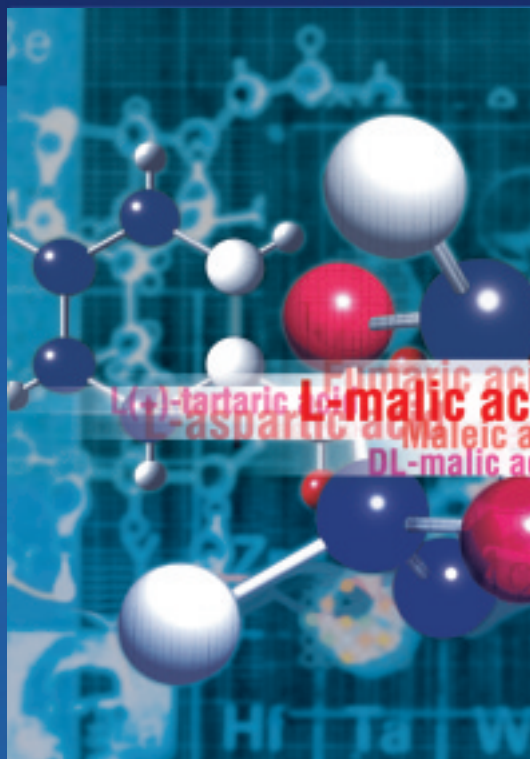




CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED 常茂生物化學工程股份有限公司

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



2002 THIRD QUARTERLY 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.

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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

- Unaudited turnover of approximately Rmb69,838,000 for the nine months ended 30 September 2002
- Unaudited net profit of approximately Rmb16,240,000 for the nine months ended 30 September 2002
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2002
- The Company plans to launch more chiral products with high commercial potential in the fourth quarter of 2002 and early 2003



RESULTS

The board of Directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is pleased to present the unaudited results of the Company for the nine months ended 30 September 2002 together with the unaudited comparative figures for the corresponding period in 2001 as follows:

	Note	Unaudited For the three months ended 30 September 2002		Unaudited For the nine months ended 30 September 2001	
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	2	20,460	28,058	69,838	90,543
Cost of sales		(14,771)	(17,811)	(42,065)	(55,358)
Gross profit		5,689	10,247	27,773	35,185
Other revenues		49	304	153	465
Selling expenses		(1,064)	(685)	(2,827)	(2,385)
Administrative expenses		(2,104)	(1,397)	(5,806)	(3,032)
Other operating income/(expenses)		11	(20)	(5)	(71)
Operating profit		2,581	8,449	19,288	30,162
Finance costs		(268)	-	(834)	(560)
Profit before taxation		2,313	8,449	18,454	29,602
Taxation	3	(277)	(1,027)	(2,214)	(3,558)
Profit attributable to shareholders		2,036	7,422	16,240	26,044
Distributions to shareholders	4	-	-	7,360	17,602
Basic earnings per share	5	Rmb0.003	Rmb0.015	Rmb0.029	Rmb0.079

Notes:

1. Basis of preparation and accounting policies

The Company was first established as a sino-foreign equity joint venture enterprise in the People's Republic of China (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 of the Company dated 20 June 2002 (the "Prospectus").

The unaudited results of the Company have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. These unaudited results also comply with the applicable disclosure provisions of the GEM Listing Rules.

2. Turnover

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

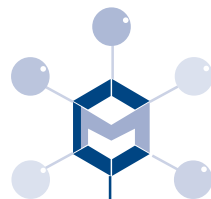
Turnover represents sales of organic acids for the period.

3. 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 September 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.

4. Distributions to shareholders

	For the three months ended 30 September		For the nine months ended 30 September	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 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

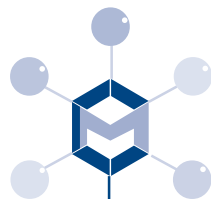
Notes:

- (a) As part of the Reorganisation, the promoters' agreement dated 15 April 2001 (the "Promoters' Agreement") was entered into by Changzhou Shuguang Chemical Factory ("Shuguang Factory") and Jomo Limited ("Jomo") (both were the then shareholders of the Company), and Hong Kong Xinsheng Pioneer Investment Company Limited ("HK Xinsheng Ltd"), Hong Kong Bio-chemical Advanced Technology Investment Company Limited ("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 常州新生生化科技開發有限公司 ("Changzhou Xinsheng"). The Reorganisation completed when the economic nature of the Company was changed from a sino-foreign joint venture into a sino-foreign joint stock limited company pursuant to the business licence dated 18 June 2001 issued by the State Administration for Industry and Commerce of the PRC.



Changmao Biochemical Engineering Company Limited

- (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 of the Company 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 was calculated with reference to the net tangible assets of the Company as at 31 October 2000.
 - (ii) 18,000,000 shares of the Company 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 of the Company in consideration for propriety technology valued at Rmb10,000,000, which was 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 between the Company and its then shareholders, pursuant to which the agreements provided 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.



5. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 September 2002 is based on the profit attributable to shareholders of Rmb2,036,000 (three months ended 30 September 2001: Rmb7,422,000) and the weighted average number of 683,700,000 ordinary shares (three months ended 30 September 2001: 500,000,000 ordinary shares).

The calculation of basic earnings per share for the nine months ended 30 September 2002 is based on the profit attributable to shareholders of Rmb16,240,000 and the weighted average number of 563,924,908 ordinary shares.

The calculation of basic earnings per share for the nine months ended 30 September 2001 is based on the profit attributable to shareholders of Rmb26,044,000 and the weighted average number of 327,692,308 ordinary shares deemed to be in issue for the nine months ended 30 September 2001 on the assumptions that the Reorganisation and the share sub-division (note) had been completed on 1 January 2001.

(b) Diluted earnings per share

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

Note:

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.

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6. Reserves

	Share premium	Capital reserve	General reserve	Enterprise Development reserve	Statutory surplus fund	Statutory welfare fund	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2001	-	234	251	502	-	-	21,683	22,670
Premium on issue of promoter shares (see note 4(a) & (b))	21,750	-	-	-	-	-	-	21,750
Dividend declared for the year ended 31 December 2000	-	-	-	-	-	-	(4,412)	(4,412)
Capitalisation as share capital pursuant to the Promoters' Agreement (see note 4 (a) & (b))	-	(234)	(566)	(1,132)	-	-	(15,467)	(17,399)
Distribution of the Excess (see note 4 (a) to (c))	-	-	-	-	-	-	(17,602)	(17,602)
Profit for the period	-	-	-	-	-	-	26,044	26,044
Transfer from profit and loss account	-	-	315	630	-	-	(945)	-
At 30 September 2001	21,750	-	-	-	-	-	9,301	31,051
At 1 January 2002	21,750	-	-	-	-	-	16,401	38,151
Premium on issue of H shares	88,808	-	-	-	-	-	-	88,808
Share issue expenses	(23,418)	-	-	-	-	-	-	(23,418)
Profit for the period	-	-	-	-	-	-	16,240	16,240
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 (note 4)	-	-	-	-	-	-	(7,360)	(7,360)
Transfer from profit and loss account	-	-	-	-	1,637	818	(2,455)	-
At 30 September 2002	87,140	-	-	-	1,637	818	16,226	105,821



Business review

Turnover

The Company's turnover of Rmb69,838,000 for the nine months ended 30 September 2002 represented a 23% decrease compared to the corresponding period in 2001. This drop was mainly due to 55% decrease in sales of one of the Company's major products, L(+)-tartaric acid, over the same period the year before. Market competition among manufacturers of this product has intensified since mid-2001, resulting in the gradual decrease of the price of L(+)-tartaric acid. The average selling price per tonne has decreased by approximately 45% for the period under review compared to the corresponding period in 2001. Some of the manufacturers of L(+)-tartaric acid has ceased production in this year due to the intense competition. As a result, the market of L(+)-tartaric acid has been stabilised recently and the price has slightly rebounded.

The Company has taken advantage of this opportunity by offering a competitive price to capture a larger market share and thereby secured some new orders. The sales volume of L(+)-tartaric acid for the three months ended 30 September 2002 has increased by approximately 13.5% as compared to the same period in 2001. In addition, through continuously improving production technology, the Company has successfully reduced the average production cost per tonne of L(+)-tartaric acid by more than 10% compared to the corresponding period in 2001. Therefore, L(+)-tartaric acid remains a profitable product even though its market price has decreased significantly.

Sales of the other three major products of the Company – L-malic acid, DL-malic acid and L-aspartic acid – which combined for approximately 65% of total turnover, have increased by approximately 10% compared to the corresponding period of last year.

Gross profit margin

The gross profit margin for the nine months ended 30 September 2002 was 40%, similar to the 39% recorded for the same period in 2001.

Expenses

Due to the continuous growth of business and production volume, this year the Company recruited new staff and established a representative office in Hong Kong. Changmao has also focused on R&D, which led to increase in research expenses in 2002. In addition, the Company has devoted more effort to sales and promotion, by participating in technical conference and trade fairs devoted to relevant products as well as visiting customers both overseas and in the PRC. As a result, selling and administrative expense increased by approximately Rmb3,216,000 compared to the corresponding period in 2001.

Prospects

New products

In order to benefit from the opportunities that will be opened up by the "Restriction Guidelines for the Use of Formaldehyde in Textile Products" which will become effective on 1 January 2003, Changmao launched a new organic acid product, BTCA (butanetetracarboxylic acid) in October 2002. With BTCA, fabrics become permanent press and can retain their shape, making the product a perfect substitute for the traditional durable press finishing agent that contains formaldehyde, which is harmful to humans. The establishment of a separate production line in 2003 for the mass production of BTCA will be financed by cash generated from the Company's business operations in the amount of approximately Rmb3 million. Changmao's commitment to BTCA development is in line with its business strategy of developing more profitable organic acid products to create greater returns for shareholders.

In addition, the Company will launch new chiral products, including L-homo-phenylalanine, L-carnitine, D-malic acid and S-3-hydroxy- γ -butyrolactone, in the fourth quarter of 2002 and early 2003. The Directors believe that these new products, which are mainly used as pharmaceutical intermediaries and food additives, have great commercial potential and that their entry into the market will result in handsome returns.



New production line

The Company is establishing a new production line for fumaric acid, with an annual production capacity of 10,000 tonnes. Fumaric acid is important because, in addition to being an end product, it can be used as a raw material to derive L-asparic acid and L-malic acid. The production line will also be used to produce crude maleic anhydride, the principal raw material used in the manufacture of certain Changmao's products. Upon completion of this new production line, the Company's production cost will be further reduced with enhanced product quality. The production line, originally scheduled for completion by the end of 2002, has been delayed due to the greater-than-expected time required to obtain approval for construction of the production premises. The Company now expects the fumaric acid production line to be completed by early 2003. The Directors believe that this new production line will strengthen the profitability and competitiveness of the Company's products. In particular, the Company's market share of fumaric acid will increase significantly, making Changmao potentially the largest manufacturer of fumaric acid in the PRC.

Marketing and promotion

To extend its marketing activities, the Company has expanded its sales force. During the period under review, the Company participated in trade fairs and visited customers in France, the United States, Hong Kong, Australia and the PRC to promote its products. The Company is looking at possible cooperation opportunity with overseas distributors with a view to enhancing the effectiveness of its sales network. Through these increased marketing efforts, the Company expects that the sales volume of L(+)-tartaric acid will increase in the fourth quarter of this year and the new products will contribute to profit in the coming year.

To enhance further growth, the Company will continue its effort to improve and control costs and expenditure, while increasing productivity and enhancing product quality, as well as extending its marketing effort to strengthen the Company's position in the organic acid industry.

Dividend

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

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 September 2002, no options have been granted by the Company to any of its employees, Directors or supervisors of the Company.



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

At 30 September 2002, the interests of the Directors and the supervisors of the Company (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:

	Number of Shares				
	Corporate interests	Personal interest	Family interests	Other interests	Total interests
<i>Director</i>					
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. Zen 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))
<i>Supervisor</i>					
Ms. Zhou Rui Juan	(Note (i))	-	-	-	(Note (i))
Mr. Pun Chun	(Note (j))	-	-	-	(Note (j))
Mr. Lu He Xing	(Note (k))	-	-	-	(Note (k))
Prof. Gu Jian Xin	(Note (l))	-	-	-	(Note (l))

Notes:

- (a) Among the 137,500,000 Shares, 135,000,000 Shares are held by HK Xinsheng Ltd and the remaining 2,500,000 Shares are held by 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 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 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 or 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 as at 30 September 2002 amounting to 10% or more of the Shares in issue:

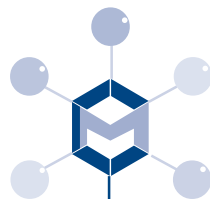
Shareholder	Number of Shares	Percentage of shareholdings <i>(Note (b))</i>
Changzhou Shuguang Chemical Factory (常州曙光化工廠)	154,000,000	22.5%
Hong Kong Xinsheng Pioneer Investment Company Limited	135,000,000	19.7%
Mr. Rui Xin Sheng <i>(Note (a))</i>	137,500,000	20.1%

Notes:

- (a) Please refer to note (a) under the paragraph headed "Interest of the Directors and supervisors of the Company in the share capital of the Company and its associated 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.



Purchase, sale or redemption of listed securities of the Company

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

Share capital structure

As at 30 September 2002, 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>)	219,000,000
Promoter Foreign Shares (<i>note (c)</i>)	281,000,000
	<hr/>
	683,700,000
	<hr/>

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 nine months ended 30 September 2002.

Sponsor's Interest

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

Audit Committee

The Company has established an audit committee in June 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises 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 third quarterly results for the nine months ended 30 September 2002 with the Directors.

By order of the Broad
Rui Xin Sheng
Chairman

The PRC, 11 November 2002