

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)



first
quarterly
report
2004



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

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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 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 Rmb41,482,000 for the three months ended 31 March 2004, representing an increase of 43% as compared to the corresponding period in last year.
- Unaudited net profit of approximately Rmb7,389,000 for the three months ended 31 March 2004, representing an increase of 58% as compared to the corresponding period in last year.
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2004.

RESULTS

The board of Directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is pleased to present the unaudited results of the Company for the three months ended 31 March 2004 together with the unaudited comparative figures for the corresponding period in 2003 as follows:

		Unaudited	
		For the three months ended	
		31 March	
	<i>Note</i>	<i>2004</i>	2003
		<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	2	41,482	29,110
Cost of sales		(27,758)	(20,123)
Gross profit		13,724	8,987
Other revenues		48	159
Selling expenses		(1,332)	(1,043)
Administrative expenses		(3,973)	(3,160)
Operating profit		8,467	4,943
Finance costs		(257)	(205)
Profit before taxation		8,210	4,738
Taxation	3	(821)	(76)
Profit attributable to shareholders		7,389	4,662
Basic earnings per share	4	Rmb 0.011	Rmb 0.007



Notes:

1. Basis of preparation and accounting policies

The unaudited results of the Company have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants and the disclosure requirements of GEM Listing Rules. They have been prepared under historical cost convention.

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 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 2003, the relevant tax authority approved to further reduce the Company's EIT rate payable from 12% to 10% with retrospective effect from 1 January 2002 for a period of three years up to the financial year ending 31 December 2004 with reference to the 技術密集型知識密集型企業證書 (The Certificate of Technology-intensive and Knowledge-intensive Enterprise) obtained by the Company in June 2001. Consequently, the taxation charged to the profit and loss account for the three months ended 31 March 2003 includes an adjustment of taxation payable for the year ended 31 December 2002 amounting to approximately Rmb446,000.



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

The taxation on the Company's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	For the three months ended	
	31 March	
	2004	2003
	Rmb'000	Rmb'000
Profit before taxation	8,210	4,738
Calculated at the approved taxation rate of 10%	821	473
Adjustment in taxation rate for 2002	—	(446)
Others	—	49
Taxation charge	821	76

As at 31 March 2004 and 2003, there was no significant unprovided deferred taxation.

4. Earnings per share

The calculation of basic earnings per share ("EPS") for the three months ended 31 March 2004 is based on the Company's profit attributable to shareholders of approximately Rmb7,389,000 (2003: Rmb 4,662,000) and the 683,700,000 shares (2003: 683,700,000 shares) in issue during the period.

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



5. Reserves

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Statutory public welfare fund <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2004	87,159	3,714	1,857	30,377	123,107
Profit for the period	-	-	-	7,389	7,389
At 31 March 2004	87,159	3,714	1,857	37,766	130,496

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Statutory public welfare fund <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2003	87,159	1,637	818	20,767	110,381
Profit for the period	-	-	-	4,662	4,662
At 31 March 2003	87,159	1,637	818	25,429	115,043

BUSINESS REVIEW

The Company had a turnover of approximately Rmb41,482,000 for the three months ended 31 March 2004, with an increase of 43% as compared to the corresponding period in last year. Profit attributable to shareholders reached approximately Rmb7,389,000 in the first quarter of 2004, representing an increase of 58% compared to the first quarter of 2003. Sales volume of the major products of the Company, L(+)-tartaric acid and all types of malic acid, recorded an average growth of approximately 108% and 28% respectively as compared to the corresponding period in last year. These growths reflected the results of Changmao's investment in operation, production, market and promotion, research and development as well as construction of production line, which enhanced the Company's competitiveness and growth opportunities.



The gross profit margin was 33% for the three months ended 31 March 2004, which is 2% higher than that recorded by the Company in the corresponding period in last year. Although the price of raw materials has increased over 15% in the first quarter this year, the improvement in production technologies and the decrease in cost due to the economy of scale enabled the Company to increase its profit margin despite the higher cost of raw materials. More importantly, the 10,000 tonnes fumaric acid production line, which has been fully operated since last year, has enhanced the vertical integration and product mix of the Company, which in turn enables the Company to reduce production cost and off-set the impact of the increase in price of raw materials.

The increase in selling and administrative expenses reflected the improvement in the operation of the Company and its development thereafter. The increase was mainly due to the continuous growth of business and production volume, this year the Company recruited new staff, increased scale of the Company's research and development, and devoted more effort to marketing and promotion.

PROSPECTS

Looking forward in 2004, the Company intends to further increase its products' market share and enhance its competitiveness. The Company will enhance the brand awareness of the Company in the international market by publishing information in respect of the Company's product and research development in internationally recognized professional magazines and websites as well as participation in trade fairs held at overseas such as Japan and the United States. The Company's persistence in pursuing good product quality and research in advanced production technologies, has made some renown international companies to show strong interest in the Company's products.

As the first fumaric production line with an annual production capacity of 10,000 tonnes has been successfully operated in 2003, the Company is establishing the second fumaric production line with an annual production capacity of 10,000 tonnes. This production line is expected to be completed in the second half of 2004 and is expected to create handsome return to the Company. Upon the operation of this new production line, Changmao will



become one of the largest fumaric acid producer in Asia. Fumaric acid is the end product of the Company as well as a raw material for other products of the Company, therefore the new production line will also provide a good basis for expansion of production capacity for other products of the Company. It will enhance the Company's resources and production input allocation and further increase the Company's production scale. The construction of the second phase of the production premises (including production lines for new products, L-phenylalanine and aspartame) is smoothly underway. These two new products have great market potential. In 2004, Changmao expects its business will growth further through the launch of these new products.

As a result of the hard work of the Company's sales force, the production and sales volume of Company's major products was satisfactory in the first quarter of 2004. The demand of L(+)-tartaric acid, one of the Company's major product, from the customers increased significantly. Thus, the Company is planning to increase the production capacity of L(+)-tartaric acid in 2004. This would enable the Company to reinforce its leading position in the L(+)-tartaric acid market.

For research and development, the Company continues to focus on research subjects according to the market demand. The Company is performing research on new products which can be used as pharmaceutical intermediaries. These products have great market potential. The Company has successfully produced these products with satisfactory results. Customers were satisfied with the product quality for the samples sold to them. The Company is preparing for the medium-scale research of these new products. In order to attract calibre professional and management staff, the Company has applied for setting up of a post-doctorate programme station in 2003. Approval of this programme has been obtained from the relevant authority of the government. This programme will increase the technological level of the Company and the Company's ability in research and development and thus is a very essential move for the Company's future development.



The Company has endeavoured to enhance its operation and management systems with an aim to build up a highly efficient and effective working team. The Company's effort has been proven by the encouraging results in the first quarter of 2004, which has increased significantly as compared to the corresponding period in last year. The Company believes that it will achieve a faster growth and development in 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not purchased, sold or redeemed any of its listed securities during the three months ended 31 March 2004.

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 H Shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. The Scheme will remain in force for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of Rmb1 or HK\$1 is payable on acceptance of the grant of an option.

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



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

As at 31 March 2004, no options have been granted by the Company to any of its employees, Directors or supervisors of the Company (the "Supervisors").

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2004.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2004, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures 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 5.48 to 5.67 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:

		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.



Save as disclosed above, as at 31 March 2004, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify 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 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

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 31 March 2004, the following, not being a Director, Supervisor or chief executives of the Company, 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 and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding	Number of Promoter Foreign Shares	Percentage shareholding in	Number of H Shares	Percentage shareholding
			in the Domestic Shares		the Promoter Foreign Shares		in the H 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%	-	-	-	-



Name of Shareholder	Capacity	Number of Domestic Shares	Percentage	Number of Promoter Foreign Shares	Percentage	Number of H Shares	Percentage
			shareholding in the Domestic Shares		shareholding in the Promoter Foreign Shares		shareholding in the H 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%	-	-	-	-
Chervon Investment Limited	Beneficial owner	-	-	-	-	16,896,000	9.20%
Chervon Holdings Limited	Interest of controlled corporation	-	-	-	-	16,896,000 (Note (f))	9.20%
PS Holdings Limited	Interest of controlled corporation	-	-	-	-	16,896,000 (Note (g))	9.20%

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.
- (f) Chervon Holdings Limited is the beneficial owner of 100% of the issued share capital of Chervon Investment Limited, which is the beneficial owner of 16,896,000 H Shares.
- (g) PS Holdings Limited is the beneficial owner of 66% of the issued share capital of Chervon Holdings Limited, which is the beneficial owner of 100% of the issued share capital of Chervon Investment Limited. Chervon Investments Limited is the beneficial owner of 16,896,000 H Shares.

Save as disclosed above, as at 31 March 2004, the Directors are not aware of any person, not being a Director, Supervisor or chief executives of the Company, 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 and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

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 31 March 2004, 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
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	683,700,000
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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” (which definitions have been adopted in the Articles of Association of the Company), the rights attached to Promoter Foreign Shares (which are subject to certain restrictions on transfer and may become H Shares upon obtaining the requisite approvals from, among



other bodies, the China Securities Regulatory Commission and the Stock Exchange) have not yet been expressly dealt with under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Promoter Foreign Shares do not contravene any PRC laws or regulations.

At present, there are no applicable PRC laws and regulations governing the rights attached to the Promoter Foreign Shares. Jingtian & Gongcheng, the legal adviser to the Company as to PRC Law, have advised the Company that until new laws or regulations are introduced in this respect, holders of Promoter Foreign Shares shall have the same rights and obligations as those of the holders of Domestic Shares (in particular, in respect of the right to attend and vote in the general meetings and class meetings and to receive notice of such meetings in the same manner applicable to holders of Domestic Shares), except that holders of Promoter Foreign Shares shall enjoy the following rights:

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;
- (c) disputes between holders of Domestic Shares and Promoter Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Promoter Foreign Shares and overseas listed foreign shares; and



- (d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Promoter Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

COMPLIANCE WITH THE BOARD PRACTICES AND PROCEDURES OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules at any time during the three months ended 31 March 2004.

SPONSOR'S INTEREST

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

Save as disclosed above, Tai Fook (including its directors and employees) and its associates, do not have any interest in the Company as at 31 March 2004.



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 first quarterly results for the three months ended 31 March 2004 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 11 May 2004

As at the date hereof, Mr. Rui Xin Sheng and Mr. Jiang Jun Jie are the executive directors of the Company, Mr. Zeng Xian Biao, Mr. Zhu Lai Fa, Mr. Yu Xiao Ping, Mr. Lu Chong Zhu and Ms. Leng Yi Xin are the non-executive directors of the Company, Prof. Ouyang Ping Kai and Prof. Yang Sheng Li are the independent non-executive directors of the Company.