year	118	(7)
Deferred income tax	(2,844)	(2,966)
	<u>(2,844)</u>	<u>(2,966)</u>
Income tax expense	6,479	1,228
	<u>6,479</u>	<u>1,228</u>

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	
	2019	2018
	Rmb'000	Rmb'000
Profit before income tax	48,778	15,133
Calculated at the tax rates applicable to results of the respective consolidated entities	5,915	946
Expenses not deductible for tax purposes	157	3
Tax losses for which no deferred income tax asset was recognised	313	299
Under/(over)-provision in prior year	118	(7)
Others	(24)	(13)
Income tax expense	6,479	1,228

10 EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 June 2019 is based on the profit attributable to the equity holders of the Company of approximately Rmb42,528,000 (for the six months ended 30 June 2018: Rmb14,197,000) and 529,700,000 shares (for the six months ended 30 June 2018: 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 2018: Nil).

11 DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2019 (Corresponding period in 2018: Nil).

12 PATENTS

	<i>Rmb'000</i>
Net book value as at 1 January 2019	660
Amortisation	(42)
Net book value as at 30 June 2019	618

13 CAPITAL EXPENDITURE

	Property, plant and equipment <i>Rmb'000</i>	Land use rights <i>Rmb'000</i>	Construction in progress <i>Rmb'000</i>
Net book value as at 1 January 2019	292,537	25,943	87,531
Transfer from construction in progress	1,574	–	(1,574)
Additions	–	–	10,652
Disposal	(39)	–	–
Depreciation/amortisation charge	(16,825)	(349)	–
	<u>277,247</u>	<u>25,594</u>	<u>96,609</u>
Net book value as at 30 June 2019	<u>277,247</u>	<u>25,594</u>	<u>96,609</u>

14 TRADE AND BILLS RECEIVABLES

	30 June 2019 <i>Rmb'000</i>	31 December 2018 <i>Rmb'000</i>
Trade receivables (<i>note (a)</i>)	72,034	98,672
Bills receivables (<i>note (b)</i>)	3,861	–
	<u>75,895</u>	<u>98,672</u>

- (a) The credit terms of trade receivables range from 30 days to 120 days and the aging analysis which is based on the invoice date of the trade receivables is as follows:

	30 June 2019 <i>Rmb'000</i>	31 December 2018 <i>Rmb'000</i>
0 to 3 months	67,423	94,340
4 to 6 months	5,727	4,972
Over 6 months	233	719
	<u>73,383</u>	<u>100,031</u>
Less: Provision for impairment of trade receivables	(1,349)	(1,359)
	<u>72,034</u>	<u>98,672</u>

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

15 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	30 June 2019 Rmb'000	31 December 2018 Rmb'000
Short-term bank deposits with original maturities of over 3 months	3,150	3,700
Cash and cash equivalents	93,394	81,398
Cash and bank balances	96,544	85,098
Pledged bank balances	4,012	2,774
Total	100,556	87,872
Denominated in:		
– Rmb	81,180	70,089
– USD	19,214	17,381
– Hong Kong Dollars	162	402
	100,556	87,872

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 Rmb 0.10 each	Nominal value Rmb'000
At 30 June 2019 and 31 December 2018	529,700,000	52,970

As at 30 June 2019 and 31 December 2018, 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 <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Exchange reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
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	<u>102,559</u>	<u>79,961</u>	<u>461</u>	<u>–</u>	<u>357,593</u>	<u>540,574</u>

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Exchange reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2019	102,559	87,233	461	1	386,649	576,903
Profit for the period	–	–	–	–	42,528	42,528
Other comprehensive income – currency translation difference						
– Group	–	–	–	2	–	2
Final dividend for the year ended 31 December 2018	–	–	–	–	(26,485)	(26,485)
At 30 June 2019	<u>102,559</u>	<u>87,233</u>	<u>461</u>	<u>3</u>	<u>402,692</u>	<u>592,948</u>

18 TRADE AND BILLS PAYABLES

	30 June 2019 <i>Rmb'000</i>	31 December 2018 <i>Rmb'000</i>
Trade payables	14,648	10,535
Bills payables	<u>13,374</u>	<u>9,246</u>
	<u>28,022</u>	<u>19,781</u>

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

	30 June 2019 <i>Rmb'000</i>	31 December 2018 <i>Rmb'000</i>
0 to 6 months	14,410	10,247
7 to 12 months	11	40
Over 12 months	<u>227</u>	<u>248</u>
	<u>14,648</u>	<u>10,535</u>

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

19 BANK BORROWINGS

The bank borrowings are denominated in:

	30 June 2019 <i>Rmb'000</i>	31 December 2018 <i>Rmb'000</i>
– RMB	500	1,000
– USD	–	38,311
	500	39,311

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

The outstanding bank borrowings as at 30 June 2019 were unsecured and were repayable within one year.

As at 30 June 2019, the average effective interest rate of the bank borrowings was approximately 4.8% (31 December 2018: 3.8%)

20 CONTINGENT LIABILITIES

As at 30 June 2019 and 31 December 2018, the Group did not have any material contingent liabilities.

21 COMMITMENTS

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

	30 June 2019 <i>Rmb'000</i>	31 December 2018 <i>Rmb'000</i>
Authorised but not contracted for	7,232	12,328

BUSINESS REVIEW AND OUTLOOK

Results for the Half Year

In the first half of 2019, the Group's production and operation was stable and the project construction progressed smoothly. In particular, the Group completed the transformation of the maleic anhydride production lines in the Changzhou headquarter and the improvement of operation and management achieved results and promoted the continuous growth of economic benefits. The Group's sales revenue for the six months ended 30 June 2019 was approximately Rmb297,891,000 representing a decrease of approximately 6% as compared with the corresponding period of last year; the net profit attributable to equity holders of the Company was approximately Rmb42,528,000. This is an increase of approximately 200% over the corresponding period in last year of Rmb14,197,000.

Business Review

After the completion of the transformation of the maleic anhydride production lines in the Changzhou headquarter in the first half of 2018, the Group has resumed stable production after subsequent adjustment. By using butane instead of benzene as a raw material to manufacture maleic anhydride, the Group has reduced production costs from the source and has gained substantial energy efficiency from the by-product, steam, which has resulted in a significant increase in the Group's economic efficiency in the first half of 2019 compared to the corresponding period in last year.

In order to further reduce costs and increase efficiency and increase labour productivity, the Group continued to implement automation and intelligent transformation on the production lines, and has plans to upgrade equipment and facilities in the plant. At the same time, the Group implemented refined management in various production departments, and through various methods such as labour competition and rationalization proposals, targeted improvement of technology processes and improvement of product quality.

In the first half of 2019, the selling price of the Group's major products increased compared with the corresponding period last year. The management of the Group, through judgment of the market, pre-arranged and led the sales team to sign as many sales orders as possible. At the same time, the prices of major raw materials and auxiliary materials in the first half of the year were stable, which jointly promoted the Group's economic benefits in the current period.

The Group mainly focus on safety production and it is the prerequisite for the Group's sustainability and development. In the first half of 2019, the Group's safety department focused on the implementation of basic safety diagnosis, recruited qualified third parties to complete basic safety diagnosis of production facilities in the plant area, and submitted relevant diagnostic reports and improvement plans. In this regard, the Group's safety department actively execute the improvement plans.

In line with the more and more stringent environmental protection requirements, the Group has continuously adopted new techniques, new technologies and new equipment to improve the conversion rate of raw materials and yield, reduce the emission of three wastes from the source, and achieve both economic and social benefits. In the first half of the year, the Group's factory in Changzhou increased its investment in optimising unorganized exhaust emissions and improving wastewater treatment capacity, ensured that the Group has the ability to align environmental protection with production capability.

Research and development

1. *Pharmaceutical Adjuvant Project*

To extend its product chain and enhance added value of the products, the Group carried out the development project of pharmaceutical adjuvant. The product breadth has extended from food additives to pharmaceutical adjuvant. In the first half of 2019, the Group increased the application of DL-tartaric acid and L-potassium bitartrate in pharmaceutical adjuvant. Pharmaceutical adjuvant is the Group's focus in the medium to long run. The Group will continue to promote the research and development of pharmaceutical adjuvants, increase product categories, increase sales efforts, to achieve economic benefits.

2. *Active Pharmaceutical Ingredient (API) Project*

The country's pharmaceutical policy of deepening drug trial reform and strengthening drug supervision has brought a broad market space for API. Since the beginning of this year, the Group has promoted the research and development project of the raw material, sodium pantothenate. At present, the preparation work of the production site is underway, and the Group is preparing for the production site inspection of the Provincial Food and Drug Administration and GMP certification. At the same time, the Group will continue to carry out research and development of APIs for extended products. The API is an update and upgrade to the existing products of the Group and an effective way to increase the added value of the products. It will contribute to the long-term economic benefits of the Group in the future.

3. *New Vitamin PQQ Project*

In 2019, the Group's research and development team continued carrying out on the application and approval of using new vitamin PQQ as a new feed additive, medium trail production process research and application promotion. In the first half of the year, the Group submitted the application materials to the Ministry of Agriculture and received some feedbacks. It is now compiling the materials and will resubmit them as soon as possible. At the same time, the Group's research and development team is conducting tests on the critical points of the PQQ production process, with a view to improve its market competitiveness and accelerating the marketisation process.

Key projects

Changmao Biochemical Lianyungang Limited

In response to the national government's view on the importance of safety and environmental protection work, departments at all levels of the government continue to strengthen the policies on rectification of safety and environment protection. Since 2018, Jiangsu Province has continued to strengthen the rectification of the Lianyungang city and the "two-parks" areas, and stopped the production of all enterprises in Lianyungang industrial district for rectification. As Lianyungang Changmao was located in the affected area, its production was suspended. According to the regulatory requirements of Jiangsu Province and Lianyungang City, Lianyungang Changmao submitted the application for resumption of production in the second half of 2018, and accepted several on-site investigations by different departments of the governments at all levels and relevant security experts.

Lianyungang Changmao has strictly complied various policies and laws and regulations imposed by the government since established, carried out projects and plant construction in accordance with national regulations of safety and environmental protection. At present, Lianyungang Changmao is actively preparing for the related matters, and strengthens the implementation of safety and environmental protection construction to prepare for the resumption of production.

Outlook and Prospects

The Group adheres to the technology innovation for its development, promote its work based on customer needs. As a manufacturing enterprise, the Group always adheres to the principle of quality first, customer first, and relies on the advantages of the existing product chain and economic benefits to maintain its leading position in the industry. In the future development, the Group will continue to reduce costs and increase efficiency, expand the scale effect, continuously improve product quality, and firmly establish the image of Changmao brand, and will focus on the following aspects:

1. Accelerating technology innovation and promoting product upgrade

Technological innovation is the driving force for long-term development of enterprises. The Group will continue to increase investment in technological innovation to consolidate its existing resources and research team. By relying on technological advancement and speeding up the development of pharmaceutical adjuvant, highlighting its focus and increasing speed on developing APIs and other new products, it will build a more optimised product mix through cultivating new products which are safe, environmentally friendly and with strong competitiveness. Moreover, it will optimise its product structure, promote the upgrading and extension of existing product chains, and enhance the Group's competitiveness in the high-end product market, and to seek new profit source of the Group.

2. *Promoting the development of Lianyungang project and taking advantages of production scale*

Lianyungang Changmao is a major development project of the Group in coming years. The construction of the new production plant in Lianyungang aimed to enhance the Group's product chain and large-scale production advantages, provide strong support for the Group to strive for a place in the world's high-end food, pharmaceutical, new materials and other industries. After Lianyungang Changmao plant put into production, it will have more production cost advantages over the plant in Changzhou in the future, which will be the new force and become the Group's new profit centre.

3. *Enhancing safety and environmental protection standards and strengthening risk control*

With the laws and regulations related to safety and environmental protection becoming stricter, the elimination of small and medium-sized enterprises that failed to meet the standards were accelerated, leaving the industry to further concentrated on strong enterprises that complied with the relevant requirements. In terms of safety, the Group has strictly complied with various safety and environmental regulations and this has transformed into a competitive advantage. In the future, the Group will continue to strengthen safety control, pay attention to safety risks, improve the safety of the production environment, and eliminate safety accidents. In terms of environmental protection, the Group will continue to promote clean production and implement pollution prevention, endeavour to become an environment-friendly enterprise which saves energy and reduces emissions of wastes to reduce the impact of policy risks on production and operation, and create a resource-saving and environment-friendly enterprise to pave the way for the Group's sustainable development.

4. *Focusing on market expansion and develop markets of high-end customers*

The Group's sales team strived to develop markets of large customers and end-customers, be customer-oriented, meet customer needs through the improvement of product quality and service, enhance the reputation and add value to the Changmao brand, thereby to enhance the overall competitive advantages. In addition, the Group will also focus on the development of the international market, and enhance the international reputation and influence of Changmao through cooperation with new international customers in new products and technologies.

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. The Group will capitalise its research and production strengths to develop new functional food additives, pharmaceutical adjuvant, APIs and other new products to continue to extend its production chain, to become bigger and stronger with great results.

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 2019 in conjunction with the Directors.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019.

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 2018: 50%) of the Group's sales revenue while domestic sales in the PRC accounted for approximately 50% (for the six months ended 30 June 2018: 50%) of sales revenue.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the period, the Group used some forward contracts to hedge its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had total outstanding bank borrowings of approximately Rmb500,000 (as at 31 December 2018: Rmb39,311,000), all of which were repayable within one year. The outstanding bank borrowings as at 30 June 2019 were unsecured. The Company expects to renew the bank borrowings in due time if necessary. The interest rate of the outstanding bank loans is at fixed rate with an average of approximately 4.8% per annum (31 December 2018: 3.8%).

Except for the bank borrowings disclosed above, as at 30 June 2019 and 31 December 2018, 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 2019, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb7,232,000. 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 2019. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 12.3% and 13.8% as at 30 June 2019 and 31 December 2018 respectively. As at 30 June 2019, the Group's cash and cash equivalent amounted to Rmb93,394,000 (31 December 2018: Rmb81,398,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors, as at 30 June 2019, the Group employed a total of 460 employees (30 June 2018: 483 employees). Total amount of staff costs for the six months ended 30 June 2019 was approximately Rmb37,424,000 (for the six months ended 30 June 2018: Rmb32,983,000). The increase in staff cost was mainly due to salary increment and increase bonus to employees. 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 2022, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb 40 million (the "Target Profit"):

- (a) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;
- (b) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to the general manager and all the directors (other than Mr. Rui Xin Sheng and the independent non-executive directors) for the time being of the Company as a bonus for the relevant year; and
- (c) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Group as at 30 June 2019 and 31 December 2018.

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 2019.

CONTINGENT LIABILITIES

As at 30 June 2019 and 31 December 2018, the Group did not have any material contingent liabilities.

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 2019 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	Approximate	Number of	Approximate	Number of	Approximate
		Domestic	percentage	Foreign	percentage	H Shares	percentage
		Shares	in the	Shares	in the		in the
			Domestic		Foreign		H Shares
			Shares		Shares		
			(Note (k))		(Note (l))		(Note (m))
<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%	3,820,000	2.08%

		Number of	Approximate percentage shareholding in the	Number of	Approximate percentage shareholding in the	Number of	Approximate percentage shareholding in the
	Capacity	Domestic Shares	Domestic Shares (Note (k))	Foreign Shares	Foreign Shares (Note (l))	H Shares	H Shares (Note (m))
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	100%	135,000,000	39.30%	3,820,000	2.08%
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%	2,620,000	1.43%
Prof. Ouyang Ping Kai	(Note (f))	–	–	(Note (f))	(Note (f))	–	–
<i>Supervisor</i>							
Ms. Zhou Rui Juan	(Note (g))	–	–	(Note (g))	(Note (g))	–	–
Mr. Lu A Xing	(Note (h))	–	–	(Note (h))	(Note (h))	–	–
Mr. Zhang Jun Peng	(Note (i))	–	–	(Note (i))	(Note (i))	–	–
Prof. Jiang Yao Zhong	(Note (j))	–	–	(Note (j))	(Note (j))	–	–

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 3,768,000 H Shares are held by Bonus Sky Investments Limited and 52,000 H Shares are held by Ms. Leng Yi Xin, spouse of Mr. Rui. 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. Ms. Leng is also the registered holder and beneficial owner of 52,000 H 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) 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.

- (h) 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.
- (i) 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.
- (j) 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.
- (k) The percentage is calculated based on the 2,500,000 Domestic Shares in issue as at 30 June 2019.
- (l) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2019.
- (m) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2019.

Save as disclosed above, as at 30 June 2019, 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 2019, 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%	–	–
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%	–	–

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))
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.
- (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 2019.
- (f) The percentage is calculated based on the 183,700,000 H Shares in issue at 30 June 2019.

Save as disclosed above, as at 30 June 2019, 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.

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 2019.

SHARE CAPITAL STRUCTURE

As at 30 June 2019, 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
	<u>529,700,000</u>

Notes:

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

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

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

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

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;

- (c) disputes between holders of Domestic Shares and Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Foreign Shares and overseas listed foreign shares; and
- (d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Code provision A.6.7 of CG Code stipulates that independent non-executive directors and 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 10 May 2019 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 2019.

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 Company had also made specific enquiry of all Directors in relation to the compliance of the Model Code. The Company was not aware of any non-compliance with the Model Code for the six months ended 30 June 2019.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 8 August 2019

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, Ms. Wei Xin and Ms. Au Fung Lan are the independent non-executive Directors.

This announcement will be published on the “Listing Company Information” page of the Stock Exchange’s website at www.hkexnews.hk and on the Company’s website at www.cmbec.com.hk.

GLOSSARY

2018 Financial Statements	the Group's annual financial statements for the year ended 31 December 2018
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
New HKFRSs	New standards, amendments and interpretations of Hong Kong Financial Reporting Standards

PRC	The People's Republic of China
PQQ	Pyrroloquinoline 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