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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 Rmb87,463,000 for the six months ended 30 June 2004, representing an increase of 38% as compared to that of the corresponding period in last year
- Unaudited net profit of approximately Rmb16,277,000 for the six months ended 30 June 2004, representing an increase of 71% as compared to that of the corresponding period in last year
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004

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 the six months ended 30 June 2004 together with the unaudited comparative figures for corresponding period in 2003 as follows:

CONDENSED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

	Note	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Turnover	2	45,981	34,341	87,463	63,451
Cost of sales		(30,469)	(24,686)	(58,227)	(44,809)
Gross profit		15,512	9,655	29,236	18,642
Other revenues		442	213	490	372
Selling expenses		(1,619)	(1,113)	(2,951)	(2,156)
Administrative expenses		(4,067)	(3,256)	(8,040)	(6,416)
Operating profit	3	10,268	5,499	18,735	10,442
Finance costs	4	(393)	(132)	(650)	(337)
Profit before taxation		9,875	5,367	18,085	10,105
Taxation	5	(987)	(536)	(1,808)	(612)
Profit attributable to shareholders		8,888	4,831	16,277	9,493
Basic earnings per share	6	Rmb0.013	Rmb0.007	Rmb0.024	Rmb0.014

**CONDENSED BALANCE SHEET**

As at 30 June 2004

		Unaudited 30 June 2004 Rmb'000	Audited 31 December 2003 Rmb'000
Non-current assets			
Acid patent	7	7,944	8,278
Fixed assets	8	104,027	97,961
Construction in progress	8	24,631	24,963
		136,602	131,202
Current assets			
Inventories		27,100	21,416
Accounts and bills receivable	9	24,382	27,992
Other receivables and prepayments		8,677	10,879
Bank balances and cash		50,800	43,360
		110,959	103,647
Current liabilities			
Amounts due to shareholders	10	8,270	10,118
Accounts payable	11	4,853	3,475
Other payables and accrued charges		8,697	8,973
Dividend payable		8,204	–
Taxation payable		987	806
Unsecured short-term bank loan		17,000	20,000
		48,011	43,372
Net current assets		62,948	60,275
Total assets less current liabilities		199,550	191,477
Financed by:			
Share capital	12	68,370	68,370
Reserves	13	131,180	114,903
Proposed final dividend	13	–	8,204
Shareholders' funds		199,550	191,477



CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Unaudited	
	For the six months	
	ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
Total equity as at 1 January	191,477	178,751
Profit for the period	16,277	9,493
Dividends	(8,204)	(8,204)
	<hr/>	<hr/>
Total equity as at 30 June	199,550	180,040
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Unaudited	
	For the six months	
	ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
Net cash inflow from operating activities	20,250	6,191
Net cash outflow from investing activities	(9,810)	(15,130)
	<hr/>	<hr/>
Net cash inflow/(outflow) before financing activities	10,440	(8,939)
Net cash outflow from financing activities	(3,000)	(14,607)
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	7,440	(23,546)
Cash and cash equivalents at 1 January	43,360	76,808
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	50,800	53,262
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balance of cash and cash equivalents		
Bank balances and cash	50,800	53,262
	<hr/> <hr/>	<hr/> <hr/>



Notes:

1. Basis of preparation and accounting policies

The unaudited condensed interim accounts are prepared in accordance with the requirements of Chapter 18 of 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.

The condensed interim accounts should be read in conjunction with the financial statements for the year ended 31 December 2003 included in the Company's 2003 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 2003.

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	
	2004	2003
	Rmb'000	Rmb'000
The People's Republic of China (the "PRC")	51,511	32,967
Europe	21,642	16,578
Asia Pacific	11,946	12,238
Others	2,364	1,668
	87,463	63,451

The Asia Pacific region includes Australia, Hong Kong, India, Japan, South Korea and Malaysia.

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	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Amortisation of acid patent	167	166	334	333
Depreciation	2,177	1,533	4,158	2,794

4. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Interest on bank loans – wholly repayable within five years	393	132	650	337

5. 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 six months ended 30 June 2003 includes an over-provision of taxation 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 30 June		For the six months ended 30 June	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Profit before taxation	9,875	5,367	18,085	10,105
Calculated at the approved taxation rate of 10%	987	536	1,808	1,010
Adjustment in taxation rate for 2002	-	-	-	(446)
Others	-	-	-	48
Taxation charge	987	536	1,808	612

As at 30 June 2004 and 2003, there was no significant unprovided deferred taxation.

6. Earnings per share

The calculation of basic earnings per share ("EPS") for the three months ended 30 June 2004 is based on the Company's profit attributable to shareholders of approximately Rmb8,888,000 (for the three months ended 30 June 2003: approximately Rmb4,831,000) and the 683,700,000 shares (for the three months ended 30 June 2003: 683,700,000 shares) in issue during the period.

The calculation of EPS for the six months ended 30 June 2004 is based on the Company's profit attributable to shareholders of approximately Rmb16,277,000 (for the six months ended 30 June 2003: approximately Rmb9,493,000) and the 683,700,000 shares (for the six months ended 30 June 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.

7. Acid patent

	Rmb'000
Net book value as at 1 January 2004	8,278
Amortisation	(334)
Net book value as at 30 June 2004	<u>7,944</u>



8. Capital expenditure

	Fixed assets <i>Rmb'000</i>	Construction in progress <i>Rmb'000</i>
Net book value as at 1 January 2004	97,961	24,963
Transfer from construction in progress to fixed assets	9,422	(9,422)
Additions	802	9,090
Depreciation	(4,158)	–
	<hr/>	<hr/>
Net book value as at 30 June 2004	104,027	24,631
	<hr/> <hr/>	<hr/> <hr/>

9. Accounts and bills receivable

	30 June 2004 <i>Rmb'000</i>	31 December 2003 <i>Rmb'000</i>
Accounts receivable (<i>note (a)</i>)	22,766	26,661
Bills receivable (<i>note (b)</i>)	1,616	1,331
	<hr/>	<hr/>
	24,382	27,992
	<hr/> <hr/>	<hr/> <hr/>

- (a) 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 2004 <i>Rmb'000</i>	31 December 2003 <i>Rmb'000</i>
0 to 3 months	21,039	25,790
4 to 6 months	1,250	728
Over 6 months	477	143
	<hr/>	<hr/>
	22,766	26,661
	<hr/> <hr/>	<hr/> <hr/>

- (b) The maturity dates of bills receivable are normally within 30 days.

**10. Amounts due to shareholders**

The amounts due to shareholders are unsecured and interest free.

Pursuant to a promoters' agreement dated 15 April 2001 entered into by the promoters of the Company and a reorganisation agreement dated 9 June 2002 entered into between the Company and its then shareholders, 常州曙光化工厂 (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. As of 30 June 2004, the balance of the distributions of the Excess payable to Shuguang Factory and Jomo Limited amounted to approximately Rmb6,327,000 and Rmb1,759,000 respectively (31 December 2003: approximately Rmb6,327,000 and Rmb1,759,000 respectively). Except for an amount of approximately Rmb2,220,000 originally repayable to Shuguang Factory in 2003 which has been mutually agreed to be deferred to 2004, the balance of the distributions of the Excess are wholly repayable in 2004.

The remaining balance of the amounts due to shareholders has no fixed repayment terms.

11. Accounts payable

The aging analysis of accounts payable is as follows:

	30 June 2004 <i>Rmb'000</i>	31 December 2003 <i>Rmb'000</i>
0 to 6 months	4,816	3,469
7 to 12 months	31	4
Over 12 months	6	2
	<hr/> 4,853	<hr/> 3,475

12. Share capital

	30 June 2004		31 December 2003	
	Number of shares at Rmb 0.10 each	Nominal value <i>Rmb'000</i>	Number of shares at Rmb 0.10 each	Nominal value <i>Rmb'000</i>
Registered, issued and fully paid	683,700,000	68,370	683,700,000	68,370



As at 30 June 2004 and 31 December 2003, the share capital of the Company composed of 219 million domestic shares, 281 million promoter foreign shares and 183.7 million H shares. The H shares rank pari passu with the domestic shares and promoter foreign shares in all aspects and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and trade in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

13. 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
Transfer from profit and loss account	-	2,094	1,047	(3,141)	-
Final dividend for the year ended 31 December 2003	-	-	-	(8,204)	(8,204)
Profit for the period	-	-	-	16,277	16,277
At 30 June 2004	87,159	5,808	2,904	35,309	131,180

	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
Transfer from profit and loss account	-	2,077	1,039	(3,116)	-
Final dividend for the year ended 31 December 2002	-	-	-	(8,204)	(8,204)
Profit for the year	-	-	-	20,930	20,930
At 31 December 2003	87,159	3,714	1,857	30,377	123,107

Representing:

2003 Proposed final
dividend

8,204

Retained earnings at
31 December 2003

22,173

30,377

**14. Contingent liabilities**

As at 30 June 2004 and 31 December 2003, the Company did not have any material contingent liabilities.

15. Commitments

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

	30 June 2004 Rmb'000	31 December 2003 Rmb'000
Contracted but not provided for	2,477	4,618
Authorised but not contracted for	16,500	32,000
	<u>18,977</u>	<u>36,618</u>

(b) Commitments under operating leases

At 30 June 2004, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2004 Rmb'000	31 December 2003 Rmb'000
Not later than one year	374	388
Later than one year and not later than five years	383	529
Later than five years	1,040	1,062
	<u>1,797</u>	<u>1,979</u>

16. Related party transactions

Apart from those disclosed under Note 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 2004:

	For the six months ended 30 June	
	2004 Rmb'000	2003 Rmb'000
Purchases of raw materials from Shuguang Factory	1,323	11,097
Electricity charged by Shuguang Factory	992	767
Rental expenses to Shuguang Factory	93	93
Raw water supply charged by Shuguang Factory	156	134



BUSINESS REVIEW

Turnover

The Company recorded a turnover of Rmb87,463,000 and profit attributable for shareholders of Rmb16,277,000 for the six months ended 30 June 2004, representing an increase of 38% and 71% respectively as compared to that of the corresponding period in last year. The Company recorded a turnover of Rmb45,981,000 and profit attributable for shareholders of Rmb8,888,000 for the three months ended 30 June 2004, representing an increase of 11% and 20% respectively as compared to that of the first quarter of 2004.

Through the consolidation of the market in the past two years, there is a substantial growth in sales as a result of the Company's investment in operation, production, market development, research and development. Besides the establishment of new production lines also help enhance the competitiveness of the Company. With the market adjustment of L(+)-tartaric acid being stabilised resulting in the closure of production plants of some L(+)-tartaric acid in the PRC and overseas, the price of L(+)-tartaric acid has been also stabilised in last year and the current price has slightly increased as compared to that in last year. Changmao has taken this opportunity and successfully increased its market share internationally through the increase in its production capacity and production volume, coupled with its internationally recognised product quality. Sales volume of the major products of the Company, L(+)-tartaric acid and all types of malic acid, for the six months ended 30 June 2004 recorded an average growth of approximately 117% and 14% respectively as compared to that of the corresponding period in last year.

In 2003, the Company's fumaric acid production line with annual production capacity of 10,000 tonnes become fully operational. It enhanced the vertical integration strategy whereby a production chain of "benzene – fumaric acid – L-malic acid/ L-aspartic acid/ L(+)-tartaric acid – L- phenylalanine – aspartame" is formed. The characteristic of this production chain is that each of the product in the chain is an end-product for sale to customers. It provides Changmao with the flexibility to adjust its product mix and control cost in a more effective manner. In addition, the products in the later part of the production chain requires more production procedures and steps and more advanced production technologies, which costs are less affected by the fluctuation of raw material prices as compared to that of the products in the beginning part of the production chain. In view of this, the Company's strategy is to enhance the sales of the products in the later part of the production chain to increase the Company's profit. To cope with the production expansion of products in the later part of the production chain, the Company is currently establishing a fumaric acid production line with an annual production capacity of approximately 10,000 tonnes, thereby increasing the Company's production capacity of fumaric acid to approximately 20,000 tonnes per annum. Upon its completion, the Company will be one of the largest fumaric acid producer in Asia.



Gross profit margin

Although the average raw material price in the first half of 2004 has increased by more than 45% as compared to that of the corresponding period in last year, the Company records a gross margin ratio of 33% for the six months ended 30 June 2004, which is 4% higher than that of the corresponding period in last year.

The Company has adjusted its product mix through vertical integration and devoted more effort on marketing of the products in the middle and later part of the production chain as mentioned above to increase their sales. This reduces the impact of fluctuation of the raw material prices to the Company and enables the Company to increase its overall profit margin.

In terms of production, the Company has increased production volume, reduced wastage, improved its technology and reinforced the production management to lower the average production costs. These measures help the Company to overcome the effects brought by the increase in raw material prices and increase the Company's profit.

In addition, the chiral products which are used as pharmaceutical intermediaries and launched in late 2003 started to contribute profit to the Company this year. In general, it requires more advanced technologies to produce chiral products than non-chiral products, thus the profit margin of chiral products is higher than that of other ordinary chemical products. The Company continuously focus on research and development on technologies to produce new chiral products which have high market potential and better profit margin.

As a result of the above factors, the Company's gross profit margin ratio has increased despite the fact that the raw material prices were at a high level.

Expenses

In order to facilitate the continuous growth of business and production volume, the Company has recruited new staff, increased scale of its research and development, and devoted more effort to marketing and promotion this year. As a result, the selling and administrative expenses for the six months ended 30 June 2004 have increased.

PROSPECTS

Through the hard work in various dimensions, there is a substantial growth in Changmao's sales in the first half of 2004. In the second half of 2004, the Company will devote more efforts in marketing and promoting thereby obtaining a better brand awareness. In addition, Changmao will co-operate with foreign enterprise for production of certain products. These projects are currently under preparation. It is expected that some of these projects will contribute to the profit of the Company in late 2004.



In respect of new products, there is a substantial growth in the market of L-phenylalanine and aspartame, which are the major products to be produced in the second phase of the Company's production premises. With the continuous improvement in people's living standard, functional food additive like aspartame has experienced tremendous growth. The sales of aspartame in the United States is approximately US\$500 million per year. The development and application of these two products have just started in recent years in the PRC. L-phenylalanine is a raw material for aspartame, which is used to be imported from overseas. The higher price and limited quantity of L-phenylalanine make commercial production of aspartame in the PRC difficult. At present, the supply of aspartame by PRC suppliers amounted to hundreds of tonnes in a year. Based on the characteristics of these two products and the strong research ability of Changmao, Changmao strategically plans to simultaneously develop the production technologies for the production of L-phenylalanine and aspartame, and commercialise the production of these two products by extending the vertical production chain of Changmao. According to the Company's market research, the export of aspartame has increased by over approximately 66% in the period from March to May 2004. This indicates a great growth potential and market for this product. The Directors are confident that the continuous improvement in the production technologies would enhance the competitiveness of these two products in the international market and contribute to the Company's sales growth.

In respect of production and sales, the Company's major product, L(+)-tartaric acid has maintained the growth momentum in the first half of 2004. The Company will invest additional resources in its 5,000 tonnes/year production equipment of L(+)-tartaric acid in order to increase its annual production capacity to meet the increasing market demand. In addition, the Company endeavours to control the costs of the products to increase its competitiveness.

In respect of research and development, the research centre of the Company continuous to develop production technologies and explore new application of chiral products. The Company is developing the production technologies for various new types of chiral products based on customer needs and market demand. One of these products is a chiral compounds which has a high market potential. The Company has completed the medium scale research of this project, and expects to launch this product into the market in the near future. Another important project is the research on production technologies for an important chiral pharmaceutical intermediary of high selectivity. The Company is researching into ways of enhancing the production technologies and reducing the production cost of this product. The Company believes that the above products will bring meaningful return to the Company once its production is commercialised.



SEGMENTAL INFORMATION

Most of the Company's products are exported to Western Europe, Australia and Japan. When such sales are expressed as a percentage of turnover, direct export sales (including sales through import-export agents in the PRC) accounted for approximately 68% (for the six months ended 30 June 2003: 65%) of the Company's turnover while domestic sales in the PRC accounted for approximately 32% (for the six months ended 30 June 2003: 35%) of the turnover.

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. Over 95% of Changmao's direct export sales (excluding sales to the import-export agents established in the PRC) are denominated and settled in US dollars or Euros. The Company has entered into forward foreign currency agreements to limit the Company's exposure to fluctuations in Euros. Although the Company does not conclude any forward foreign currency agreements to limit its exposure to adverse fluctuations in the US dollar, it has constantly reviewed the situation and, if appropriate, carries out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Company had total outstanding bank borrowings of Rmb17 million (as at 31 December 2003: Rmb20 million), all of which were unsecured short-term bank borrowings. The interest rate of the outstanding bank loans is approximately 5% per annum.

Except for the bank borrowings disclosed above, as at 30 June 2004 and 31 December 2003, the Company did not have any committed borrowing facilities.

As at 30 June 2004, the Company had capital commitments for property, plant and equipment amounting to approximately Rmb19 million, of which approximately Rmb2.5 million has been contracted for. The remaining balance of approximately Rmb16.5 million are authorised but not contracted for. These capital commitments are mainly related to the expansion of production lines or establishment of new production lines for the Company's proposed new products from 1 July 2004 to 31 December 2004 as set out in the section headed "Statement of business objectives" in the prospectus issued by the Company in June 2002 (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 charges on its assets during the six months ended 30 June 2004 and 2003. The gearing ratio (calculated based on total liabilities divided by total assets) was 19% and 18% as at 30 June 2004 and 31 December 2003 respectively. As at 30 June 2004, the Company's cash and cash equivalent amounted to Rmb50,800,000 (31 December 2003: Rmb43,360,000). The Directors consider that the Company is in a healthy financial position.

CAPITAL STRUCTURE OF THE COMPANY

The H shares of the Company 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. Excessive cash held by the Company is generally placed in banks to earn interest income.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus	Actual business progress for the six months ended 30 June 2004
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1. Research and development

Fine chemical technology

- | | |
|---|---|
| - Research on the function and selectivity of catalytic reaction solution during fine chemical reaction process | - Increased the conversion rate and selectivity in fine chemical reaction process of certain products. The Company will continue to research on this area |
| - Research on new methodology and technique in the area of fine chemical technology | - Continued to research on new methodology and technique in the area of fine chemical technology |

Immobilised enzyme technology

- | | |
|--|--|
| - Research on applying the immobilized enzyme technology in the manufacture of new chiral products | - Successfully used immobilized enzyme technology in production of certain new products, the production of which will be commercialised soon |
|--|--|

Simultaneous reaction and separation technology

- | | |
|---|--|
| - 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 | - The research was completed in 2002 |
| - Research on applying the simultaneous reaction and separation technology in the production of other chiral organic acid products | - Successfully applied this technology in the production of other products |

**Business objective as stated in the Prospectus**

- 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

Chiral synthesis

- Research on the application of existing chiral products in development of new chiral derivative products

Chiral resolution

- Research on racemization after the process of chemical resolution thereby increasing resolution rate

Actual business progress for the six months ended 30 June 2004

- Continued to research on integrated technology of simultaneous reaction and separation technology and biotechnology thereby enhancing its existing biotechnology

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

- Completed research on certain derivative products based on the Company's existing chiral products, some of these products has been launched into the market

- Continued to research on racemization after the process of chemical resolution which increased the product yield



Business objective as stated in the Prospectus

Actual business progress for the six months ended 30 June 2004

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.)
 - Research on D(-)-p-hydroxyphenylglycine with 南京工業大學 (Nanjing University of Technology)
- As Shanghai Since Biochnology Co., Ltd. underwent a corporate restructuring, the project was suspended
 - The research subject has been changed to D-series amino acid, which is expected to have better marketability and higher commercial value. The D-series amino acid is a Major Breakthrough Project of the Tenth Five-year Province Plan (省「十五」科技攻關項目). The laboratory scale research of D-series amino acid has been completed and is currently under medium scale research

Chirotechnology Centre

- Purchase software and hardware thereby enhancing its research capability
- Purchased some advanced foreign experiment and testing equipment for the laboratories



Business objective as stated in the Prospectus

Actual business progress for the six months ended 30 June 2004

2. Production expansion

- | | |
|--|--|
| <ul style="list-style-type: none"> - Increase annual production capacity of D(-)-tartaric acid to 200 tonnes | <ul style="list-style-type: none"> - The project is under equipment adjustment stage |
| <ul style="list-style-type: none"> - Increase annual production capacity of D(-)-p-hydroxyphenylglycine to 50 tonnes | <ul style="list-style-type: none"> - The research subject has been changed to D-series amino acid, which is expected to have better marketability and higher commercial value. The D-series amino acid is a Major Breakthrough Project of the Tenth Five-year Province Plan(省「十五」科技攻關項目). The laboratory scale research of D-series amino acid has been completed and is under medium scale research. |
| <ul style="list-style-type: none"> - Establish a 10 tonnes/year production line for D-alanine | <ul style="list-style-type: none"> - The product is under laboratory research stage and the establishment of the product line will be prepared in second half of 2004 |
| <ul style="list-style-type: none"> - Establish an additional 10,000 tonnes/year production line on the existing 10,000 tonnes/year production line of fumaric acid (including production line for crude maleic anhydride) | <ul style="list-style-type: none"> - The construction of this production line is underway and is expected to be in operation in the fourth quarter of 2004 |
| <ul style="list-style-type: none"> - Increase annual production capacity of L-malic acid to 5,000 tonnes | <ul style="list-style-type: none"> - Increased annual production capacity of L-malic acid to 5,000 tonnes |



Business objective as stated in the Prospectus

Actual business progress for the six months ended 30 June 2004

3. Marketing

- | | |
|--|--|
| <ul style="list-style-type: none">- Participate in 中國國際化工展 (China International Chemical Fair)- Participate in 中國出口商品交易會 (Chinese Export Commodities Fair) to be held every half year- 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)- Organise sales staff to visit 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 in advertisement and participate in web trade fair- Participate in international product show- Visit major foreign customers and explore new international markets | <ul style="list-style-type: none">- Participated in various food additive trade fairs and chemical fairs- Participated in 中國出口商品交易會 (Chinese Export Commodities Fair) in April 2004- 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)- Visited various specialised export companies and continued to explore potential markets- Continued to display products in virtual product display room in well-known websites and disseminate relevant supply and demand information in advertisement and participate in web trade fair- Participated in various international product shows- Visited major foreign customers and explore new international markets and successfully gained some new customers |
|--|--|



Business objective as stated in the Prospectus

- Establish a representative office in either US, Europe or Australia

Actual business progress for the six months ended 30 June 2004

- This plan has been put at hold as the Company considered to be unnecessary at this stage to establish another overseas representative office in view of the current status of the Company

4. Deployment of human resources

- Carrying out the following plan for human resources

- As at 30 June 2004, number of staff was as follows:

	Number of staff		Number of staff
Research and development	45	Research and development	32
Production	270	Production (<i>Note 1</i>)	211
Quality control	15	Quality control	18
Sales and marketing	20	Sales and marketing	15
Management and general administration	37	Management and general administration	27
	<u>387</u>		<u>303</u>



Business objective as stated in the Prospectus

Actual business progress for the six months ended 30 June 2004

5. International production quality standard

- Obtain British Pharmacopoeia for Aspartame (Note 2)
- 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 3) for D-alanine and D-phenylglycine

- Application for British Pharmacopoeia for Aspartame will be made when production volume is up to a commercial scale
- Corporate standard will be submitted for CSBTS review for D-alanine and D-phenylglycine when production volume is up to a commercial scale

6. Permits

- Renew 衛生許可証 (Hygiene Permits) for L(+)-tartaric acid, fumaric acid, L-malic acid, DL-malic acid and L-aspartic acid
- Obtain 衛生許可証 (Hygiene Permits) for Aspartame

- Renewed 衛生許可証 (Hygiene Permits) for L(+)-tartaric acid, fumaric acid, L-malic acid, DL-malic acid and L-aspartic acid in July 2004
- Hygiene permit will be obtained when production volume is up to a commercial scale



Notes:

1. Due to the highly automated production process of the Company and the improvement in the production technologies, the production staff actually required was less than that had been budgeted.
2. 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, in which the standards are legally enforceable in the United Kingdom.
3. 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 PROCEED FROM THE PLACING

The net proceeds from the issue of H shares, after the 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 be used as working capital of the Company. The remaining net proceeds of approximately HK\$75 million (equivalent to approximately Rmb80 million) was planned to be applied to achieving the business objectives as set out in the Prospectus, of which an amount of approximately HK\$5.6 million was planned to be applied for the six months ended 30 June 2004, as follows:

	Proposed <i>HK\$ million</i>	Actual <i>HK\$ million</i>
Product development (<i>Note 1</i>)	0.8	0.3
Upgrading research equipment of the Chirotechnology Centre (<i>Note 1</i>)	1.8	0.1
Technology research and development	1.0	0.9
Marketing and promotion activities and setting up of representative offices (<i>Note 1</i>)	1.0	0.5
Recruitment of additional technical and management staff and staff training (<i>Note 1</i>)	1.0	0.5
	<hr/>	<hr/>
Comparison of business objective with actual business progress	5.6	2.3
	<hr/> <hr/>	<hr/> <hr/>



Notes:

1. 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 as stated in the business objective have been postponed. As a result, the Company has utilised less proceeds from the Placing as planned.

The proceeds from the Placing which has not been utilised as at 30 June 2004 amounted to HK\$18.2 million and is currently placed in the PRC's banks. The amount will continue to be used in the establishment of new production lines, product development, upgrading research equipment of the Chirotechnology Centre, technology research and development, marketing and promotion activities, recruitment of additional technical and management staff and staff training.

EMPLOYEES

Including the Directors, as at 30 June 2004, the Company employed a total of 303 employees (30 June 2003: 298 employees). Total amount of staff costs for the six months ended 30 June 2004 was approximately Rmb6,279,000 (for the six months ended 30 June 2003: Rmb5,229,000). 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 individual performance. The Company also formulated a staff incentive scheme under which for each of the four years ending 31 December 2007, 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 Rmb80 million, Rmb40 million, Rmb40 million and Rmb40 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 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; and (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 2004, 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 2004.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Company as at 30 June 2004 and 31 December 2003.

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 are no acquisitions and disposals of subsidiaries and affiliated companies by the Company during the six months ended 30 June 2004 and 2003.

CONTINGENT LIABILITIES

As at 30 June 2004 and 31 December 2003, the Company did not have any material contingent liabilities.

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 30 June 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 (Note (a))	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
<i>Director</i>					
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	1.14%	135,000,000	48.04%
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))
Prof. Jiang Yao Zhong	(Note(m))	-	-	(Note(m))	(Note(m))



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.
- (m) Prof. Jiang 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 30 June 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 30 June 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 are 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 in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares	Number of H Shares	Percentage shareholding in the H Shares
常州曙光化工厂 (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%	-	-



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	Number of H Shares	Percentage shareholding in the H Shares
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	62,500,000 (Note (b))	22.83%	-	-	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (c))	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 (Note (d))	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 (e))	5.71%	-	-	-	-
Mr. Zhang Pei Guang	Interest of controlled corporation	12,500,000 (Note (f))	5.71%	-	-	-	-
Mr. Zhang Ming	Interest of controlled corporation	12,500,000 (Note (g))	5.71%	-	-	-	-



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	Number of H Shares	Percentage shareholding in the H Shares
Chervon Investment Limited	Beneficial owner	-	-	-	-	22,392,000	12.19%
Chervon Holdings Limited	Interest of controlled corporation	-	-	-	-	22,392,000 (Note (h))	12.19%
PS Holdings Limited	Interest of controlled corporation	-	-	-	-	22,392,000 (Note (i))	12.19%
<i>Short positions in shares:</i>							
上海博聯科技投資有限公司 (Shanghai Bolian Technology Investment Company Limited)	Beneficial owner	(12,500,000) (Note (d))	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 (e))	5.71%	-	-	-	-
Mr. Zhang Pei Guang	Interest of controlled corporation	(12,500,000) (Note (f))	5.71%	-	-	-	-
Mr. Zhang Ming	Interest of controlled corporation	(12,500,000) (Note (g))	5.71%	-	-	-	-

Notes:

- (a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (a Director) 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) Among long positions in the 62,500,000 Domestic Shares, Shanghai Technology Investment Company Limited is the registered holder and beneficial owner of 50,000,000 Domestic Shares. The remaining 12,500,000 Domestic Shares are related to the long position of Shanghai Technology Investment Company Limited arising from a conditional share transfer agreement dated 19 June 2004 made between Shanghai Technology Investment Company Limited and Shanghai Bolian Technology Investment Company Limited, pursuant to which Shanghai Bolian Technology Investment Company Limited agreed to transfer its shareholding of 12,500,000 Domestic Shares to Shanghai Technology Investment Company Limited.



- (c) Shanghai Technology Investment Company is the beneficial owner of 49% of the issued share capital of Shanghai Technology Investment Company Limited, which has a long position in 62,500,000 Domestic Shares, details of which are set out in note (b) above.
- (d) Shanghai Bolian Technology Investment Company Limited is the registered holder and beneficial owner of 12,500,000 Domestic Shares. Its short position in 12,500,000 Domestic Shares was arisen from a conditional share transfer agreement dated 19 June 2004 made between Shanghai Technology Investment Company Limited and Shanghai Bolian Technology Investment Company Limited, pursuant to which Shanghai Bolian Technology Investment Company Limited agreed to transfer its shareholding of 12,500,000 Domestic Shares to Shanghai Technology Investment Company Limited.
- (e) Fuzhou Fei Yue Group Company Limited is the beneficial owner of 67% of the registered capital of Shanghai Bolian Technology Investment Company Limited, which has a long position in 12,500,000 Domestic Shares and a short position in 12,500,000 Domestic Shares, details of which are set out in note (d) above.
- (f) 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 has a long position in 12,500,000 Domestic Shares and a short position in 12,500,000 Domestic Shares, details of which are set out in note (d) above.
- (g) 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 has a long position in 12,500,000 Domestic Shares and a short position in 12,500,000 Domestic Shares, details of which are set out in note (d) above.
- (h) Chervon Holdings Limited is the beneficial owner of 100% of the issued share capital of Chervon Investment Limited, which is the beneficial owner of 22,392,000 H Shares.
- (i) 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 22,392,000 H Shares.

Save as disclosed above, as at 30 June 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 are 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) have an interest in a business which competes with the business of the Company.

SHARE CAPITAL STRUCTURE

As at 30 June 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
	<hr/>
	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 the 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, 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 six months ended 30 June 2004.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.



SPONSOR'S INTEREST

As at 30 June 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 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 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 interim results for the six months ended 30 June 2004 with the Directors.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 5 August 2004

As at the date hereof, Mr. Rui Xin Sheng and Mr. Jiang Jun jie are the executive Directors, 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, Prof. Ouyang Ping Kai and Prof. Yang Sheng Li are the independent non-executive Directors.