



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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

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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 Rmb137,918,000 for the nine months ended 30 September 2004, representing an increase of 44% as compared to the corresponding period in last year.
- Unaudited net profit of approximately Rmb24,622,000 for the nine months ended 30 September 2004, representing an increase of 79% as compared to the corresponding period in last year.
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 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 and nine months ended 30 September 2004 together with the unaudited comparative figures for the corresponding period in 2003 as follows:

	Note	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Turnover	2	50,455	32,049	137,918	95,500
Cost of sales		(35,307)	(23,380)	(93,534)	(68,189)
Gross profit		15,148	8,669	44,384	27,311
Other revenues		12	534	502	906
Selling expenses		(1,934)	(1,097)	(4,885)	(3,253)
Administrative expenses		(3,869)	(3,280)	(11,909)	(9,696)
Operating profit		9,357	4,826	28,092	15,268
Finance costs		(84)	(122)	(734)	(459)
Profit before taxation		9,273	4,704	27,358	14,809
Taxation	3	(928)	(470)	(2,736)	(1,082)
Profit attributable to shareholders		8,345	4,234	24,622	13,727
Basic earnings per share	4	Rmb0.012	Rmb0.006	Rmb0.036	Rmb0.020



*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, the PRC, 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 nine months ended 30 September 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 that is 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 September		For the nine months ended 30 September	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Profit before taxation	9,273	4,704	27,358	14,809
Calculated at the approved taxation rate of 10%	928	470	2,736	1,480
Adjustment in taxation rate for 2002	-	-	-	(446)
Others	-	-	-	48
Taxation charge	928	470	2,736	1,082

As at 30 September 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 30 September 2004 is based on the Company's profit attributable to shareholders of approximately Rmb8,345,000 (2003: Rmb4,234,000) and the 683,700,000 shares (2003: 683,700,000 shares) in issue during the period.

The calculation of EPS for the nine months ended 30 September 2004 is based on the Company's profit attributable to shareholders of approximately Rmb24,622,000 (2003: Rmb13,727,000) 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
Final dividend for the year ended 31 December 2003	-	-	-	(8,204)	(8,204)
Profit for the period	-	-	-	24,622	24,622
Transfer from profit and loss account	-	2,094	1,047	(3,141)	-
At 30 September 2004	87,159	5,808	2,904	43,654	139,525

	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
Final dividend for the year ended 31 December 2002	-	-	-	(8,204)	(8,204)
Profit for the period	-	-	-	13,727	13,727
Transfer from profit and loss account	-	2,077	1,039	(3,116)	-
At 30 September 2003	87,159	3,714	1,857	23,174	115,904



## **BUSINESS REVIEW**

### **TURNOVER**

The Company had a turnover of approximately Rmb137,918,000 and profit attributable to shareholders of approximately Rmb24,622,000 for the nine months ended 30 September 2004, representing an increase of 44% and 79% respectively compared to that of the corresponding period in last year.

In 2004, the Company has actively explored new markets in overseas and the PRC. The Company has participated in trade fairs and placed advertisements in specialised magazines to increase the brand awareness of Changmao. The Company has also successfully increased its selling agents and networks. Coupled with Changmao's internationally recognised product quality, the Company has recorded an increase of 44% in its turnover for the nine months ended 30 September 2004. In particular, its export sales (included sales through import-export companies in the PRC) has increased by 47%.

To cope with the market demand, the Company has established a new production line with an annual production capacity of 10,000 tonnes of fumaric acid in 2003. The return from this project has been reflected in the increase in the Company's profit. The sales volume of fumaric acid has increased by approximately 34% as compared to that of the corresponding period in last year. There is growth in the sales of other existing and new products of the Company. Accordingly, the profit attributable to shareholders for the nine months ended 30 September 2004 has increased by approximately 79% as compared to that of the corresponding period in last year.

### **GROSS PROFIT**

The gross profit margin was 32% for the nine months ended 30 September 2004, which is 3% higher than that recorded by the Company in the corresponding period in last year.

In terms of production, the Company has adopted a vertical integration strategy. The Company produces its products in a production chain, "Benzene – fumaric acid – L-tartaric acid/L-aspartic acid/L(+)-tartaric acid – L-phenylalanine – aspartame". The characteristic of this production chain is that each of the





products in the production chain is an end product for sale to customers. In addition, the products in the later part of the production chain is less affected by the impact of fluctuation in raw material prices. With the adoption of this production chain, the Company's strategy to adjust product mix to cope with the changes in the market and to reduce in the production costs by enlarging the Company's operating scale, the Company has successfully increased its profit margin despite the increase in raw material prices.

### PROSPECTS

Fumaric acid is a basic raw material for production of other chemical products. It can be used as feed for animals or food additives, as well as intermediary for medicinal and fine chemical products. As a result of the expansion and internationalization of the chemical market in the PRC, there is an increasing demand in fumaric acid in the PRC and overseas. Changmao's first fumaric acid production line with an annual production capacity of 10,000 tonnes commenced operation in 2003, which has brought satisfactory return to the Company. The fumaric acid produced by the Company is used, firstly as raw materials for products of the later part of the production chain; and secondly, as end product for sale in the market. The volume of fumaric acid used by the Company has kept increasing as the operating scale of Changmao is increased. 70% of the fumaric acid produced by the Company is currently used as raw materials for the production of the Company's other products, the remaining 30% is sold to the market. As the Company is going to further increase its production capacity, the current production capacity of fumaric acid is not enough to cope with the Company's development and the expanding market. In view of this, Changmao has decided to establish another fumaric acid production line with an annual production capacity of 10,000 tonnes. The major equipment of this new production line has been installed and the establishment work is in its final stage. This new fumaric acid production line will enhance the Company's operation in various aspects, in particular, the side product (steam) produced by this production line can help the Company to save energy cost of several millions of Renminbi per year.



The Company's biochemical and chiral research centre is the incubator for the Company's new products. The Company will launch one to two products each year. The next products to be produced in commercialized scale are aspartame and L-phenylalanine.

Aspartame is a highly effective, safe nutritious sweetener, which is approved to be used in over 100 countries and areas. It is used in over 600 drinks, food or medicinal products. The United States is the major consumer of aspartame, with annual sales of approximately US\$500 million. The demand for aspartame is growing at a rate of 15% to 20% per annum. Its growth rate is much higher than that of other types of sweetener of around 5% per annum. For the PRC market, there is also a great potential for sweetener as the population of and food consumption in the PRC is huge. The demand for sugar cane in the PRC is currently approximately 7.6 million tonnes each year. Aspartame is 200 times sweeter than sugar cane. If 5% of sugar cane consumption is replaced by aspartame, the estimated demand for aspartame in the PRC would be approximately 2,000 tonnes each year. Based on the recent market price, the aspartame market is estimated to be Rmb400 million each year. Changmao will use the L-aspartic acid and L-phenylalanine produced by itself as raw materials to produce aspartame. It ensures the aspartame produced is of high quality with low cost, which is a competitive advantage to Changmao.

As a result of the increasing demand in aspartame, the demand for L-phenylalanine, its major raw material, is also growing. Apart from a raw material for production of aspartame, L-phenylalanine can also be used in medicinal products and as food additives. In terms of medicinal products, it can be used as amino acid for injection or amino acid drugs, such as antitumor drugs. The recent development of application of amino acid in antitumor drugs and nutritious food as well as the wide usage of the new sweetener, aspartame, results in a growing demand in L-phenylalanine. In particular, aspartame is the major sweetener in the international market, which is widely used in food and drinks, and this in turn helps stimulate the demand of L-phenylalanine. The L-phenylalanine in the PRC is of high potential. It is expected that the demand for L-phenylalanine in the PRC would reach 3,000 tonnes in 2005. Changmao will commercialise the production of L-



phenylalanine, which includes the use of part of the product produced as raw material for aspartame production and the direct sales of the remaining part to the market. Such kind of commercialisation is expected to bring satisfactory return to the Company. Changmao's production technologies for L-phenylalanine is advanced and up to an international standard. It enhances Changmao's competitive advantage and is an important benchmark for Changmao's development.

The Company will use its chiral laboratory to develop new technologies for chiral products. Changmao's ability to develop new products has attracted other companies to seek for co-operation. In 2004, Changmao started to co-operate with a reknown Japanese company to produce a highly value-added chiral product. Changmao would be responsible for production while the Japanese company would be responsible for marketing the product internationally. This project is underway and expected to bring return to the Company in 2005.

Looking forward, Changmao endeavors to be a leading manufacturer in the food additive industry by enhancing its production technologies and product quality. Changmao will produce food additives of higher standards to satisfy customers' special requests, which will also bring higher return. In addition, the Company will further extend its production chain to functional nutritious products and chiral medicine intermediaries of high commercial value. With food additive as Changmao's major product type, coupled with medicine intermediaries and chiral products, Changmao's strength will grow with the increase in operating scale.

#### **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 nine months ended 30 September 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 30 September 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 nine months ended 30 September 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 30 September 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%



		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 September 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 September 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	Percentage		Number of Promoter Foreign Shares	Percentage		
		Number of Domestic Shares	shareholding in the Domestic Shares		Number of shareholding in the Promoter Foreign Shares	Percentage shareholding in 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%	-	-
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	-	-	67,500,000	24.02%	-	-



Name of Shareholder	Capacity	Percentage		Percentage		Percentage	
		Number of Domestic Shares	shareholding in the Domestic Shares	Number of Promoter Foreign Shares	shareholding in the Promoter Foreign Shares	Number of H Shares	shareholding in the H Shares
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))	28.54%	-	-	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (c))	28.54%	-	-	-	-
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%	-	-	-	-



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
Mr. Zhang Ming	Interest of controlled corporation	12,500,000 (Note (g))	5.71%	-	-	-	-
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%

*Short positions in shares:*

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 (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) 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 relates 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 September 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 30 September 2004, the category of the issued shares of the Company is as follows:

	<b>No. of Shares</b>
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 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 nine months ended 30 September 2004.

## SPONSOR'S INTEREST

As at 30 September 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 30 September 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 three independent non-executive directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

The primary duties of the audit committee are to review the Company's annual report and accounts, half year reports and quarterly reports and to provide advice and comments thereon to the Board.



The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the unaudited third quarterly results for the nine months ended 30 September 2004 with the Directors.

By order of the Board

**Rui Xin Sheng**

*Chairman*

The PRC, 10 November 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, Prof. Yang Sheng Li and Ms. Wei Xin are the independent non-executive Directors.*