



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)



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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 Rmb63,451,000 for the six months ended 30 June 2003
- Unaudited net profit of approximately Rmb9,493,000 for the six months ended 30 June 2003
- The Directors do not recommend the payment of a dividend for the six months ended 30 June 2003
- Construction of the fumaric production line, with an annual production capacity of 10,000 tonnes, was completed in April 2003 and the full scale operations of this newly established production line have commenced at the end of June 2003



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 and six months ended 30 June 2003 together with the unaudited comparative figures for the corresponding period in 2002 as follows:

CONDENSED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Note	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Turnover	2	34,341	25,079	63,451	49,378
Cost of sales		(24,686)	(13,432)	(44,809)	(27,294)
Gross profit		9,655	11,647	18,642	22,084
Other revenues		213	56	372	104
Selling expenses		(1,113)	(943)	(2,156)	(1,763)
Administrative expenses		(3,256)	(1,965)	(6,416)	(3,702)
Other operating expenses		-	(11)	-	(16)
Operating profit	3	5,499	8,784	10,442	16,707
Finance costs		(132)	(367)	(337)	(566)
Profit before taxation		5,367	8,417	10,105	16,141
Taxation	4	(536)	(1,010)	(612)	(1,937)
Profit attributable to shareholders		4,831	7,407	9,493	14,204
Dividends	5	-	7,360	-	7,360
Basic earnings per share	6	Rmb0.007	Rmb0.015	Rmb0.014	Rmb0.028



CONDENSED BALANCE SHEET

As at 30 June 2003

		Unaudited 30 June 2003 Rmb'000	Audited 31 December 2002 Rmb'000
Non-current assets			
Acid patent	7	8,611	8,944
Fixed assets	8	96,844	70,525
Construction in progress	8	14,299	29,898
		<u>119,754</u>	<u>109,367</u>
Current assets			
Inventories		21,653	21,659
Accounts receivable	9	16,278	10,422
Other receivables and prepayments		13,626	12,749
Bank balances and cash		53,262	76,808
		<u>104,819</u>	<u>121,638</u>
Current liabilities			
Amounts due to shareholders	10	8,778	12,991
Accounts payable	11	1,668	1,678
Other payables and accrued charges		9,897	11,215
Dividend payable		8,204	–
Taxation payable		119	503
Unsecured short-term bank loan		10,000	20,000
		<u>38,666</u>	<u>46,387</u>
Net current assets		<u>66,153</u>	<u>75,251</u>
Total assets less current liabilities		<u>185,907</u>	<u>184,618</u>
Non-current liabilities			
Long-term portion of amounts due to shareholders	10	5,867	5,867
		<u>180,040</u>	<u>178,751</u>
Financed by:			
Share capital	12	68,370	68,370
Reserves	13	111,670	102,177
Proposed final dividend	13	–	8,204
Shareholders' funds		<u>180,040</u>	<u>178,751</u>



CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	Note	Unaudited	
		For the six months ended 30 June	
		2003	2002
		Rmb'000	Rmb'000
Total equity as at 1 January		178,751	88,151
Issue of shares	12	–	107,178
Profit for the period		9,493	14,204
Share issue expenses		–	(23,418)
Dividends	13	(8,204)	(13,960)
Total equity as at 30 June		<u>180,040</u>	<u>172,155</u>



CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2003

		Unaudited For the six months ended 30 June	
	Note	2003 Rmb'000	2002 Rmb'000
Net cash inflow from operating activities		6,191	6,964
Net cash outflow from investing activities		<u>(15,130)</u>	<u>(12,965)</u>
Net cash outflow before financing activities		<u>(8,939)</u>	<u>(6,001)</u>
Financing activities			
Payment of Excess	10	(4,607)	–
Dividends paid		–	(6,600)
Repayment of bank loan		(10,000)	–
New bank loan		–	10,000
Net cash (outflow)/inflow from financing activities		<u>(14,607)</u>	<u>3,400</u>
Decrease in cash and cash equivalents		(23,546)	(2,601)
Cash and cash equivalents at 1 January		<u>76,808</u>	<u>23,838</u>
Cash and cash equivalents at 30 June		<u>53,262</u>	<u>21,237</u>
Analysis of balance of cash and cash equivalents			
Bank balances and cash		<u>53,262</u>	<u>21,237</u>

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



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 GEM, the Company underwent a reorganisation in 2001 (the "Reorganisation"), under which the promoters of the Company entered into an agreement dated 15 April 2001 (the "Promoters' Agreement") 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 condensed interim accounts are prepared in accordance with the requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM (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").

The condensed interim accounts should be read in conjunction with the financial statements for the year ended 31 December 2002 included in the Company's 2002 annual report.

The accounting policies and methods of computation used in the preparation of the condensed interim accounts are consistent with those used in the financial statements for the year ended 31 December 2002, except as described below:

In the current period, the Company has adopted, for the first time, the Statement of Standard Accounting Practice 12 (revised) ("SSAP 12 (revised)"), Income Taxes, issued by the HKSA. The adoption of SSAP 12 (revised) did not have significant effect on the financial statements of the Company.



2. Turnover and segment information

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

Turnover represents sales of organic acids for the period.

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

	For the six months ended 30 June	
	2003	2002
	Rmb'000	Rmb'000
The PRC	32,967	25,039
Europe	16,578	11,726
Asia Pacific (<i>note</i>)	12,238	12,120
Others	1,668	493
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	63,451	49,378
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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, liabilities 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	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Amortisation of acid patent	166	166	333	333
Depreciation	1,533	718	2,794	1,417

4. 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 and obtained from the relevant tax authority a tax rate reduction approval in 2003, under which the Company is entitled to a reduced EIT rate of 10% as compared to the 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 six months ended 30 June 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.

As at 30 June 2003, there was no significant unprovided deferred taxation.



5. Dividends

	For the three months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Special dividend, declared on 9 June 2002, paid, of Rmb0.01472 per share (<i>Note 13</i>)	—	7,360	—	7,360

6. Earnings per share

The calculation of basic earnings per share ("EPS") for the three months ended 30 June 2003 is based on the profit attributable to shareholders of approximately Rmb4,831,000 (three months ended 30 June 2002: approximately Rmb7,407,000) and the weighted average number of 683,700,000 shares (three months ended 30 June 2002: 506,056,044 shares).

The calculation of basic EPS for the six months ended 30 June 2003 is based on the profit attributable to shareholders of approximately Rmb9,493,000 (six months ended 30 June 2002: approximately Rmb14,204,000) and the weighted average number of 683,700,000 shares (six months ended 30 June 2002: 503,044,751 shares) as if the Share Sub-division (*Note*) had been taken place at the beginning of the period.

No diluted EPS is presented as the Company has no dilutive potential shares in issue during the period.

Note: Pursuant to the 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 registered and 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.



7. Acid patent

	Rmb'000
Net book value as at 1 January 2003	8,944
Amortisation	(333)
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Net book value as at 30 June 2003	8,611
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8. Capital expenditure

	Fixed assets	Construction in progress
	Rmb'000	Rmb'000
Net book value as at 1 January 2003	70,525	29,898
Transfer from construction in progress to fixed assets	29,009	(29,009)
Additions	104	13,410
Depreciation	(2,794)	-
	<hr/>	<hr/>
Net book value as at 30 June 2003	96,844	14,299
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9. Accounts receivable

The credit terms of accounts receivable range from 30 days to 90 days and the aging analysis of the accounts receivable is as follows:

	30 June 2003 Rmb'000	31 December 2002 Rmb'000
0 to 3 months	15,223	10,037
4 to 6 months	-	368
Over 6 months	1,055	17
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	16,278	10,422
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10. Amounts due to shareholders

Pursuant to the Promoters' Agreement and a reorganisation agreement dated 9 June 2002 entered into between the Company and its then shareholders, 常州曙光化工廠 (Changzhou Shuguang Chemical Factory) ("Shuguang Factory") and Jomo Limited, provided that 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 (the "Excess") shall be payable by the Company to its then shareholders. Accordingly, the Excess at 17 June 2001 amounting to approximately Rmb17,602,000 was accounted for as distributions to shareholders payable to Shuguang Factory and Jomo Limited. Approximately Rmb4,607,000 of the Excess has been settled in 2003. The unsettled balance of the Excess amounting to approximately Rmb12,995,000 as at 30 June 2003 was included in the amounts due to shareholders of which approximately Rmb7,128,000 will be repaid in 2003 and approximately Rmb5,867,000 will be repaid in 2004. The remaining balance of amounts due to shareholders has no fixed terms of repayment. All the amounts due to shareholders are unsecured and interest-free.

11. Accounts payable

The aging analysis of accounts payable is as follows:

	30 June 2003 Rmb'000	31 December 2002 Rmb'000
0 to 6 months	1,666	1,676
7 to 12 months	–	–
Over 12 months	2	2
	<hr/>	<hr/>
	1,668	1,678



12. Share capital

Registered, issued and fully paid:

	Number of shares at Rmb0.10 each (before the Share Sub-division: Rmb1.00 each)	Nominal value Rmb'000
At 1 January 2002 and before the Share Sub-division	50,000,000	50,000
Share Sub-division (<i>see Note 6</i>)	450,000,000	–
	500,000,000	50,000
Issuance of H shares upon listing (<i>Note (a)</i>)	183,700,000	18,370
	683,700,000	68,370

Note:

- (a) Pursuant to a resolution passed at the shareholders' meeting on 8 June 2001 and approvals from relevant government authorities, the Company was authorised to increase its registered share capital to a maximum of Rmb68,370,000 immediately after the listing of the H shares on GEM.

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 upon the listing of the Company's share on GEM for cash consideration of HK\$101,035,000 (equivalent to approximately Rmb107,178,000).



13. Reserves

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2002	21,750	–	–	16,401	38,151
Issue of H shares	88,807	–	–	–	88,807
Profit for the year	–	–	–	20,781	20,781
Share issue expenses	(23,398)	–	–	–	(23,398)
Final dividend for the year ended 31 December 2001	–	–	–	(6,600)	(6,600)
Special dividend declared on 9 June 2002 (Note 5)	–	–	–	(7,360)	(7,360)
Transfer from profit and loss account	–	1,637	818	(2,455)	–
At 31 December 2002	87,159	1,637	818	20,767	110,381
Representing:					
2002 proposed final dividend				8,204	
Retained earnings as at 31 December 2002				12,563	
				20,767	
At 1 January 2003	87,159	1,637	818	20,767	110,381
Final dividend for the year ended 31 December 2002	–	–	–	(8,204)	(8,204)
Profit for the period	–	–	–	9,493	9,493
Transfer from profit and loss account	–	2,077	1,039	(3,116)	–
At 30 June 2003	87,159	3,714	1,857	18,940	111,670

14. Contingent liabilities

As at 30 June 2003 and 31 December 2002, the Company did not have any material contingent liabilities.



15. Commitments

(a) Capital commitment for property, plant and equipment are as follows:

	30 June 2003 Rmb'000	31 December 2002 Rmb'000
Contracted but not provided for	2,124	6,330
Authorised but not contracted for	57,845	87,371
	59,969	93,701

(b) Commitments under operating leases

As at 30 June 2003, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2003 Rmb'000	31 December 2002 Rmb'000
Not later than one year	373	422
Later than one year and not later than five years	712	622
Later than five years	1,075	1,087
	2,160	2,131



16. Related party transactions

Apart from those disclosed under Note 7 and 10 above, the Company entered into the following significant transactions in the ordinary course of business with a shareholder, Shuguang Factory, during the six months ended 30 June 2003:

	For the six months ended 30 June	
	2003 Rmb'000	2002 Rmb'000
Purchases of raw materials from Shuguang Factory	11,097	12,900
Electricity charged by Shuguang Factory	767	935
Rental expenses to Shuguang Factory	93	62
Raw water supply charged by Shuguang Factory	134	30



BUSINESS REVIEW

Turnover

For the six months ended 30 June 2003, the Company recorded a turnover of Rmb63,451,000, represented a 29% increase over the corresponding period in last year. This increase was mainly due to 110% increase in sales of L(+)-tartaric acid, one of the Company's major products. The strong increase in sales indicates that the Company is recovering from the negative effects of market competition in particular the substantial reduction in the price of L(+)-tartaric acid in 2002.

In response to these challenges, since the second half of 2002, the Company has taken proactive measures to tackle with the effects of the reduction in the price of L(+)-tartaric acid. By improving production technology, the Company reduced average production costs of L(+)-tartaric acid by more than 15% in 2002 compared to 2001. The Company has also increased its market share through more competitive pricing strategies. As a result, the sales volume of L(+)-tartaric acid in the first half of 2003 increased by approximately 157% as compared to the same period in 2002. Coupled with market adjustment which resulted in the stabilization of the market price of L(+)-tartaric acid by the end of 2002, the Company's 2003 second-quarter results showed improvement over the previous quarter. Changmao reported an increase of approximately 18% in turnover and 4% in net profit compared to the first quarter 2003.

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 65% of total turnover, remain stable compared to the corresponding period of last year.

Gross profit margin

The gross profit margin for the six months ended 30 June 2003 was 29%, compared to the 45% 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 decrease 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 11% 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 six months ended 30 June 2003 increased by approximately Rmb3,107,000 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 fully operated at the end of June 2003. With the launch of this new production line, Changmao will 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 also has 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-asparic acid and L-malic acid. The fumaric 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 reduction of production costs and enhancement of product quality. The Company is also planning to start the construction of another fumaric acid production line with annual capacity of 10,000 tonnes in the second half of 2003, expanding the total production capacity of fumaric acid production lines to 20,000 tonnes per year, upon completion of which in 2004, it would help further reduce production cost of the Company, and in particular that the heat energy produced by this production line in turn can be used to produce steam for production or generate electricity for the whole production plant's consumption, which would substantially save energy cost. In addition, the Company has recently started the construction of the second phase of the production premises in Jiangbian Development Zone of Changzhou on a parcel of land of approximately 70,000 square meters, which is located next to the Company's current production premises. The second phase of the production premises will consist production lines for aspartame, L-phenylalanine, L-alanine and other proposed new products of the Company.



After years of research and development, the Company has substantially completed the medium scale production of aspartame (a sweetener) and L-alanine. The research progress is satisfactory in terms of technological skill and cost effectiveness. The Company is planning to establish production lines of these products in the second half of 2003. The Directors believe that these new products, which are mainly used as pharmaceutical intermediaries and food additives, have great commercial potential in overseas and the PRC and accordingly the Company will benefit from such lucrative business opportunity.

In sales and marketing, the Company will participate in more than two overseas trade fairs and various trade fairs in the PRC in the second half of 2003 in order to explore new markets. Certain overseas distributors have shown their interest in Changmao's products and are willing to distribute Changmao's products in various countries. Changmao will actively enhance the coverage of its sales network through various means in order to boost its sales.

Overall, the Company expects business to improve further with the launch of the fumaric acid production line and the launch of the new products into the market in the second half of 2003.

SEGMENTAL INFORMATION

Most of the Company's products are exported to Western Europe, Australia and Japan. During the six months ended 30 June 2003, export sales (including sales through import-export agents in the PRC) increased by approximately 10% as compared to last year. As expressed as a percentage of turnover, direct export sales (excluding sales through import-export agents in the PRC) accounted for approximately 48% (For the six months ended 30 June 2002: 50%) of the Company's turnover while sales through import-export agents in the PRC accounted for about 17% (For the six months ended 30 June 2002: 26%) of turnover. The percentage of export sales (including sales through import-export agents in the PRC) for the six months ended 30 June 2003 decreased as compared to the corresponding period in 2002 mainly because domestic sales (excluding sales through import-export agents in the PRC) increased by a greater extent than that of the export sales which is caused by the increase in domestic sales of L(+)-tartaric acid as certain L(+)-tartaric acid producers in the PRC ceased their production of L(+)-tartaric acid in late 2002 as well as the launch of a mainly domestically sold new product, DL-tartaric acid, by the Company in 2003.



EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company's borrowings are primarily denominated in Rmb. Over 95% of the Company's domestic sales (including sales to 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 Changmao's direct export sales (excluding sales to the import-export agents established in the PRC) are denominated and settled in US dollars. The Company does not conclude any forward foreign currency agreements in order to limit exposure to adverse fluctuations in the US dollar. Changmao will constantly review the situation and, if appropriate, carry out prudent and appropriate hedging to offset the possible negative financial impact of such fluctuations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Company had total outstanding bank borrowings of Rmb10 million (as at 31 December 2002: Rmb20 million), all of which were unsecured short-term bank borrowings. The interest rates of the outstanding bank loan was approximately 5% per annum.

Except for the bank borrowings disclosed above, as at 30 June 2003 and 31 December 2002, the Company did not have any committed borrowing facilities.

As at 30 June 2003, the Company had capital commitments for property, plant and equipment amounting to approximately Rmb60 million, of which approximately Rmb2 million has been contracted for. The remaining balance of approximately Rmb58 million are authorised but not contracted for. These capital commitments are mainly related to the expanding production lines or establishing new production lines for the Company's proposed new products from 1 July 2003 to 31 December 2004 as set out in the section headed "Statement of business objectives" in the Prospectus. The Company intends to finance the capital commitments by the net proceeds raised in June 2002, cash flows generated from the Company's operations and/or bank financings.

The Company did not have any charge on its assets during the six months ended 30 June 2003 and the year ended 31 December 2002. The gearing ratio (calculated based on total liabilities divided by total assets), was 20% and 23% as at 30 June 2003 and 31 December 2002 respectively. As at 30 June 2003, the Company's cash and cash equivalent amounted to approximately Rmb53,262,000 (as at 31 December 2002: approximately Rmb76,808,000). The Directors believe that the Company is in a healthy financial position.

CAPITAL STRUCTURE OF THE COMPANY

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

The Company generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Company is generally placed at banks to earn interest income.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
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1. Research and development

Fine chemical technology

- | | |
|---|---|
| <ul style="list-style-type: none"> - Research on the function and selectivity of catalytic reaction solution during fine chemical reaction process | <ul style="list-style-type: none"> - Increased the conversion rate and selectivity in fine chemical reaction process of certain products. The Company will continue to research on this area |
| <ul style="list-style-type: none"> - Research on new methodology and technique in the area of fine chemical technology | <ul style="list-style-type: none"> - Continued to research on new methodology and technique in the area of fine chemical technology |

Immobilised enzyme technology

- | | |
|--|--|
| <ul style="list-style-type: none"> - Research on applying the immobilised enzyme technology in the manufacture of new chiral products | <ul style="list-style-type: none"> - Through the research in this area, the Company increase the activity of the enzyme by 5% |
|--|--|

Simultaneous reaction and separation technology

- | | |
|---|--|
| <ul style="list-style-type: none"> - Research on applying the simultaneous reaction and separation technology in production of L-malic acid by enzymatic production technology thereby enhancing the stability of enzyme | <ul style="list-style-type: none"> - The research was completed in 2002 |
|---|--|



Business objective as stated in the Prospectus

Actual business progress up to 30 June 2003

- Research on applying the simultaneous reaction and separation technology in the production of other chiral organic acid products
 - Research on integrated technology of simultaneous reaction and separation technology and biotechnology thereby enhancing its existing biotechnology
- Successfully applied this technology in the production of other products
 - Continued to research on integrated technology of simultaneous reaction and separation technology and biotechnology thereby enhancing its existing biotechnology

Enzyme technology

- Research to enhance enzyme technology so as to better support immobilised enzyme technology and simultaneous reaction and separation technology
- Continued to research to enhance enzyme technology so as to better support immobilised enzyme technology and simultaneous reaction and separation technology

Chiral synthesis

- Research on application of existing chiral products in development of new chiral derivative products
- The Company has commenced research on certain chiral derivative products, including organic calcium and aspartame

Chiral resolution

- Research on racemization after the process of chemical resolution thereby increasing resolution rate
- Successfully applied this technology in the chiral resolution of D(-)-tartaric acid



Business objective as stated in the Prospectus Actual business progress up to 30 June 2003

Joint research program

- Research on nutritional healthy products: Aweto with 上海星獅生物工程有 限公司 (Shanghai Since Biotechnology Co., Ltd.) – As the research institute underwent a corporate restructuring, the project was suspended
- Research on D(-)-p-hydroxyphenylglycine with 南京工業大學 (Nanjing University of Technology) – The research subject has been changed to D-amino acid, which is expected to have better marketability and higher commercial value. The D-amino acid is a Major Breakthrough Project of the Ten Five-year Province Plan (省「十五」科技攻 關項目). The laboratory scale research of D-amino acid has been completed and it is currently under medium scale research

Chirotechnology Centre

- Establishment of a trial production line including establishment of production facility and purchase of trial production equipment – Established a trail production line for aspartame
- Purchase other advanced foreign experiment and testing equipment for the laboratories – Purchased some advanced foreign experiment and testing equipment for the laboratories such as fermentation equipment for research on enzyme technology, liquid chromatic graphic column and digital titrator



Business objective as stated in the Prospectus Actual business progress up to 30 June 2003

Amount to be invested from the net proceeds of the placing of H shares of the Company (the "Placing"):
HK\$3.3 million

Amount utilized from the net proceeds of the Placing:
HK\$2.0 million

2. Product development

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|--|--|
| – Continue laboratory scale research and commence medium scale research of aspartame | – Completed laboratory scale research and commenced medium scale research of aspartame. The research result was satisfactory |
| – Conduct medium scale research of aweto | – As the research institute underwent a corporate restructuring, the research has been suspended |
| – Completed medium scale research of D(-)-p-hydroxy-phenylglycine | – The research subject has been changed to D-amino acid, which is expected to have better marketability and higher commercial value. The D-amino acid is a Major Breakthrough Project of the Ten Five-year Province Plan (省「十五」科技攻關項目). The laboratory scale research of D-amino acid has been completed and it is currently under medium scale research |
| – Conduct medium scale research of D-phenylalanine | – Commenced medium scale research of D-phenylalanine |



Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
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Amount to be invested from the net proceeds of the Placing: HK\$1.4 million	Amount utilized from the net proceeds of the Placing: HK\$0.6 million
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3. Production expansion

- | | |
|---|--|
| <ul style="list-style-type: none"> - Establish a 50 tonnes/year production line for pyruvic acid | <ul style="list-style-type: none"> - The research subject has been changed to the environmental-friendly durable press finishing agent for clothings, BTCA (butanetetracarboxylic acid), which is expected to have a better marketability. A production line with production capacity of 500 tonnes/year has been established in 2002 |
| <ul style="list-style-type: none"> - Increase production capacity of L-carnitine to 50 tonnes/year | <ul style="list-style-type: none"> - Increased production capacity of L-carnitine to 50 tonnes/year |
| <ul style="list-style-type: none"> - Increase annual production capacity of D(-)-tartaric acid to 120 tonnes | <ul style="list-style-type: none"> - Increased annual production capacity of D(-)-tartaric acid to 120 tonnes |
| <ul style="list-style-type: none"> - Establish a 500 tonnes/year production line for glyoxalic acid | <ul style="list-style-type: none"> - The establishment of production line for glyxalic acid has been suspended until there is further progress on the research on the production technology |



Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
<ul style="list-style-type: none">- Increase annual production capacity of L-homo-phenylalanine to 10 tonnes	<ul style="list-style-type: none">- Increased annual production capacity of L-homo-phenylalanine to 10 tonnes
<ul style="list-style-type: none">- Increase annual production capacity of maleic acid to 2,000 tonnes	<ul style="list-style-type: none">- Increased annual production capacity of maleic acid to 2,000 tonnes
<ul style="list-style-type: none">- Establish a 10 tonnes/year production line for D(-)-p-hydroxy-phenylglycine	<ul style="list-style-type: none">- The research subject has been changed to D-amino acid, which is expected to have better marketability and higher commercial value. The D-amino acid is a Major Breakthrough Project of the Ten Five-year Province Plan (省「十五」科技攻關項目). The laboratory scale research of D-amino acid has been completed and it is currently under medium scale research
<ul style="list-style-type: none">- Increase annual production capacity of L-aspartic acid to 10,000 tonnes	<ul style="list-style-type: none">- The increase in annual production capacity of L-aspartic acid (an end product for sale as well as a raw material of aspartame) to 10,000 tonnes will be postponed to cope with the launch of aspartame in late 2003
<ul style="list-style-type: none">- Increase annual production capacity of D-malic acid to 50 tonnes	<ul style="list-style-type: none">- Increased annual production capacity of D-malic acid to 50 tonnes



Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
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- | | |
|---|--|
| <ul style="list-style-type: none"> - Establish a 50 tonnes/year production line for calcium propionate
 - Establish a 10,000 tonnes/year production line for fumaric acid (including production line for crude maleic anhydride) | <ul style="list-style-type: none"> - Due to the change in market demand and calcium propionate is no longer a commercially justified product to produce in the view of the Directors, the research subject has been changed from calcium propionate to other types of organic calcium and is currently under laboratory scale research
 - The construction of the 10,000 tonnes/year production line for fumaric acid was completed in April 2003 |
|---|--|

(Note: The construction of the fumaric production line was scheduled to be completed in 2002. Due to the longer-than-expected time required to obtain approval for construction of the production premises, part of the payment of construction cost which was planned to be paid for this production line in 2002 was postponed to the year 2003.)



Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
Amount to be invested from the net proceeds of the Placing: HK\$Nil	Amount utilized from the net proceeds of the Placing: HK\$10.4 million

4. Marketing

- | | |
|--|---|
| - Participate in 中國國際化工展 (China International Chemical Fair) | - Participated in various food additive trade fairs and chemical fairs in March and April 2003 |
| - Participate in 中國出口商品交易會 (Chinese Export Commodities Fair) to be held every half year | - Participated in 中國出口商品交易會 (Chinese Export Commodities Fair) in April 2003 |
| - Advertise in specialised magazines such as 化工市場七日訊 (Chemical Industry Market Weekly), 中國化工報 (China Chemical Industry Post) and 醫藥快訊 (Medicine Express) | - Advertised in specialised magazines such as 化工市場七日訊 (Chemical Industry Market Weekly), 中國化工報 (China Chemical Industry Post) and 醫藥快訊 (Medicine Express) |
| - Organise sales staff to visit specialised export companies and explore potential markets | - Visited various specialised export companies and explore potential markets |
| - Continue to display products in virtual product display room in well-known websites and disseminate relevant supply and demand information and advertisement and participate in web trade fair | - Continued to display products in virtual product display room in well-known websites and disseminate relevant supply and demand information and advertisement and participate in web trade fair |



Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
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- | | |
|--|--|
| <ul style="list-style-type: none"> - Participate in international product show
 - Visit major foreign customers and explore new international markets | <ul style="list-style-type: none"> - Due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), the Company has postponed its original plan to participate in international product shows to the second half of 2003
 - Due to the outbreak SARS, the Company has postponed its planned visit of major foreign customers to the second half of 2003 |
|--|--|

Amount to be invested from the net proceeds of the Placing:
HK\$1.0 million

Amount utilized from the net proceeds of the Placing:
HK\$0.3 million



Business objective as stated in the Prospectus

Actual business progress up to 30 June 2003

5. Deployment of human resources

- Carrying out the following plan for human resources:

- As at 30 June 2003, number of staff is as follows:

	Number of staff		Number of staff
Research and development	35	Research and development	33
Production	211	Production	197
Quality control	15	Quality control	19
Sales and marketing	15	Sales and marketing	19
Management and general administration	32	Management and general administration	30
	<hr/>		<hr/>
	308		298
	<hr/>		<hr/>

Amount to be invested from the net proceeds of the Placing: HK\$1.0 million

Amount utilized from the net proceeds of the Placing: HK\$0.1 million

6. International production quality standard

- Obtain British Pharmacopeia for L-carnitine (*Note 1*)

- Application for British Pharmacopoeia for L-carnitine will be made when production volume is up to a commercial production scale



Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
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- | | |
|--|--|
| <ul style="list-style-type: none"> - Set corporate standard and submit for 國家質量技術監督局 (State Bureau of Quality and Technical Supervision)'s ("CSBTS") review (Note 2) for glyoxalic acid | <ul style="list-style-type: none"> - Corporate standard will be submitted for CSBTS' review for glyoxalic acid when production volume is up to a commercial production scale |
| <ul style="list-style-type: none"> - Set corporate standard and submit for CSBTS' review (Note 2) for S-3-hydroxy-γ-butyrolactone | <ul style="list-style-type: none"> - Corporate standard will be submitted for CSBTS' review for S-3-hydroxy-γ-butyrolactone when production volume is up to a commercial production scale |
| <ul style="list-style-type: none"> - Set corporate standard and submit for CSBTS' review (Note 2) for D(-)-p-hydroxy-phenylglycine | <ul style="list-style-type: none"> - Corporate standard will be submitted for CSBTS' review for D(-)-p-hydroxy-phenylglycine when production volume is up to a commercial production scale |

7. Permits

- | | |
|---|--|
| <ul style="list-style-type: none"> - Renew 衛生許可証 (Hygiene Permit) for L(+)-tartaric acid | <ul style="list-style-type: none"> - Renewed 衛生許可証 (Hygiene Permit) for L(+)-tartaric acid in June 2003 |
| <ul style="list-style-type: none"> - Renew 衛生許可証 (Hygiene Permit) for fumaric acid | <ul style="list-style-type: none"> - Renewed 衛生許可証 (Hygiene Permit) for fumaric acid in June 2003 |
| <ul style="list-style-type: none"> - Renew 衛生許可証 (Hygiene Permit) for L-malic acid | <ul style="list-style-type: none"> - Renewed 衛生許可証 (Hygiene Permit) for L-malic acid in June 2003 |



Business objective as stated in the Prospectus	Actual business progress up to 30 June 2003
<ul style="list-style-type: none">– Renew 衛生許可証 (Hygiene Permit) for DL-malic acid– Renew 衛生許可証 (Hygiene Permit) for L-aspartic acid	<ul style="list-style-type: none">– Renewed 衛生許可証 (Hygiene Permit) for DL-malic acid in June 2003– Renewed 衛生許可証 (Hygiene Permit) for L-aspartic acid in June 2003

Notes:

1. British Pharmacopoeia refers to a book prepared and updated from time to time by the British Pharmacopoeia Commission that was established under Section 4 of the Medicines Act 1968 of England, which sets out the objective, public standards of quality for medicines and their components, which standards are legally enforceable in the United Kingdom.
2. Given the products are new to the market and there is currently no adaptable product quality standard internationally and locally, the Company will help set out product quality standard for CSBTS's review and approval.



USE OF PROCEEDS FROM THE PLACING

The net proceeds raised from the issue of H shares, after deduction of related expenses, amounted to approximately HK\$79 million (equivalent to approximately Rmb84 million). HK\$4 million of the net proceeds was planned to provide additional working capital of the Company. The remaining net proceeds of approximately HK\$75 million (equivalent to approximately Rmb80 million) was planned and applied to achieve the business objectives as set out in the Prospectus, of which an amount of approximately HK\$6.7 million was planned to be applied for the six months ended 30 June 2003, as follows:

	Proposed HK\$ million	Actual HK\$ million
Construction of the new production plants and establishment of new production lines (<i>Note 1</i>)	–	10.4
Product development (<i>Note 2</i>)	1.4	0.6
Upgrading research equipment of the Chirotechnology Centre (<i>Note 2</i>)	2.2	1.4
Technology research and development (<i>Note 2</i>)	1.1	0.6
Marketing and promotion activities and setting up of representation offices (<i>Note 2</i>)	1.0	0.3
Recruitment of additional technical and management staff and staff training (<i>Note 2</i>)	1.0	0.1
	<hr/>	<hr/>
Comparison of business objective with actual business progress	6.7	13.4
	<hr/>	<hr/>



Notes:

1. The construction of the fumaric production line was scheduled to be completed in 2002. Due to the longer-than-expected time required to obtain approval for construction of the production premises, the completion of this production line was postponed to April 2003. As a result, the utilization of the net proceeds from the Placing for the construction of this production line was also postponed to 2003 which results in the fact that the actual utilization of the net proceeds for the six months ended 30 June 2003 is much higher than the budgeted amount.
2. The Company has implemented cost control measures which have resulted in the actual costs incurred to implement the Company's business objectives being lower than that stated in the Prospectus. Furthermore, the schedules to carry out certain business activities as stated in the business objective have been postponed. As a result, the Company has utilized less proceeds from the Placing as planned.

The proceeds from the Placing which has not been utilised as at 30 June 2003 amounted to Rmb40.8 million, which will continue to be used in accordance to the plan as described in the Prospectus and is currently deposited in the PRC's banks.

EMPLOYEES

Including the Directors, as at 30 June 2003, the Company employed a total of 298 employees (30 June 2002: 224 employee). Total amount of staff costs for the six months ended 30 June 2003 was approximately Rmb5,229,000 (30 June 2002: approximately Rmb4,935,000). 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 at its discretion.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not purchased, sold or redeemed any of its listed securities for the six months ended 30 June 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, directors and shareholders of the Company, to subscribe for shares in the Company, subject to a maximum of 10% of the Company's shares (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 of the Company imposed by the laws and regulations in the PRC have been amended or removed.

As at 30 June 2003, no options have been granted by the Company to any of its employees, Directors or supervisors of the Company ("Supervisors").

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Company as at 30 June 2003 and 31 December 2002.

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 PERIOD

There is no acquisitions and disposals of subsidiaries and affiliated companies by the Company during the six months ended 30 June 2003 and 2002.

CONTINGENT LIABILITIES

As at 30 June 2003 and 31 December 2002, the Company did not have any material contingent liabilities.



INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2003, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 or the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares:

	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
<i>Director</i>					
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian <i>(Note (a))</i>	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation <i>(Note (b))</i>	2,500,000	1.14%	135,000,000	48.04%
Mr. Jiang Jun Jie	Interest of controlled corporation <i>(Note (c))</i>	-	-	67,500,000	24.02%
Mr. Zeng Xian Biao	<i>(Note (d))</i>	-	-	<i>(Note (d))</i>	<i>(Note (d))</i>
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation <i>(Note (e))</i>	-	-	66,000,000	23.49%



	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
Mr. Zhu Lai Fa	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Ouyang Ping Kai	(Note (g))	-	-	(Note (g))	(Note (g))
Prof. Yang Sheng Li	(Note (h))	-	-	(Note (h))	(Note (h))
<i>Supervisor</i>					
Ms. Zhou Rui Juan	(Note (i))	-	-	(Note (i))	(Note (i))
Mr. Pan Chun	(Note (j))	-	-	(Note (j))	(Note (j))
Mr. Lu He Xing	(Note (k))	-	-	(Note (k))	(Note (k))
Prof. Gu Jian Xin	(Note (l))	-	-	(Note (l))	(Note (l))

Notes:

- (a) The 135,000,000 promoter foreign shares of the Company ("Promoter Foreign Shares") are held by Hong Kong Xinsheng Pioneer Investment Company Limited ("HK Xinsheng Ltd") and the 2,500,000 domestic shares of the Company ("Domestic 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 Promoter Foreign 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 Domestic 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign 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.



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

So far as known to the Directors, as at 30 June 2003, the following, not being a Director or Supervisor, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions of 2 and 3 of Part XV of the SFO:

Long positions in Shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
常州曙光化工廠 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	-	-
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	-	-	135,000,000	48.04%
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	-	-	67,500,000	24.02%
Jomo Limited	Beneficial owner	-	-	66,000,000	23.49%
Ms. Lam Mau	Inte rest of spouse and interest of controlled corporation	-	-	66,000,000 (Note (a))	23.49%
上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited)	Beneficial owner	50,000,000	22.83%	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Inte rest of controlled coroporation	50,000,000 (Note (b))	22.83%	-	-



Changmao Biochemical Engineering Company Limited

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
上海博聯科技投資有限公司 (Shanghai Bolian Technology Investment Company Limited)	Beneficial owner	12,500,000	5.71%	-	-
福州飛越集團有限公司 (Fuzhou Fei Yue Group Company Limited)	Interest of controlled corporation	12,500,000 (Note (c))	5.71%	-	-
Mr. Zhang Pei Guang	Interest of controlled corporation	12,500,000 (Note (d))	5.71%	-	-
Mr. Zhang Ming	Interest of controlled corporation	12,500,000 (Note (e))	5.71%	-	-

Notes:

- (a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign Shares.
- (b) Shanghai Technology Investment Company is the beneficial owner of 49% of the issued capital of Shanghai Technology Investment Company Limited, which is the registered holder and beneficial owner of 50,000,000 Domestic Shares.
- (c) Fuzhou Fei Yue Group Company Limited is the beneficial owner of 67% of the issued capital of Shanghai Bolian Technology Investment Company Limited, which is the registered holder and beneficial owner of 12,500,000 Domestic Shares.
- (d) Mr. Zhang Pei Guang is the beneficial owner of 60% of the registered capital of Fuzhou Fei Yue Group Company Limited, which is the beneficial owner of 67% of the issued capital of Shanghai Bolian Technology Investment Company Limited. Shanghai Bolian Technology Investment Company Limited is the registered holder and beneficial owner of 12,500,000 Domestic Shares.



- (e) Mr. Zhang Ming is the beneficial owner of 40% of the registered capital of Fuzhou Fei Yue Group Company Limited, which is the beneficial owner of 67% of the issued capital of Shanghai Bolian Technology Investment Company Limited. Shanghai Bolian Technology Investment Company Limited is the registered holder and beneficial owner of 12,500,000 Domestic Shares.

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.

SHARE CAPITAL STRUCTURE

As at 30 June 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
	683,700,000

Notes:

- (a) Overseas listed foreign shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in a currency other than Rmb and are traded in Hong Kong dollars and listed on GEM.
- (b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in Rmb and issued to the promoters of the Company.
- (c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in a currency other than Rmb 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” (whose 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 six months ended 30 June 2003.

SPONSOR'S INTEREST

As at 30 June 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 30 June 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.

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 interim results for the six months ended 30 June 2003 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 7 August 2003