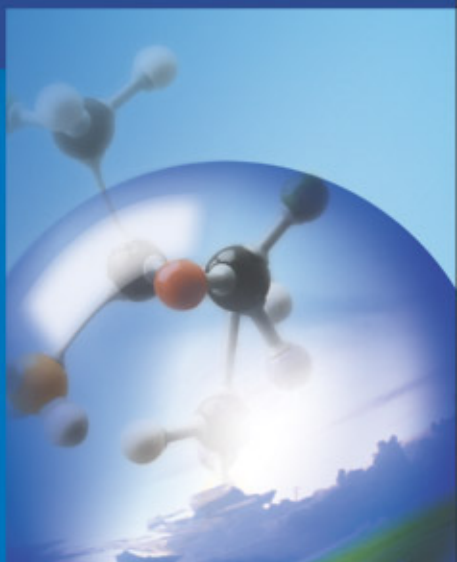




CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED
常茂生物化學工程股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)



2002 ● Interim Report

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Changmao Biochemical Engineering Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”) for the purposes of giving information with regard to Changmao Biochemical Engineering Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- H Shares of the Company successfully listed on GEM on 28 June 2002
- Achieved a turnover of approximately Rmb49,378,000 for the six months ended 30 June 2002
- Accomplished a net profit of approximately Rmb14,204,000 for the six months ended 30 June 2002
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Company principally engaged in the production and sales of organic acids, which currently included L-malic acid, DL-malic acid, fumaric acid, L(+)-tartaric acid, L-aspartic acid and maleic acid.

The Company's gross profit margin for the six months ended 30 June 2002 increased from 40% to 45% as compared to the corresponding period in 2001. The increase is mainly because the cost of major raw materials, crude maleic anhydride and maleic anhydride, has decreased as compared to the corresponding period in 2001. At the same time, the Company continuously emphasis on the improvement in the production technologies to lower the production costs. In addition, the Company has received orders from customers that required specific standards on the products. These tailored made products are of higher quality and generated higher than average gross profit margin.

Turnover for the six months ended 30 June 2002 decreased by 21% to Rmb49,378,000 as compared to the corresponding period in 2001. The decrease was due mainly to reduction of selling price of L(+)-tartaric acid, one of the principal products of the Company, In the first half of 2002, the selling price of L(+)-tartaric acid in the international market had decreased by approximately 30% as compared to the lowest price level in last year. The Directors believe that the fluctuation for market price of L(+)-tartaric acid was due to market competition and it is expected that the price level of L(+)-tartaric acid will be rebounded in the second half of 2002. As such, the Directors' strategy was to improve the Company's own production technology in order to reduce the production costs of L(+)-tartaric acid. Even currently where the market price of L(+)-tartaric acid is the lowest in recent years, L(+)-tartaric acid is still profitable to the Company and on this basis, the Company selected not to dispose of all its existing stock of L(+)-tartaric acid in the market at or below the current price level in order to maintain the profitability of L(+)-tartaric acid. The Company has actively promoted its products, including participate in trade fairs in the PRC and the overseas and putting more efforts in advertising promotion. As a result, the sales of other products in the first half of 2002 has increased by 10% as compared to the corresponding period in last year.

With the Company's continuous growth and the continuous increase in production volume, the Company's staff at 30 June 2002 has increased by 13% as compared to that as at 30 June 2001. In addition, the Company has placed great emphasis on the research and development and therefore the research expense has increased in 2002. As a result of the above, selling and administrative expenses for the six months ended 30 June 2002 increased by approximately Rmb2 million as compared to corresponding period in 2001.

Segmental information

Most of the Company's products are exported to countries in Western Europe, Australia and Japan. During the six months ended 30 June 2002, direct export sales (excluding sales through import-export agents in the People's Republic of China (the "PRC")), accounted for approximately 50% of the Company's turnover while sales through import-export agents in the PRC accounted for approximately 26% of the Company's turnover. The percentage of export sales in first half of 2002 remained at a similar level as compared to the corresponding period in 2001.

Prospects

As stated in the prospectus of the Company issued on 20 June 2002 (the "Prospectus"), a substantial portion of the net proceeds will be applied in the setting up of new production lines. In this connection, the Company is in the progress of setting up a new production line for fumaric acid with an annual production capacity of 10,000 tonnes. Fumaric acid is an important product of the Company because, beside being an end product, fumaric acid can be used to derive L-aspartic acid and L-malic acid. The proposed production line of fumaric acid can also be used to produce crude maleic anhydride, the principal raw material used for the production of the Company's products. The fumaric acid production line is expected to be completed by the end of 2002. Upon its completion, the Company's production cost will be further reduced accompanying with a further enhancing product quality. To sum up, the Directors consider that the new production line of fumaric acid will strengthen the profitability and competitiveness of the Company's products, in particular the Company's market share in fumaric acid will increase significantly making the Company the potential largest manufacturer of fumaric acid in the PRC.

In respect of product and technology development, the Company has recently successfully completed the research on production technologies of L-homo-phenylalanine, L-carnitine, D-malic acid and S-3-hydroxy- γ -butyrolactone. These products are currently under medium-trial production and setting up of the production lines for these products are underway, and is expected to complete in the second half of 2002. The Directors consider that these new chiral products have high commercial potential and the launching of these new products into the market will bring handsome return to the Company.

In respect of marketing activities, the Company will put more efforts on promoting its new and old products, actively participate in relevant products trade fairs in the PRC and overseas, strengthen the connection between the Company and the market and to expand the sales force in order to establish effective sales networks, so that the Company's products will be continuously sold to all areas in the world.

The Company is confident in its future performance as the Company is currently well positioned to capture the lucrative business opportunities in the food additives and pharmaceutical intermediaries market.

Liquidity and financial resources

As at 30 June 2002, the Company had total outstanding bank borrowings of Rmb25,800,000 (as at 31 December 2001: Rmb15,800,000) comprising unsecured short-term bank borrowings of Rmb15,000,000 (as at 31 December 2001: Rmb5,000,000) and unsecured long term bank loans of Rmb10,800,000 (as at 31 December 2001: Rmb10,800,000). The long term bank loans are repayable after one year but within two years. The interest rates of the loans ranged from 5.04% to 5.85% per annum.

Save as the bank borrowings disclosed above, as at 30 June 2002 and 31 December 2001, the Company did not have any other committed borrowing facilities.

As at 30 June 2002, the Company had capital commitments for land, property, plant and equipment amounting to approximately Rmb118 million, of which approximately Rmb3 million has been contracted for. The remaining balance of RMB115 million are authorised but not contracted for. These capital commitments are mainly related to the expansion of existing production lines or establishment of new production lines for the

Company's proposed new products from 1 July 2002 to 31 December 2004 as set out in the section headed "Statement of business objectives" in the Prospectus. The Company intended to finance the capital commitments from the net proceeds from the placing of the H shares, cashflow generated from the Company's operations and/or bank financing.

As at 30 June 2002, the shareholders' fund was approximately Rmb172,155,000 (as at 31 December 2001: Rmb88,151,000). As at 30 June 2002, the Company had a bank balances and cash of Rmb21,237,000 (as at 31 December 2001: Rmb23,838,000). The listing proceeds of the Company was received by the Company in July 2002 and is placed with a bank in the PRC. As at 30 June 2002, the Company had total current assets of approximately Rmb154,781,000 (as at 31 December 2001: Rmb64,865,000) and current liabilities of approximately Rmb49,055,000 (as at 31 December 2001: Rmb27,985,000).

The Company did not have any charge on its assets as at 30 June 2002 and 31 December 2001. The gearing ratio, based on total liabilities to total assets, was 29% and 36% as at 30 June 2002 and 31 December 2001 respectively. The improvement in the gearing ratio was attributed by the issuance of H Shares of the Company in June 2002, which improved the capital structure of the Company.

Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

Capital structure of the Company

The H shares of the Company were listed on the GEM of the Stock Exchange on 28 June 2002. There has been no change in the capital structure of the Company since that date.

The Company generally finance its operations with equity fundings and bank borrowings.

Excess cash held by the Company are generally placed at banks to earn interest income.

Comparison of business objectives with actual business progress

As the listing of the H Shares of the Company on the GEM was on 28 June 2002, there was no significant progress between the period from 28 June 2002 to 30 June 2002 regarding the implementation plans for the period ending 31 December 2002 as stated in the Prospectus. Accordingly, no comparison of business objectives with actual business progress has been performed. The Company is in the progress of implementing the business plan as stated in the Prospectus and believe that the implementation will be in accordance to the time frame.

Use of proceeds

The placement of shares of the Company in the initial public offering has raised a net proceeds of approximately HK\$79 million (approximately Rmb84 million). The Company did not utilise any part of the net proceeds during the period from the date of listing on 28 June 2002 upto the period end date of 30 June 2002. The net proceeds will be used in accordance to the plan as described in the Prospectus.

Significant investments

There is no significant investments held by the Company as at 30 June 2002 and 31 December 2001.

The Company has no plans for material investments or capital assets other than those set out in the Prospectus.

Changes in the composition of the Company during the interim period

There is no acquisitions and disposals of subsidiaries and affiliated companies by the Company during the six months ended 30 June 2002 and 2001.

Employees

Including the directors of the Company, as at 30 June 2002, the Company employed a total of 224 employees (2001: 198 employees). Total amount of staff costs for the six months ended 30 June 2002 was approximately Rmb4,935,000 (2001: Rmb2,859,000). The increase in staff cost was mainly due to the increase in staff number and salary increment. Employees are

remunerated in accordance with the nature of the job and also on individual merit. As set out in the paragraph headed "Incentive bonus scheme" under the section headed "Directors, supervisors, senior management and staff" in the Prospectus, the Company also formulated a staff incentive scheme under which for each of the three years ending 31 December 2004, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and minority interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb40 million, Rmb60 million and Rmb80 million respectively (each a "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 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 of directors at its discretion.

Details of share option schemes are shown below.

Share Options

The Company conditionally approved a share option scheme on 18 June 2001, pursuant to which the board may, at its discretion, grant share option to any eligible persons, including any employees of the Company to subscribe for shares in the Company, subject to a maximum of 10% of the Company's share in issue at the date of grant. The summary of the terms of the share option scheme has been set out in Appendix V of the Prospectus under the section headed "Share option scheme". However, employees who are PRC nationals shall not be entitled to exercise the option until the current restrictions on PRC nationals from subscribing for or dealing in H

Shares imposed by the relevant PRC law and regulations have been abolished or removed. As at 30 June 2002, no options have been granted by the Company to any employees or Directors.

Contingent Liabilities

As at 30 June 2002 and 31 December 2001, the Company does not have any material contingent liabilities.

Exposure to fluctuations in exchange rates and related hedges

The Company borrowings are primarily denominated in Rmb. Over 95% of the Company's domestic sales (including sales to the import-export agents established in the PRC) are denominated and settled in Rmb. The remaining domestic sales are denominated and settled in US dollars. All of the Company's direct export sales (excluding sales to the import-export agent established in the PRC) are denominated and settled in US dollars. In view of the relatively stable exchange rate of Rmb to US dollars, the Directors consider that the Company is not significantly exposed to any foreign currency risk.

Purchase, sale or redemption of shares

The H Shares of the Company commenced trading on the GEM on 28 June 2002. Subsequently to the listing of the H Shares on the GEM, the Company has not purchased, sold or redeemed any of its shares during the six months ended 30 June 2002.

Interests of directors and supervisors in the share capital of the Company and its associated corporations

At 30 June 2002, the interests of the Directors and supervisors (as if the requirements applicable to Directors under the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) has applied to the supervisors) in the shares of the Company (the “Shares”) and its associated corporations (within the meaning of the SDI Ordinance), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Director/Supervisor	Number of Shares				Total interests
	Corporate interests	Personal interests	Family interests	Other interests	
Director					
Mr. Rui Xin Sheng	137,500,000 (Note (a))	—	—	(Note (a))	137,500,000
Ms. Leng Yi Xin	(Note (b))	—	—	—	((Note (b))
Mr. Jiang Jun Jie	67,500,000 (Note (c))	—	—	—	67,500,000
Mr. Zeng Xian Biao	(Note (d))	—	—	—	(Note (d))
Mr. Yu Xiao Ping	66,000,000 (Note (e))	—	—	—	66,000,000
Mr. Zhu Lai Fa	(Note (f))	—	—	—	(Note (f))
Prof. Ouyang Ping Kai	(Note (g))	—	—	—	(Note (g))
Prof. Yang Sheng Li	(Note (h))	—	—	—	(Note (h))
Supervisor					
Ms. Zhou Rui Juan	(Note (i))	—	—	—	(Note (i))
Mr. Pan Chun	(Note (j))	—	—	—	(Note (j))
Mr. Lu He Xing	(Note (k))	—	—	—	(Note (k))
Prof. Gu Jian Xin	(Note (l))	—	—	—	(Notes (l))

Notes:

- (a) Among the 137,500,000 Shares, 135,000,000 Shares are held by Hong Kong Xinsheng Pioneer Investment Company Limited (“HK Xinsheng Ltd”) and the remaining 2,500,000 Shares are held by 常州新生化科技開發有限公司 (“Changzhou Xinsheng”). The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each. 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. 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 of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. 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 Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (a) above.
- (c) Mr. Jiang is the registered holder and beneficial owner of 2,600,000 shares of HK\$0.01 each in Hong Kong Bio-chemical Advanced Technology Investment Company Limited ("HK Biochem Ltd"), which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Jiang is also the registered holder and beneficial owner of 15,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (d) Mr. Zeng is the registered holder and beneficial owner of 880,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited ("Jomo") which is the registered holder and beneficial owner of 66,000,000 Shares.
- (f) Mr. Zhu is the registered holder and beneficial owner of 250,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (g) Prof. Ouyang is the registered holder and beneficial owner of 4,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.

- (h) Prof. Yang is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (i) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (j) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. He is also the registered holder and beneficial owner of 200,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (k) Mr. Lu is the registered holder and beneficial owner of 220,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (l) Prof. Gu Jian Xin is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd., which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.

Other than the share option scheme described above, at no time during the period was the Company, any of its holding companies a party to any arrangement to enable the directors or supervisors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial interest in the share capital of the Company

The company has been notified of the following interest in the Company's issued shares at 30 June 2002 amounting to 10% or more of the ordinary shares in issue:

Shareholder	Number of Shares	Percentage shareholdings (Note (b))
Changzhou Shuguang Chemical Factory (常州曙光化工廠)	154,000,000	22.5%
Hong Kong Xinsheng Pioneer Investment Company Limited	135,000,000	19.7%
Mr. Rui Xin Sheng (Note (a))	137,500,000	20.1%

Notes:

- (a) Please refer to note (a) under the paragraph headed "Interest of directors and supervisors in the share capital of the Company and its associates corporations" for details of Mr. Rui Xin Sheng's interest in the share capital of the Company.
- (b) Based on a total of 683,700,000 shares of the Company in issue. Please also refer to the paragraph headed "Share capital structure" below.

Directors' interest in competing business

None of the Directors, supervisors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes with the business of the Company.

Share capital structure

At 30 June 2002, the issued Shares of the Company are as follows:

	No. of shares issued
H Shares (Note (a))	183,700,000
Domestic Shares (Note (b))	219,000,000
Promoter Foreign Shares (Note (c))	281,000,000
	<hr/>
	683,700,000

Notes:

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

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 Promoter 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 Promoter 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 Promoter 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 Promoter 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 Promoter 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 Promoter 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 Promoter 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 Promoter 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 the board practices and procedures of the GEM Listing Rules

The Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules at any time during the six months ended 30 June 2002.

Sponsor's Interest

As at 30 June 2002, Propser Ideal Limited, an associate of the Company's sponsor, Tai Fook Capital Limited ("Tai Fook"), held 12,500,000 Promoter Foreign Shares of the Company.

Pursuant to the agreement dated 18 June 2002 entered into between the Company and Tai Fook, Tai Fook is entitled to receive a fee for acting as the retained sponsor of the Company for the period from 28 June 2002 to 31 December 2004.

Save as disclosed above, Tai Fook (including its directors and employees) and its associates, do not have any interest in the Company as at 30 June 2002.

Audit Committee

The Company has established an audit committee in June 2002 with written terms of reference based on the guideline recommended by the Hong Kong Society of Accountants. The audit committee comprised two independent non-executive directors, namely, Prof. Ouyang Ping Kai and Prof. Yang Sheng Li.

The primary duties of the audit committee are to review the Company's annual report and accounts, half year reports and quarterly reports and to provide advice and comments thereon to the board of directors.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2002 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 14 August 2002

CONDENSED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2002

	Note	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Turnover	2	25,079	30,694	49,378	62,485
Cost of sales		(13,432)	(19,657)	(27,294)	(37,547)
Gross profit		11,647	11,037	22,084	24,938
Other revenues		56	71	104	161
Selling expenses		(943)	(882)	(1,763)	(1,700)
Administrative expenses		(1,965)	(612)	(3,702)	(1,635)
Other operating expenses		(11)	(25)	(16)	(51)
Operating profit	3	8,784	9,589	16,707	21,713
Finance costs		(367)	(318)	(566)	(560)
Profit before taxation		8,417	9,271	16,141	21,153
Taxation	5	(1,010)	(1,115)	(1,937)	(2,531)
Profit attributable to shareholders		7,407	8,156	14,204	18,622
Distributions to shareholders	6	7,360	—	7,360	17,602
Basic earnings per share	7	Rmb0.015	Rmb0.031	Rmb0.028	Rmb0.078

CONDENSED BALANCE SHEET

As at 30 June 2002 and 31 December 2001

	Note	Unaudited 30 June 2002 Rmb'000	Audited 31 December 2001 Rmb'000
Non-current assets			
Acid patent	8	9,278	9,611
Fixed assets	9	46,601	33,091
Construction in progress	9	33,085	31,104
Current assets			
Inventories		18,106	11,961
Accounts receivable	10	13,080	10,712
Other receivables and prepayments	11	102,358	18,354
Bank balances and cash		21,237	23,838
		154,781	64,865
Current liabilities			
Due to shareholders	12	6,977	6,244
Accounts payable	13	1,448	2,954
Other payables and accrued charges		15,185	10,733
Dividend payable		9,493	2,133
Taxation		952	921
Short-term bank loan — unsecured		15,000	5,000
		49,055	27,985
Net current assets			
		105,726	36,880
Total assets less current liabilities			
		194,690	110,686

	Note	Unaudited 30 June 2002 Rmb'000	Audited 31 December 2001 Rmb'000
Financed by:			
Share capital	14	68,370	50,000
Reserves		103,785	38,151
		172,155	88,151
Non-current liabilities			
Long-term portion of amount due to shareholders	12	11,735	11,735
Long-term bank loans	15	10,800	10,800
		194,690	110,686

CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	Unaudited Six months ended 30 June	
	2002 Rmb'000	2001 Rmb'000
Net cash inflow from operating activities	7,530	6,454
Net cash outflow from returns on investments and servicing of finance	(7,108)	(1,583)
Net cash outflow from investing activities	(13,023)	(16,054)
Net cash outflow before financing activities	(12,601)	(11,183)
Financing activities		
Proceeds from issue of promoter shares	—	39,750
New bank loans	10,000	10,000
Net cash inflow from financing activities	10,000	49,750
(Decrease)/increase in cash and cash equivalents	(2,601)	38,567
Cash and cash equivalents at 1 January	23,838	12,807
Cash and cash equivalents at 30 June	21,237	51,374
Analysis of balance of cash and cash equivalents		
Bank balances and cash	21,237	51,374

Note: The Company has issued 183,700,000 H shares which have been listed on the GEM of the Stock Exchange since 28 June 2002. The net proceeds from the listing of H shares were credited to the Company's bank account in July 2002.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

	Share capital Rmb'000	Share premium Rmb'000	Capital reserve Rmb'000	General reserve Rmb'000	Enterprise Development reserve Rmb'000	Statutory surplus fund Rmb'000	Statutory welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2001	4,601	—	234	251	502	—	—	21,683	27,271
Issue of shares (see notes 6 (a) & (b))	45,399	21,750	—	—	—	—	—	—	67,149
Dividend declared for the year ended 31 December 2000	—	—	—	—	—	—	—	(4,412)	(4,412)
Capitalisation as share capital pursuant to the Promoters' Agreement (see notes 6 (a) & (b))	—	—	(234)	(566)	(1,132)	—	—	(15,467)	(17,399)
Distribution of the Excess (see notes 6 (a) to (c))	—	—	—	—	—	—	—	(17,602)	(17,602)
Profit for the year	—	—	—	—	—	—	—	33,144	33,144
Transfer from profit and loss account	—	—	—	315	630	—	—	(945)	—
At 1 January 2002	50,000	21,750	—	—	—	—	—	16,401	88,151
Issue of H shares	18,370	88,808	—	—	—	—	—	—	107,178
Share issue expenses	—	(23,418)	—	—	—	—	—	—	(23,418)
Profit for the period	—	—	—	—	—	—	—	14,204	14,204
Final dividend for the year ended 31 December 2001, declared on 10 March 2002	—	—	—	—	—	—	—	(6,600)	(6,600)
Special dividend declared on 9 June 2002 (see note 6)	—	—	—	—	—	—	—	(7,360)	(7,360)
Transfer from profit and loss account	—	—	—	—	—	1,637	818	(2,455)	—
At 30 June 2002	68,370	87,140	—	—	—	1,637	818	14,190	172,155

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

The Company was first established as a sino-foreign equity joint venture enterprise in the PRC on 3 December 1992. The Company underwent a reorganisation in 2001 (the “Reorganisation”), under which, the promoters of the Company entered into an agreement dated 15 April 2001 for the purpose of, among other matters, regulating their rights and obligations as promoters of the Company after the Reorganisation. Pursuant to a business licence issued by the State Administration for Industry and Commerce of the PRC dated 18 June 2001, the Reorganisation was completed and the economic nature of the Company was converted into a sino-foreign joint stock limited company on that date. Further information in respect of the Reorganisation is set out in the paragraph headed “Reorganisation, shareholding and corporate structure” under the section headed “Business” in the Prospectus.

These unaudited condensed interim accounts are prepared in accordance with the requirements of Chapter 18 of the GEM Listing Rules and are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed interim accounts should be read in conjunction with the 2001 annual financial statements in the Accountants’ Report included in the Prospectus.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the financial statements for the year ended 31 December 2001 in the Accountants’ Report included in the Prospectus, except as described below:

In the current period, the Company has adopted, for the first time, a number of revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by HKSA as follows:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements

Adoption of these SSAPs has led to a number of changes in the Company's accounting policies. In addition, the revised SSAPs have introduced revised disclosure requirements which have been adopted in these condensed interim accounts. Comparative amounts and disclosure for the prior period have been restated in order to achieve a consistent presentation. However, none of the amendments outlined above has affected the results for the current or prior periods.

2. Segment information

The Company is principally engaged in the production and sale of organic acids.

An analysis of the Company's turnover for the period by geographical segment is as follows:

Turnover

	For the six months ended 30 June	
	2002 Rmb'000	2001 Rmb'000
The PRC	25,039	23,887
Europe	11,726	20,003
Asia Pacific (Note)	12,120	18,545
Others	493	50
	49,378	62,485

Note: The Asia Pacific region includes Australia, Hong Kong, Japan and Korea.

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

No analysis of the segment information by business segment has been presented as the Company has been engaged in the production and sale of organic acids only. All of its assets and capital expenditure for the period were located or utilised in the PRC.

3. Operating profit

Operating profit is stated after charging the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Depreciation	718	500	1,417	1,010
Amortisation of acid patent	166	—	333	56

4. Staff costs

	For the three months ended 30 June		For the six months ended 30 June	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Salaries, wages and related welfare (including Directors' emoluments)	2,295	1,014	4,147	2,329
Society security costs	216	128	382	266
Contribution to defined contribution retirement scheme (including Directors)	207	133	406	264
	2,718	1,275	4,935	2,859

5. Taxation

Enterprise income tax

Enterprise income tax ("EIT") is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being located in the New Technology Industrial Development Experimental Zone in Changzhou and

registered as a New and High Technology Enterprise, is entitled to a reduced EIT rate of 24%. In addition, the Company is also entitled to a tax holiday of two years for full exemption from EIT starting from 1997, followed by a 50% reduction from the third to fifth year. The preferential tax treatment referred to above was expired by the end of 2001. However, in May 2001, the Company obtained 外商投資先進技術企業確認證書 (The Certificate for Foreign Investment and Advanced Technology Enterprise) from 江蘇省對外貿易經濟合作廳 (Jiangsu Foreign Trade Economic Co-operation Office), under which the Company is entitled to a reduced EIT rate of 12% until the financial year ending 31 December 2004.

As at 30 June 2002, there was no significant unprovided deferred taxation.

Value-added tax ("VAT")

Under the "Regulations of the PRC on Value-added Tax", the Company is subject to output VAT levied at the rate of 17% on the sales or transfer of tangible goods, provision of processing, repairs and replacement services. Input VAT paid on purchases can be used to offset the output VAT levied on sales to determine the net VAT payable.

6. Distributions to shareholders

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Special dividend, declared on 9 June 2002, of Rmb0.01472 per ordinary share	7,360	—
Other distributions (Note (a) to (c) below)	—	17,602
	7,360	17,602

Notes:

- (a) Pursuant to the agreement (the "Promoters' Agreement") dated 15 April 2001 entered into by Changzhou Shuguang Chemical Factory ("Shuguang Factory") and Jomo (both were the then shareholders of the Company), and HK Xinsheng Ltd, HK Biochem Ltd, 上海科技投資股份有限公司 ("Shanghai Technology Investment"), 上海博聯科技投資有限公司 ("Shanghai Bolian Investment"), Propser Ideal Limited and Changzhou Xinsheng, the economic nature of the Company was changed from a sino-foreign joint venture into a sino-foreign joint stock limited company with limited liability with effect from 18 June 2001.
- (b) Under the Promoters' Agreement, the Company issued 50,000,000 shares of Rmb1.00 each, being the initial registered capital of the Company as a sino-foreign joint stock limited company with limited liability on 18 June 2001, as follows:
- (i) 22,000,000 shares to Shuguang Factory and Jomo in respect of their equity interests in the Company in return for the net tangible assets of the Company totaling approximately Rmb22,000,000 which is calculated with reference to the net tangible assets of the Company as at 31 October 2000;
 - (ii) 18,000,000 shares in consideration for cash totaling Rmb39,750,000 paid by HK Xinsheng Ltd, HK Biochem Ltd, Shanghai Technology Investment, Shanghai Bolian Investment, Propser Ideal Limited and Changzhou Xinsheng; and
 - (iii) 10,000,000 shares in consideration for propriety technology valued at Rmb10,000,000 (the "Acid Patent"), which is determined with reference to a valuation report prepared by an independent appraiser, being transferred to the Company from HK Xinsheng Ltd.
- (c) The Promoters' Agreement and the reorganization agreement dated 9 June 2002, which was entered into by the Company and its then shareholders, provides that if the net assets of the Company as at the close of business on 17 June 2001 determined in accordance with the accounting principles and financial regulations applicable to PRC foreign investment enterprises exceed the net asset value of the Company as at the close of business on 31 October 2000, the excess amount shall be payable by the Company to Shuguang Factory and Jomo. As the net asset value of the Company as at 17 June 2001 exceed the net asset value of the Company as at 31 October 2000 by approximately Rmb17,602,000 (the "Excess"), the Excess has been accounted for as distributions by the Company and payable to Shuguang Factory and Jomo (See note 12).

7. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the three months ended 30 June 2002 is based on the profit attributable to shareholders of Rmb7,407,000 and the weighted average number of 506,056,044 ordinary shares.

The calculation of basic earnings per share for the six months ended 30 June 2002 is based on the profit attributable to shareholders of Rmb14,204,000 and the weighted average number of 503,044,751 ordinary shares.

The calculation of basic earnings per share for the three months ended 30 June 2001 is based on the Company's profit attributable to shareholders of Rmb8,156,000 and the weighted average number of 260,000,000 ordinary shares deemed to be in issue for the three months ended 30 June 2001 on the assumptions that the Reorganisation and the share sub-division (see note 14) had been completed on 1 January 2001.

The calculation of basic earnings per share for the six months ended 30 June 2001 is based on the Company's profit attributable to shareholders of Rmb18,622,000 and the weighted average number of 240,110,497 ordinary shares deemed to be in issue for the six months ended 30 June 2001 on the assumptions that the Reorganisation and the share sub-division (see note 14) had been completed on 1 January 2001.

(b) *Diluted earnings per share*

Diluted earnings per share for the six months ended 30 June 2002 and 2001 is not presented because there were no potential dilutive ordinary shares in issue during the period.

8. Acid patent

	Rmb'000
Net book value as at 1 January 2002	9,611
Amortisation	(333)
	<hr/>
Net book value as at 30 June 2002	9,278
	<hr/>

9. Capital expenditure

	Fixed assets Rmb'000	Construction in progress Rmb'000
Net book value as at 1 January 2002	33,091	31,104
Transfer from construction in progress to fixed assets	14,668	(14,668)
Additions	259	16,649
Depreciation	(1,417)	—
	<hr/>	<hr/>
Net book value as at 30 June 2002	46,601	33,085
	<hr/>	<hr/>

10. Accounts receivable

The credit terms of accounts receivable range from cash on delivery to 90 days and the aging analysis of the accounts receivable is as follows:

	30 June 2002 Rmb'000	31 December 2001 Rmb'000
0 to 3 months	12,185	10,401
4 to 6 months	703	301
Over 6 months	192	10
	<hr/>	<hr/>
	13,080	10,712
	<hr/>	<hr/>

11. Other receivables and prepayments

Included in the other receivables and prepayments at 30 June 2002 is an amount of approximately Rmb95 million which represents the receivable from the Company's sponsor in respect of the net proceeds from the listing of the H shares of the Company. The amount has been received by the Company in July 2002.

12. Due to shareholders

Included in the amounts due to shareholders as at 30 June 2002 are the distributions of the Excess to Shuguang Factory and Jomo (see note 6 above) amounting to approximately Rmb12,321,000 and Rmb5,281,000 respectively which will be repaid by three equal instalments in 2002, 2003 and 2004 respectively. The remaining balance has no fixed terms of repayment. All the amounts due to shareholders are unsecured and interest-free.

13. Accounts payable

The aging analysis of accounts payable is as follows:

	30 June 2002 Rmb'000	31 December 2001 Rmb'000
0 to 6 months	1,437	2,929
7 to 12 months	—	13
13 to 24 months	—	—
Over 24 months	11	12
	1,448	2,954

14. Share capital

	Registered paid-up capital Rmb'000	Number of ordinary shares '000	Ordinary shares Rmb'000
<i>Authorised, issued and fully paid</i>			
At 1 January 2001			
— ordinary shares of Rmb1.00 each	4,601	—	—
Capitalisation as share capital pursuant to the Promoters' Agreement (see notes 6 (a) & (b))	(4,601)	4,601	4,601
Other shares issued (see notes 6 (a) & (b))	—	45,399	45,399
<hr/>			
At 1 January 2002			
— ordinary shares of Rmb1.00 each	—	50,000	50,000
Effect of sub-division of shares of Rmb1.00 each into 10 shares of Rmb0.10 each (note (a))	—	450,000	—
Issuance of H shares upon listing on the GEM of the Stock Exchange (note (b))	—	183,700	18,370
<hr/>			
At 30 June 2002			
— ordinary shares of Rmb0.10 each	—	683,700	68,370
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- (a) Pursuant to an approval granted by China Securities Regulatory Commission on 26 February 2002, the issued shares of the Company were sub-divided from 50,000,000 shares of Rmb1.00 each into 500,000,000 shares of Rmb0.10 each.
- (b) On 28 June 2002, 183,700,000 H shares with a par value of Rmb0.10 each were issued by way of placing at a price of HK\$0.55 per share for cash consideration of HK\$101,035,000 (equivalent to approximately RMB107,178,000).

15. Long-term bank loans

The long-term bank loans are unsecured and is repayable after one year but within two years.

16. Contingent liabilities

As at 30 June 2002 and 31 December 2001, the Company did not have material contingent liabilities.

17. Commitments

(a) Capital commitments for the land, property, plant and equipment are as follows:

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000
Contracted but not provided for	2,970	8,698
Authorised but not contracted for	114,968	5,858
	117,938	14,556

(b) Commitments under operating leases

At 30 June 2002, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000
Not later than one year	633	60
Later than one year and not later than five years	888	240
Later than five years	1,076	2,640
	2,597	2,940

18. Related party transactions

Apart from those disclosed under note 6, 8 and 12, the Company entered into the following material transactions with a shareholder, Shuguang Factory, during the six months ended 30 June 2002:

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory (note (b))	12,900	18,665
Electricity charged by Shuguang Factory (note (c))	935	1,102
Rental paid to Shuguang Factory	62	30
Raw water supply fee charged by Shuguang Factory (note (c))	30	—
Water purifying service fee received/receivable from Shuguang Factory (note (c))	15	—

Notes:

- (a) In the opinion of the Directors, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of underlying agreements and/or the invoices issued by respective parties.
- (b) As advised by the Directors, the purchase price was determined with reference to the then prevailing market prices and the prices charged by Shuguang Factory to third parties.
- (c) As advised by the Directors, the electricity charge, the raw water supply fee charged by Shuguang Factory and water purifying service fee received/receivable from Shuguang Factory are made on a cost reimbursement basis.