

CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

常茂生物化學工程股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)



2 FIRST 0 QUARTERLY 0 REPORT 5



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

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

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This report, for which the directors of Changmao Biochemical Engineering Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 Rmb65,760,000 for the three months ended 31 March 2005, representing an increase of 59% as compared to the corresponding period in last year
- Unaudited net profit of approximately Rmb13,042,000 for the three months ended 31 March 2005, representing an increase of 77% as compared to the corresponding period in last year
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2005



RESULTS

The board of Directors (the “Board”) of Changmao Biochemical Engineering Company Limited (the “Company” or “Changmao”) is pleased to present the unaudited results of the Company for the three months ended 31 March 2005 together with the unaudited comparative figures for the corresponding period in 2004 as follows:

| | | Unaudited | |
|-------------------------------------|-------------|-----------------------------|-----------|
| | | For the three months | |
| | | ended 31 March | |
| | | 2005 | 2004 |
| | | Rmb'000 | Rmb'000 |
| | <i>Note</i> | | |
| Turnover | 2 | 65,760 | 41,482 |
| Cost of sales | | (44,962) | (27,758) |
| | | | |
| Gross profit | | 20,798 | 13,724 |
| Other revenues | | 44 | 48 |
| Selling expenses | | (1,191) | (1,332) |
| Administrative expenses | | (4,101) | (3,973) |
| Other operating income | | 220 | – |
| | | | |
| Operating profit | | 15,770 | 8,467 |
| Finance costs | | (426) | (257) |
| | | | |
| Profit before taxation | | 15,344 | 8,210 |
| Taxation | 3 | (2,302) | (821) |
| | | | |
| Profit attributable to shareholders | | 13,042 | 7,389 |
| | | | |
| Basic earnings per share | 4 | Rmb 0.019 | Rmb 0.011 |
| | | | |



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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of GEM Listing Rules. They have been prepared under historical cost convention.

2. Turnover

The Company is principally engaged in the production and sale of organic acids. Turnover represents sales of organic acids for the period.

3. Taxation

The amount of taxation charged to the profit and loss account represents PRC Enterprise Income Tax ("EIT").

EIT is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being located in the New Technology Industrial Development Experimental Zone in Changzhou and registered as a New and High Technology Enterprise, is entitled to a reduced EIT rate of 24%. In May 2001, the Company obtained 外商投資先進技術企業確証書 (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 ended 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 ended 31 December 2004 with reference to the 技術密集型知識密集型企業証書 (The Certificate of Technology-intensive and Knowledge-intensive Enterprise) obtained by the Company in June 2001.

The Company's entitlement to the reduced EIT rate of 10% referred to above was expired. The Company is entitled to a reduced EIT rate of 15% for the year ending 31 December 2005 with reference to The Certificate of Technology-intensive and Knowledge-intensive Enterprise renewed in December 2003.



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 Company, as explained above, as follows:

| | For the three months ended | |
|--|-----------------------------------|----------------|
| | 31 March | |
| | 2005 | 2004 |
| | Rmb'000 | <i>Rmb'000</i> |
| Profit before taxation | 15,344 | 8,210 |
| Taxation charge calculated at the approved taxation rate of 15% (2004: 10%) | 2,302 | 821 |

As at 31 March 2005 and 2004, there was no significant unprovided deferred taxation.

4. Earnings per share

The calculation of basic earnings per share ("EPS") for the three months ended 31 March 2005 is based on the Company's profit attributable to shareholders of approximately Rmb13,042,000 (2004: Rmb7,389,000) and the 683,700,000 shares (2004: 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 2005 | 87,159 | 5,808 | 2,904 | 56,213 | 152,084 |
| Profit for the period | - | - | - | 13,042 | 13,042 |
| At 31 March 2005 | 87,159 | 5,808 | 2,904 | 69,255 | 165,126 |

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

BUSINESS REVIEW

In the past few years, the Company has made investment in operation, production, market and promotion, research and development as well as the construction of production lines, which formed a good foundation for the Company's development. The result of our effort has been reflected in the growth in sales. The Company had a turnover of approximately Rmb65,760,000 for the three months ended 31 March 2005, with an increase of 59% as compared to that of the corresponding period in last year. Profit attributable to shareholders reached approximately Rmb13,042,000 for the three months ended 31 March 2005, representing an increase of 77% compared to that of the corresponding period in last year. The Company was successful in gaining new customers resulting in the increase in sales. Sales volume of the major products of the Company, L(+)-tartaric acid, fumaric acid and all types of malic acids, recorded an overall growth of approximately 18% as compared to the corresponding period in last year.



The gross profit margin was 32% for the three months ended 31 March 2005, which is comparable to the 33% recorded by the Company in the corresponding period in last year. The average price of benzene in the first quarter of 2005 was higher than that in the first quarter of 2004 by more than 50%. Despite the increase in raw material prices, the Company took various measures to control its production costs including improving production technologies and achieving economy of scale by expanding production capacity. The raw material prices has been stabilised recently. The Company recorded a slight increase in gross profit margin as compared to that in the fourth quarter in 2004.

PROSPECTS

In 2005, the Company will endeavour to keep up its growth momentum by enhancing its production chains, launching new products and seeking cooperation opportunities with internationally renowned corporations.

The establishment of the first fumaric acid production line with an annual capacity 10,000 tonnes in 2003 was proven a success. This production line provides a good support for the Company's downstream products and helps the Company to better control its production cost as well as the quality of the downstream products. In order to cope with the development of the Company's downstream products and the increasing demand in fumaric acid, the Company has established another fumaric acid production line which was completed in April 2005 and will soon be in operation. With this new production line, the production capacity of fumaric acid (including maleic anhydride) has increased to 20,000 tonnes per year, making the Company one of the largest fumaric acid producers in Asia. The Company will sell part of the fumaric acid as an end-product to the market. The remaining will be used as raw materials for its downstream products. The Company believes that the growth in sales of fumaric acid and its downstream products will bring handsome return to the Company in 2005.



In terms of new products, in view of the increasing demand on aspartame, the Company is establishing an aspartame production line with an annual production capacity of 1,000 tonnes. The Company will use self produced L-aspartic acid and L-phenylalanine as raw materials to produce aspartame. This method makes the Company more effective in cost control and product quality control and makes aspartame a competitive product. It is expected that aspartame will be launched into the market in the second half of 2005 and will contribute to the profit of the Company.

The Company has started co-operation with an internationally renowned corporation to produced tailor-made chiral products. The result of the trial production was successful. In 2005, the Company will expand the scope of cooperation and believes that this will be a lucrative opportunity for the Company. In addition, the Company is in negotiation with some overseas companies in respect of other co-operation opportunities with an aim to gain synergy effects and to explore new markets.

Looking forward, the Company will further extend its production chain to functional nutritious products and chiral medicinal intermediaries of high commercial value. The Company believes that these markets are of high growth potential. The Company is confident in its future performance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not purchased, sold or redeemed any of its listed securities during the three months ended 31 March 2005.



SHARE OPTIONS

The Company conditionally approved a share option scheme on 18 June 2001 (the "Scheme"), pursuant to which the Board may, at its discretion, grant share option to any eligible persons, including any employees, directors and shareholders of the Company, to subscribe for shares in the Company, subject to a maximum of 10% of the Company's shares (the "Shares") in issue at the date of grant. The subscription price will be determined by the Directors, and will not be less than the higher of (i) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the H Shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. The Scheme will remain in force for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of Rmb1 or HK\$1 is payable on acceptance of the grant of an option.

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

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

As at 31 March 2005, no options have been granted by the Company to any of its employees, Directors or supervisors of the Company (the "Supervisors").

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2005.



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

As at 31 March 2005, 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 | Percentage | Number of | Percentage |
|-------------------|---|-----------|--------------|-------------|--------------|
| | | Domestic | shareholding | Promoter | shareholding |
| Capacity | Shares | Shares | in the | Foreign | in the |
| | | | Domestic | Shares | Promoter |
| | | | Shares | | Foreign |
| | | | | | Shares |
| <i>Director</i> | | | | | |
| Mr. Rui Xin Sheng | Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian (Note (a)) | 2,500,000 | 1.14% | 135,000,000 | 48.04% |
| Ms. Leng Yi Xin | Interest of spouse and interest of controlled corporation (Note (b)) | 2,500,000 | 1.14% | 135,000,000 | 48.04% |



| | | Number of Domestic Shares | Percentage shareholding in the Domestic Shares | Number of Promoter Foreign Shares | Percentage shareholding in the Promoter Foreign Shares |
|-----------------------|---|---------------------------------|--|--|---|
| Mr. Jiang Jun Jie | Interest of controlled corporation (Note (c)) | - | - | 67,500,000 | 24.02% |
| Mr. Zeng Xian Biao | (Note (d)) | - | - | (Note (d)) | (Note (d)) |
| Mr. Yu Xiao Ping | Interest of spouse and interest of controlled corporation (Note (e)) | - | - | 66,000,000 | 23.49% |
| Mr. Zhu Lai Fa | (Note (f)) | - | - | (Note (f)) | (Note (f)) |
| Prof. Ouyang Ping Kai | (Note (g)) | - | - | (Note (g)) | (Note (g)) |
| Prof. Yang Sheng Li | (Note (h)) | - | - | (Note (h)) | (Note (h)) |
| <i>Supervisor</i> | | | | | |
| Ms. Zhou Rui Juan | (Note (i)) | - | - | (Note (i)) | (Note (i)) |
| Mr. Pan Chun | (Note (j)) | - | - | (Note (j)) | (Note (j)) |
| Mr. Lu He Xing | (Note (k)) | - | - | (Note (k)) | (Note (k)) |
| Prof. Gu Jian Xin | (Note (l)) | - | - | (Note (l)) | (Note (l)) |
| 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 31 March 2005, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.



Other than the Scheme described above, at no time during the period was the Company a party to any arrangement to enable the Directors or Supervisors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of the Company or any other body corporate.

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

So far as known to the Directors, as at 31 March 2005, the following, not being a Director, Supervisor or chief executives of the Company, have interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

*Long positions in shares:*

| Name of Shareholder | Capacity | Number of Domestic Shares | Percentage shareholding 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 |
|---|---|---------------------------|--|-----------------------------------|--|--------------------------|---|
| 常州曙光化工廠 (Changzhou Shuguang Chemical Factory) | Beneficial owner | 154,000,000 | 70.32% | - | - | - | - |
| Hong Kong Xinsheng Pioneer Investment Company Limited | Beneficial owner | - | - | 135,000,000 | 48.04% | - | - |
| Hong Kong Bio-chemical Advanced Technology Investment Company Limited | Beneficial owner | - | - | 67,500,000 | 24.02% | - | - |
| Jomo Limited | Beneficial owner | - | - | 66,000,000 | 23.49% | - | - |
| Ms. Lam Mau | Interest of spouse and interest of controlled corporation | - | - | 66,000,000 (Note (a)) | 23.49% | - | - |
| 上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited) | Beneficial owner | 62,500,000 | 28.54% | - | - | - | - |
| 上海科技投資公司 (Shanghai Technology Investment Company) | Interest of controlled corporation | 62,500,000 (Note (b)) | 28.54% | - | - | - | - |
| Chervon Investment Limited | Beneficial owner | - | - | - | - | 22,392,000 | 12.19% |
| Chervon Holdings Limited | Interest of controlled corporation | - | - | - | - | 22,392,000 (Note (c)) | 12.19% |
| PS Holdings Limited | Interest of controlled corporation | - | - | - | - | 22,392,000 (Note (d)) | 12.19% |



Notes:

- (a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign Shares.
- (b) Shanghai Technology Investment Company is the beneficial owner of 49% of the issued share capital of Shanghai Technology Investment Company Limited, which is the registered holder and beneficial owner of 62,500,000 Domestic Shares.
- (c) 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.
- (d) 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 31 March 2005, the Directors are not aware of any person, not being a Director, Supervisor or chief executives of the Company, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

COMPETING BUSINESS

None of the Directors, Supervisors or management shareholders of the Company and their respective associate (as defined in the GEM Listing Rules) has an interest in a business which competes with the business of the Company.



SHARE CAPITAL STRUCTURE

As at 31 March 2005, the category of the issued shares of the Company is as follows:

| | No. of Shares |
|---|---------------------------|
| H Shares (<i>Note (a)</i>) | 183,700,000 |
| Domestic Shares (<i>Note (b)</i>) | 219,000,000 |
| Promoter Foreign Shares (<i>Note (c)</i>) | <u>281,000,000</u> |
| | <u><u>683,700,000</u></u> |

Notes:

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

Although the 到境外上市公司章程必備條款 (the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of “domestic shares”, “foreign shares” and “overseas listed foreign shares” (which definitions have been adopted in the Articles of Association of the Company), the rights attached to Promoter Foreign Shares (which are subject to certain restrictions on transfer and may become H Shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission and the Stock Exchange) have not yet been expressly dealt with under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Promoter Foreign Shares do not contravene any PRC laws or regulations.



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

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;
- (c) disputes between holders of Domestic Shares and Promoter Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Promoter Foreign Shares and overseas listed foreign shares; and
- (d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Promoter Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.



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

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules at any time during the three months ended 31 March 2005.

AUDIT COMMITTEE

The Company has established an audit committee in June 2002 with written terms of reference in compliance with GEM Listing Rules. 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 and to provide supervision over the financial reporting process and internal control system of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the unaudited first quarterly results for the three months ended 31 March 2005 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 9 May 2005

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