



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

(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 Rmb95,500,000 for the nine months ended 30 September 2003
- Unaudited net profit of approximately Rmb13,727,000 for the nine months ended 30 September 2003
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2003



RESULTS

The board of Directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is pleased to present the unaudited results of the Company for the three and nine months ended 30 September 2003 together with the unaudited comparative figures for the corresponding period in 2002 as follows:

	Note	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Turnover	2	32,049	20,460	95,500	69,838
Cost of sales		(23,380)	(14,771)	(68,189)	(42,065)
Gross profit		8,669	5,689	27,311	27,773
Other revenues		534	49	906	153
Selling expenses		(1,097)	(1,064)	(3,253)	(2,827)
Administrative expenses		(3,280)	(2,104)	(9,696)	(5,806)
Other operating income/(expenses)		-	11	-	(5)
Operating profit		4,826	2,581	15,268	19,288
Finance costs		(122)	(268)	(459)	(834)
Profit before taxation		4,704	2,313	14,809	18,454
Taxation	3	(470)	(277)	(1,082)	(2,214)
Profit attributable to shareholders		4,234	2,036	13,727	16,240
Dividends	4	-	-	-	7,360
Basic earnings per share	5	Rmb0.006	Rmb0.003	Rmb0.020	Rmb0.029



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 results of the Company are prepared in accordance with the requirements of Chapter 18 of the GEM Listing Rules and are 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.

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 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 nine months ended 30 September 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 September 2003, there was no significant unprovided deferred taxation.

4. Dividends

	For the three months ended 30 September		For the nine months ended 30 September	
	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	—	—	—	7,360



5. Earnings per share

The calculation of basic earnings per share ("EPS") for the three months ended 30 September 2003 is based on the profit attributable to shareholders of approximately Rmb4,234,000 (for the three months ended 30 September 2002: approximately Rmb2,036,000) and the weighted average number of 683,700,000 shares (for the three months ended 30 September 2002: 683,700,000 shares).

The calculation of basic EPS for the nine months ended 30 September 2003 is based on the profit attributable to shareholders of approximately Rmb13,727,000 (for the nine months ended 30 September 2002: approximately Rmb16,240,000) and the weighted average number of 683,700,000 shares (for the nine months ended 30 September 2002: 563,924,908 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.



6. Reserves

	Share premium	Statutory common reserve	Statutory public welfare fund	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2002	21,750	–	–	16,401	38,151
Issue of H shares	88,808	–	–	–	88,808
Profit for the period	–	–	–	16,240	16,240
Share issue expenses	(23,418)	–	–	–	(23,418)
Final dividend for the year ended 31 December 2001	–	–	–	(6,600)	(6,600)
Special dividend declared on 9 June 2002 (<i>Note 4</i>)	–	–	–	(7,360)	(7,360)
Transfer from profit and loss account	–	1,637	818	(2,455)	–
At 30 September 2002	87,140	1,637	818	16,226	105,821
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	–	–	–	13,727	13,727
Transfer from profit and loss account	–	2,077	1,039	(3,116)	–
At 30 September 2003	87,159	3,714	1,857	23,174	115,904



BUSINESS REVIEW

Turnover

For the nine months ended 30 September 2003, the Company recorded a turnover of approximately Rmb95,500,000, representing an approximately 37% increase in the Company's turnover as compared to that of the corresponding period in last year. The Company's results for the three months ended 30 September 2003 improved with the turnover and the net profit increased by approximately 57% and 108% respectively as compared to that for the three months ended 30 September 2002. The improvement in the Company's results was mainly due to a 59% increase in the sales of L(+)-tartaric acid, one of the Company's major products, for the nine months ended 30 September 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 55% of total turnover of the Company for the nine months ended 30 September 2003, also increased by approximately 10% as compared to the corresponding period of last year. For new products, D-malic acid, DL-tartaric acid and derivatives of tartaric acid, which were launched into the market in 2003, started to make contribution to the Company's profit with their sales accounted for approximately 9% of the turnover of the Company for the nine months ended 30 September 2003.

The price of L(+)-tartaric acid has decreased substantially since 2002 and was at its lowest level in the second half of 2002. In response to the negative effect brought by the decrease in the price of L(+)-tartaric acid, the Company improved its production technology and reduced average production costs of L(+)-tartaric acid by more than 15% in 2002 as compared to that of 2001. The Company has also increased its market share by means of adopting a more competitive pricing strategy. In addition, the Company has been actively in search of appropriate sales agents in the PRC and overseas with a view to further enhancing its sales network. In this year, the Company has strengthened its sales team through new staff recruitment and the provision of sales training to its sales staff. As a result, the sales volume of L(+)-tartaric acid as well as other products of the Company increased significantly.

The newly established fumaric acid production line, with an annual production capacity of 10,000 tonnes, has been operational since the third quarter of 2003. In addition to being an end product for sale, fumaric acid can be used as a raw material to derive other products of the Company, such as L-aspartic acid and L-malic acid, and contributes directly to reduction of production costs of these products. Also, the Company has made use of the heat energy generated from the fumaric acid production line and therefore reduced the energy consumption cost of the Company.



Gross profit margin

The gross profit margin for the nine months ended 30 September 2003 was 29% as compared to 40% in the corresponding period in last year. 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 to the total sales. In addition, as a result of the increase in oil price, the average cost of each of the Company's major raw materials, maleic anhydride and crude maleic anhydride, which are sub-products derived from oil refining process, has increased by more than 10% as compared to the corresponding period in 2002.

Expenses

Due to the continuous growth of business and production volume, the Company recruited new staff, increased the scale of the Company's research and development and devoted increasing efforts to marketing and promotion. As a result, the Company's selling and administrative expenses for the nine months ended 30 September 2003 increased by approximately Rmb4,316,000 as compared to that of the corresponding period in 2002.

PROSPECTS

Looking ahead, the Company's growth will be spearheaded by the recent establishment of a new production line for fumaric acid, which annual production capacity is equal to 10,000 tonnes. With the launch of this new production line, Changmao has become the largest manufacturer of fumaric acid in the PRC. The fumaric acid produced is mainly used internally as raw materials of other products to reduce the Company's production cost and enhance the overall product quality. Also, the fumaric acid can be widely applied as raw material for the production of other chemical products such as acidulant, bacteriostatic and antiseptic agent. In order to meet with the increasing demand on fumaric acid, the Company is also planning to start the construction of another fumaric acid production line with annual capacity of 10,000 tonnes in the fourth quarter of 2003 thereby expanding the total annual production capacity of the Company's fumaric acid production lines to 20,000 tonnes. The construction of this production line is expected to be completed in 2004, which would help further reduce the production cost of the Company, in particular, the heat energy produced by this production line can be used to generate stream energy for the production of the Company's products and generate electricity for the whole production plant's consumption, which would substantially reduce the Company's overall energy consumption 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 L-alanine, L-phenylalanine, aspartame and other proposed new products of the Company. L-alanine is a fine chemical product which is widely used in medical, food and chemical industry. The Company uses micro-organic enzyme technology and L-aspartic acid as raw material to produce L-alanine, an advanced form of production technology in the bio-chemical area. The production method adopted ensures that the produced L-alanine is of high quality and that the production process is environmental friendly. The demand on L-alanine is expected to increase in view of the increasing consumption level of the society. L-phenylalanine is an essential amino acid of human body. It is widely used as amino acid vaccine, nutrition medication and food additive. It can also be used together with L-aspartic acid as raw materials to produce aspartame (a sweetener). Aspartame is a highly effective and safe nutritious sweetener. As aspartame carries a high level of sweetness and a low level calories, it is well suitable for use in the diet of diabetics. At present, aspartame has been approved to be used in over 100 countries and in over 6,000 drinks, food and medical products. It is estimated that the demand of aspartame will increase in the PRC. The PRC has started research in production of aspartame since late 1980's. However, given there is no manufacturer of L-phenylalanine in the PRC, it is very expensive to produce aspartame in the PRC by using L-phenylalanine imported from overseas. The high production cost has made it difficult for the PRC to compete with overseas aspartame manufacturers and is attributable to the fact that there are only a few aspartame manufacturers in the PRC. At present, aspartame available in the market is mainly imported from the United States and Japan. It is expensive and therefore is not widely used in the PRC. The manufacture and application of aspartame in the PRC has just started with great commercial potential. Based on the production technology developed by the Company, it can directly use internally produced L-aspartic acid and L-phenylalanine as raw materials to produce aspartame. Therefore, the Company is able to effectively control the production cost and product quality of aspartame and is more competitive among other manufacturers. 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. Accordingly, the Company will benefit from such lucrative business opportunities.



In sales and marketing, the Company will participate in trade fairs in overseas such as Germany and the United States and visit customers in overseas 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. In the PRC market, the Company has enhanced its sales force to promote its products in order to increase its market shares in the PRC. Changmao will actively enhance the coverage of its sales network through various means.

To sum up, 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.

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 nine months ended 30 September 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.



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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 September 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 nine months ended 30 September 2003.

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 September 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 of 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 (Note (a))	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	1.14%	135,000,000	48.04%



	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
Mr. Jiang Jun Jie	Interest of controlled corporation (Note (c))	-	-	67,500,000	24.02%
Mr. Zeng Xian Biao	(Note (d))	-	-	(Note (d))	(Note (d))
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	-	-	66,000,000	23.49%
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 September 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 2 and 3 of Part XV of the SFO:

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
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	Interest 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)	Interest of controlled corporation	50,000,000 (Note (b))	22.83%	-	-
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%	-	-



	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
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 share 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 registered 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 registered 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 registered 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 September 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>)	<u>281,000,000</u>
	<u>683,700,000</u>

Notes:

- (a) Overseas listed foreign shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which 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 nine months ended 30 September 2003.



SPONSOR'S INTEREST

As at 30 September 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 September 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 third quarterly results for the nine months ended 30 September 2003 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 7 November 2003