



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)



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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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 Rmb29,110,000 for the three months ended 31 March 2003
- Unaudited net profit of approximately Rmb4,662,000 for the three months ended 31 March 2003
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2003
- Construction of the fumaric acid production line, with an annual production capacity of 10,000 tonnes, was completed in April 2003 and is currently under trial operation
- Approval from the relevant tax authority has been obtained recently, as a result, the Enterprise Income Tax rate of the Company is reduced from 12% to 10%, which will take effect retrospectively from 1 January 2002 and remain effective until the financial year ending 31 December 2004



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 three months ended 31 March 2003 together with the unaudited comparative figures for the corresponding period in 2002 as follows:

		Unaudited For the three months ended 31 March	
		2003	2002
	Note	Rmb'000	Rmb'000
Turnover	2	29,110	24,299
Cost of sales		(20,123)	(14,030)
Gross profit		8,987	10,269
Other revenues		159	48
Selling expenses		(1,043)	(825)
Administrative expenses		(3,160)	(1,808)
Operating profit		4,943	7,684
Finance costs		(205)	(65)
Profit before taxation		4,738	7,619
Taxation	3	(76)	(914)
Profit attributable to shareholders		4,662	6,705
Basic earnings per share	4	Rmb0.007	Rmb0.013



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. For the purpose of preparing for listing of the Company's overseas listed foreign shares (the "H shares") on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM" and the "Stock Exchange" respectively), 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 economic nature of the Company was approved to be converted into a Sino-foreign joint stock limited company and the Reorganisation was completed. 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

The amount of taxation charged to the profit and loss account represents PRC Enterprise Income Tax ("EIT").

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. In June 2001, the Company has obtained 技術密集型知識密集型企業證書 (The Certificate of Technology-intensive and Knowledge-intensive Enterprise), with such qualification, the Company applied to and recently obtained from the relevant tax authority a tax rate reduction approval, under which the Company is entitled to a reduced EIT rate of 10% as compared to the existing EIT rate of 12%. The said approval will take effect retrospectively from 1 January 2002 and will remain effective until the financial year ending 31 December 2004. As a result, the taxation charged to the profit and loss account for the three months ended 31 March 2003 includes an over-provision of taxation for the year ended 31 December 2002 amounting to approximately Rmb400,000.

Hong Kong profits tax has not been provided for as the Company has no estimated assessable profits subject to Hong Kong profits tax.

No provision for deferred taxation has been made as the effect of all timing differences are not material.



4. Earnings per share

The calculation of basic earnings per share ("EPS") for the three months ended 31 March 2002 is based on the profit attributable to shareholders of Rmb6,705,000 and the weighted average number of 500,000,000 shares as if the share sub-division (Note) had been taken place at the beginning of the period.

The calculation of EPS for the three months ended 31 March 2003 is based on the profit attributable to shareholders of Rmb4,662,000 and the weighted average number of 683,700,000 shares.

No diluted EPS is presented because there were no potential dilutive shares in issue during the period.

Note: Pursuant to approvals granted by the Ministry of Foreign Trade and Economic Cooperation of the PRC and China Securities Regulatory Commission on 18 July 2001 and 26 February 2002 respectively, 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.



5. Reserves

	Share premium Rmb'000	Statutory surplus fund Rmb'000	Statutory welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2002	21,750	–	–	16,401	38,151
Profit for the period	–	–	–	6,705	6,705
Final dividend for the year ended 31 December 2001, declared on 10 March 2002	–	–	–	(6,600)	(6,600)
Transfer from profit and loss account	–	1,637	818	(2,455)	–
At 31 March 2002	21,750	1,637	818	14,051	38,256
At 1 January 2003	87,159	1,637	818	20,767	110,381
Profit for the period	–	–	–	4,662	4,662
At 31 March 2003	87,159	1,637	818	25,429	115,043



BUSINESS REVIEW

Turnover

For the three months ended 31 March 2003, the Company recorded a turnover of approximately Rmb29,110,000, representing approximately 20% increase from that of the corresponding period in last year. The increase in the turnover was mainly due to an approximately 90% increase in sales of one of the Company's major products, L(+)-tartaric acid. This encouraging growth showed that the Company is recovering from the negative effects of market competition and resulting drop in the price of L(+)-tartaric acid which started in second quarter of 2002.

In response to these challenges, since the second half of 2002, the Company has taken proactive measures to overcome the effects of the L(+)-tartaric acid price war. By improving production technology, the Company reduced average production costs of L(+)-tartaric acid by more than 15% in 2002 as compared to 2001. The Company has also increased its market share as a result of its effective implementation of competitive pricing strategies. As a result, the sales volume of L(+)-tartaric acid in the first quarter of 2003 increased by approximately 150% as compared to the same period in 2002. Due to the stabilization of the market price of L(+)-tartaric acid by the end of 2002, the Company's 2003 first-quarter results showed improvement over the previous quarter. Changmao reported an increase of approximately 8% in turnover and approximately 3% in profit attributable to shareholders as compared to the fourth-quarter 2002.

Sales of the other three major products of the Company – L-malic acid, DL-malic acid and L-aspartic acid – which, in aggregate, accounted for approximately 60% of total turnover, remain stable as compared to the corresponding period of last year.



Gross Profit Margin

The gross profit margin for the three months ended 31 March 2003 was approximately 31%, as compared to approximately 42% recorded for the same period in 2002. The major reason for the decrease is due to the reduced gross profit margin of L(+)-tartaric acid as a result of the drop in its market price and the increase in its proportion of the total sales. In addition, the average cost of the Company's major raw materials, maleic anhydride and crude maleic anhydride has increased by more than 25% compared to the corresponding period in 2002 as a result of the increase in oil price.

Expenses

Due to the continuous growth of business and production volume, the Company recruited new staff, increased scale of the Company's research and development and devoted increasing effort to marketing and promotion. As a result, selling and administrative expenses for the three months ended 31 March 2003 increased by approximately Rmb1,570,000 as compared the corresponding period in 2002.

PROSPECTS

Looking to the future, the Company's growth will be spearheaded by the recent establishment of a new production line for fumaric acid, with an annual production capacity of 10,000 tonnes which was completed in April 2003 and is currently under trial operation. With the launch of this new production line, Changmao is expected to become the largest manufacturer of fumaric acid in the PRC, which shall boost its sales as well as market share. Apart from financial implications, this new addition of manufacturing facilities is of strategic importance to Changmao. In addition to being an end product for sale, fumaric acid can be used as a raw material to derive L-aspartic acid and L-malic acid. The fumaric acid production line will also be used to produce crude maleic anhydride, the principal raw material for the manufacture of certain Changmao's products, contributing directly to the reduction of production costs and enhancement of product quality.



In addition, throughout the years of continuous research and development, the Company began the medium scale production of aspartame (a sweetener) and L-analine in April 2003. Also, to solidate its tartaric acid market, the Company will introduce DL-tartaric acid into the market in due course. The Directors believe that these new products, which are mainly used as pharmaceutical intermediaries and food additives, have great commercial potential and their entry into the market will bring in handsome returns.

As for sales and marketing, the Company is continuously seeking for opportunities to cooperate with overseas distributors to enhance the coverage and effectiveness of its sales network. Changmao also plans to increase its participation in trade fairs and its visits to overseas customers and customers in the PRC to promote its products.

Overall, the Company expects business to grow further with the trail run of the fumaric acid production line and the slight price rebound of L(+)-tartaric acid in recent months. Besides, Changmao will closely monitor the impact of Severe Acute Respiratory Syndrome on the PRC and the global economy and react to any challenges that may arise with proactive measures.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2003.



SHARE OPTIONS

The Company conditionally approved a share option scheme on 18 June 2001 (the "Scheme"), 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 (the "Shares") in issue at the date of grant. The subscription price will be determined by the Directors, and will not be less than the higher of (i) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. The Scheme will remain in force for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of Rmb1 or HK\$1 is payable on acceptance of the grant of an option.

The total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted or to be granted under the Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company for the time being.

Employees who are PRC nationals shall not be entitled to exercise the option until the current restrictions on these persons for subscribing or dealing in H Shares imposed by the laws and regulations in PRC have been amended or removed.

As at 31 March 2003, no options have been granted by the Company to any of its employees, Directors or supervisors of the Company ("Supervisors").



INTERESTS OF THE DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 March 2003, the interests of the Directors and the 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:

	Number of Shares				Total interests
	Corporate interests	Personal interest	Family interests	Other 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. 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))
<i>Supervisor</i>					
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))	-	-	-	(Note (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 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 Scheme described above, at no time during the period was the Company a party to any arrangement 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.



SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

The register of substantial shareholder maintained under section 16(1) of the SDI Ordinance shows that as at 31 March 2003, the Company has been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued shares capital:

Shareholder	Number of Shares	Percentage of 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 the Directors and Supervisors 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.

Saved as disclosed above, the Company had no notice of any interests to be recorded under section 16(1) of the SDI Ordinance as at 31 March 2003.



COMPETING BUSINESS

None of the Directors, Supervisors or management shareholders of the Company and their respective associate (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 Company has not purchased, sold or redeemed any of its listed securities during the three months ended 31 March 2003.

SHARE CAPITAL STRUCTURE

As at 31 March 2003, 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
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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 the 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 three months ended 31 March 2003.

SPONSOR'S INTEREST

As at 31 March 2003, Prosper 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 sponsor's 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 31 March 2003.



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 financial reporting matters including a review of the unaudited first quarterly results for the three months ended 31 March 2003 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 9 May 2003