

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)



INTERIM 2005 REPORT



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 Rmb 136,047,000 for the six months ended 30 June 2005, representing an increase of 56% as compared to that of the corresponding period in last year
- Unaudited net profit of approximately Rmb 30,078,000 for the six months ended 30 June 2005, representing an increase of 85% 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 2005



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 2005 together with the unaudited comparative figures for corresponding period in 2004 as follows:

CONDENSED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2005 – Unaudited

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2005	2004	2005	2004
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	3	70,287	45,981	136,047	87,463
Cost of sales		(43,599)	(30,469)	(88,561)	(58,227)
Gross profit		26,688	15,512	47,486	29,236
Other revenues		52	442	96	490
Selling expenses		(1,873)	(1,619)	(3,064)	(2,951)
Administrative expenses		(4,583)	(4,067)	(8,684)	(8,040)
Other operating income		189	–	409	–
Operating profit	4	20,473	10,268	36,243	18,735
Finance costs	5	(433)	(393)	(859)	(650)
Profit before taxation		20,040	9,875	35,384	18,085
Taxation	6	(3,004)	(987)	(5,306)	(1,808)
Profit attributable to shareholders		17,036	8,888	30,078	16,277
Basic earnings per share	7	Rmb 0.025	Rmb 0.013	Rmb 0.044	Rmb 0.024

**CONDENSED BALANCE SHEET***As at 30 June 2005 – Unaudited*

		30 June 2005	31 December 2004 (restated)
	<i>Notes</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Non-current assets			
Acid patent	8	7,278	7,611
Property, plant and equipment	9	92,245	91,760
Land use rights	9	11,182	11,303
Construction in progress	9	66,626	33,646
		177,331	144,320
Current assets			
Inventories		36,656	35,031
Accounts and bills receivable	10	34,339	30,433
Other receivables and prepayments		7,404	10,611
Bank balances and cash		52,085	52,971
		130,484	129,046
Current liabilities			
Amounts due to shareholders	11	2,557	2,579
Accounts payable	12	4,994	3,450
Other payables and accrued charges		11,543	13,488
Dividend payable		10,223	–
Taxation payable		3,007	1,395
Unsecured short-term bank loans	13	40,000	32,000
		72,324	52,912
Net current assets			
		58,160	76,134
Total assets less current liabilities			
		235,491	220,454
Financed by:			
Share capital	14	68,370	68,370
Reserves	15	167,121	137,043
Proposed final dividend	15	–	15,041
Shareholders' funds			
		235,491	220,454



CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005 – Unaudited

	For the six months ended 30 June	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Total equity as at 1 January	220,454	191,477
Profit for the period	30,078	16,277
Dividends	(15,041)	(8,204)
	<hr/>	<hr/>
Total equity as at 30 June	235,491	199,550

CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2005 – Unaudited

	For the six months ended 30 June	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Net cash generated from operating activities	33,783	20,250
Net cash used in investing activities	(37,851)	(9,810)
Net cash generated from/(used in) financing activities	3,182	(3,000)
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	(886)	7,440
Cash and cash equivalents at 1 January	52,971	43,360
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	52,085	50,800
	<hr/>	<hr/>
Analysis of balance of cash and cash equivalents		
Bank balances and cash	52,085	50,800



Notes:

1. Basis of preparation and accounting policies

These unaudited condensed financial information has been prepared in accordance with applicable disclosure provisions of GEM Listing Rules, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Company has changed certain of its accounting policies following its adoption of new/ revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial information have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these information. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the Company’s accounting policies and the effect of adopting these new policies are set out in note 2 below.



2. Changes in accounting policies

In 2005, the Company adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement

The adoption of new/revised HKASs 1, 2, 7, 8, 16, 21, 23, 24, 32, 33, 36, 38 and 39 did not result in substantial changes to the Company's accounting policies. In summary:

- HKAS 1 had no material effect on the presentation and disclosure of financial information.
- HKASs 2, 7, 8, 16, 23, 32, 33, 36, 38 and 39 had no material effect on the Company's policies.
- HKAS 21 had no material effect on the Company's policy. The Company has the same functional currency as the presentation currency for the financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.



The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment (if any).

3. 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	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
The People's Republic of China (the "PRC")	62,592	51,511
Europe	32,984	21,642
Asia Pacific	20,915	11,946
Others	19,556	2,364
	136,047	87,463

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.

4. Operating profit

Operating profit is stated after charging the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Amortisation of acid patent	167	167	333	334
Amortisation of land use rights	60	60	121	120
Depreciation	2,390	2,177	4,452	4,158

5. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Interest on bank loans – wholly repayable within five years	433	393	859	650



6. 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 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證書 (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 30 June		For the six months ended 30 June	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Profit before taxation	20,040	9,875	35,384	18,085
Taxation charge calculated at the approved taxation rate of 15% (2004: 10%)	3,004	987	5,306	1,808

As at 30 June 2005 and 2004, there was no significant unprovided deferred taxation.

7. Earnings per share

The calculation of basic earnings per share ("EPS") for the three months ended 30 June 2005 is based on the Company's profit attributable to shareholders of approximately Rmb 17,036,000 (for the three months ended 30 June 2004: Rmb 8,888,000) and the 683,700,000 shares (for the three months ended 30 June 2004: 683,700,000 shares) in issue during the period.

The calculation of EPS for the six months ended 30 June 2005 is based on the Company's profit attributable to shareholders of approximately Rmb 30,078,000 (for the six months ended 30 June 2004: Rmb 16,277,000) and the 683,700,000 shares (for the six months ended 30 June 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.

**8. Acid patent**

	<i>Rmb'000</i>
Net book value as at 1 January 2005	7,611
Amortisation	(333)
	<hr/>
Net book value as at 30 June 2005	<u>7,278</u>

9. Capital expenditure

	Property, plant and equipment	Land use rights	Construction in progress
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Net book value as at 1 January 2005	91,760	11,303	33,646
Transfer from construction in progress to property, plant and equipment	4,963	–	(4,963)
Additions	–	–	37,943
Disposal	(26)	–	–
Depreciation/amortisation charge	(4,452)	(121)	–
	<hr/>	<hr/>	<hr/>
Net book value as at 30 June 2005	<u>92,245</u>	<u>11,182</u>	<u>66,626</u>

10. Accounts and bills receivable

	30 June 2005	31 December 2004
	<i>Rmb'000</i>	<i>Rmb'000</i>
Accounts receivable (note (a))	33,251	27,977
Bills receivable (note (b))	1,088	2,456
	<hr/>	<hr/>
	<u>34,339</u>	<u>30,433</u>



- (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 2005 Rmb'000	31 December 2004 Rmb'000
0 to 3 months	32,255	26,238
4 to 6 months	523	1,150
Over 6 months	473	589
	33,251	27,977

- (b) The maturity dates of bills receivable are normally within 30 days.
- (c) The carrying amounts of accounts and bills receivable approximate to their fair value.

11. 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 Rmb 17,602,000 was accounted for as distributions to shareholders payable to Shuguang Factory and Jomo Limited. As of 30 June 2005, the balance of the distributions of the Excess payable to Shuguang Factory and Jomo Limited amounted to approximately Rmb1,011,000 and Nil respectively (31 December 2004: Rmb1,011,000 and Nil respectively). The outstanding amount due to Shuguang Factory was originally repayable in 2004 and has been mutually agreed to be deferred as repayable on demand.

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



12. Accounts payable

The aging analysis of accounts payable is as follows:

	30 June 2005 Rmb'000	31 December 2004 Rmb'000
0 to 6 months	4,656	3,113
7 to 12 months	–	270
Over 12 months	338	67
	<hr/> 4,994 <hr/>	<hr/> 3,450 <hr/>

13. Unsecured short-term bank loans

The maturity of the unsecured short-term bank loans are within one year. The effective interest rate at 30 June 2005 was approximately 5% (31 December 2004: 5%). The carrying amounts of the unsecured short-term bank loans are approximate their fair value.

14. Share capital

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb 0.10 each	Nominal value Rmb'000
At 30 June 2005 and 31 December 2004	683,700,000	68,370

As at 30 June 2005 and 31 December 2004, 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.



15. 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
Transfer from profit and loss account	-	3,717	1,859	(5,576)	-
Final dividend for the year ended 31 December 2004	-	-	-	(15,041)	(15,041)
Profit for the period	-	-	-	30,078	30,078
At 30 June 2005	87,159	9,525	4,763	65,674	167,121

	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 year	-	-	-	37,181	37,181
At 31 December 2004	87,159	5,808	2,904	56,213	152,084

Representing:

2004 Proposed final dividend	15,041
Retained earnings at 31 December 2004	41,172
	<u>56,213</u>

**16. Contingent liabilities**

As at 30 June 2005 and 31 December 2004, the Company did not have any material contingent liabilities.

17. Commitments

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

	30 June 2005 Rmb'000	31 December 2004 Rmb'000
Contracted but not provided for	15,652	12,356
Authorised but not contracted for	10,000	–
	25,652	12,356

(b) Commitments under operating leases

At 30 June 2005, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2005 Rmb'000	31 December 2004 Rmb'000
Not later than one year	429	267
Later than one year and not later than five years	240	302
Later than five years	1,024	1,037
	1,693	1,606



18. Related party transactions

(a) Transactions with a shareholder

Apart from those disclosed under note 11, 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 2005:

	For the six months ended 30 June	
	2005	2004
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory	3,699	1,323
Electricity charged by Shuguang Factory	1,163	992
Rental expenses to Shuguang Factory	93	93
Raw water supply charged by Shuguang Factory	162	156
Transportation expenses charged by Shuguang Factory	211	–
	<hr/> 211 <hr/>	<hr/> – <hr/>

(b) Key management compensation

	For the six months ended 30 June	
	2005	2004
	Rmb'000	Rmb'000
Salaries and other short-term employee benefits	715	691
Retirement benefit cost	10	9
	<hr/> 725 <hr/>	<hr/> 700 <hr/>



BUSINESS REVIEW

The Company had a turnover of approximately Rmb 136,047,000 for the six months ended 30 June 2005, with an increase of 56% as compared to that of the corresponding period in last year. Profit attributable to shareholders reached approximately Rmb 30,078,000 for the six months ended 30 June 2005, representing an increase of 85% compared to that of the corresponding period in last year. The second fumaric acid (includes maleic anhydride) production line of the Company was put into operation in the second quarter of 2005, which increased the production capacity of fumaric acid (includes maleic anhydride) to 20,000 tonnes per year. The Company was successful in gaining new customers resulting in increase in sales. As the demand for fumaric acid and its related products increased, sales volume of the Company's products, including L(+)-tartaric acid, fumaric acid and all types of malic acid, recorded an overall growth of over 20% as compared to the corresponding period in last year.

The gross profit margin was 35% for the six months ended 30 June 2005, which is slightly higher than the 33% recorded by the Company in the corresponding period in last year. The Company took various measures to control its production costs including improving production technologies and achieving economy of scale by expanding production capacity.

PROSPECT AND OUTLOOK

It is expected that the economy in the PRC will continue to grow steadily in 2005. There are opportunities and challenges in the chemical industry. Through the leadership of the Board and the hard work of the staff, the Company achieved a substantial growth in its results in the first half of 2005. In the second half year, the Company will maintain the growth momentum by enhancing its technologies, product quality and brand awareness, with an aim to keep up the growth rate of the major products and to use its new products to build up a good foundation for the growth in future. The Company will adjust its production and resources allocation to achieve higher production efficiency.



New Products

The Company expects to achieve growth in this year by launching a new product, aspartame, into the market. Aspartame is a product developed recently and a very popular sweetener worldwide. It satisfies people's demand for sweet taste, and also avoids side effects of taking too much calories by the human body. It is very important to people who are restrictive to sugar consumption like diabetics. The demand for aspartame grows gradually and it becomes popular in the world, especially in Europe and the United States. The Company has started its research on the production technologies of aspartame a few years ago and obtained satisfactory research results. The demand on aspartame in China grew very fast in last year. To grasp this golden opportunity, the Company will start commercial production of aspartame in 2005. The construction of the aspartame production line has taken about half year and is now substantially completed and will be in operation in the third quarter. It is expected that the production will reach its full capacity at the end of the year. With Changmao's good brand awareness, the Company has already attracted potential customers requesting production information or asking for cooperation. The Company believes that the aspartame production line which has an annual production capacity of 1,000 tonnes will be an important growth point for the Company in 2006 and will bring handsome return to the Company.

Production

The second fumaric acid production line with an annual production capacity of 10,000 tonnes is important to the Company in achieving economy of scale. In terms of production technologies, based on the successful experience the Company got from the first fumaric acid production line, the Company have made adjustments to make the production lines more efficient. These two production lines enhance the Company's total production capacity. It makes fumaric acid and other products more competitive. At the time the second fumaric acid production line started operation, the demand for maleic anhydride is large. The Company used the fumaric acid production line to produce maleic anhydride and sold maleic anhydride directly into the market. The Company made over a million Rmb profit just in one month in June. This reflected the Company's flexibility in its production facilities which enables the Company to adjust its product mix easily to cope with the change in the market.



Fumaric acid and malic acid are two major products of Changmao. With the operation of the second fumaric acid production line, the Company reallocated its production resources. The Company will based on its existing resources to build a new concurrent production line for malic acid with an annual production capacity of 5,000 tonnes. This production line adopts the patented technology, the Concurrent Production Technology, in the production process. Its strength is that it can use one production line to produce two products, fumaric acid and malic acid. In addition, the proportion of products produced can be adjusted to cope with change in market demand. Also, this method of production is environmental friendly. It reduces the input required and is cost saving. The Company has performed trial production for this production line in the first half year. The results show that this new method of production reduces the resources requirement on facilities and human resources. Also, the products produced under this method have a better quality than that produced under the traditional method. The Company believes that this new production line will enhance the Company's competitiveness and creates economic value to the Company.

Cooperation

The Company has seek cooperation opportunities with large enterprises with an aim to increase brand awareness and bring satisfactory return to the Company through synergy effect. In the end of 2004, the Company has started negotiate with a Japanese company in respect of a number of medicinal intermediaries and has agreed to cooperate with the Japanese company on manufacturing certain products. The technicians of the Company has visited the Japanese company early in this year and started the research on these new products. A few products are now selling to the Japanese company and they are satisfied with the Company's technological skills and product quality. The Company's scope of cooperation with this Japanese company is increasing with more products to be manufactured by Changmao. The Company will also cooperate with a few enterprises. The products involved are of high technology and high valued added. Therefore, the Company believes that it will get lucrative return from the cooperation with other enterprises and it will also be important to the Company's future development.



Future development

Changmao's short term goals are to achieve economy of scale by increasing production capacity and to commercialise the production of new products. These are the objectives of the second phase production premises. The major construction of the second phase production premises has been substantially completed and is expected to be fully completed at the end of this year. The economic value created by the second phase production premises will be reflected in the Company's growth in sales in the coming one to two years.

The Company's medium term goal is to adjust its product mix, that is, to decrease the proportion of food additives, which are of relatively lower value, and to increase the proportion of bio-medicinal products which are of higher value. Since the adoption of biotechnology in the medicine industry, it became one of the fast growing industries and also be considered as one of the industry with greatest prospects in the twenty-first century. It is expected that the growth rate of medicine produced by biotechnology will be more than 25% per annum. Therefore, it has a great market potential and a bright future. Changmao is good at its biotechnological technologies. This is Changmao's advantage to enter into the medicine industry. The Company is in negotiation with several enterprises in this area for seeking cooperation opportunities in order to build a solid foundation for the Company's future development.

SEGMENTAL INFORMATION

Most of the Company's products are exported to Western Europe, Australia, the United States and Japan. As expressed as a percentage of turnover, direct export sales (including sales through import-export agents in the PRC) accounted for approximately 67% (for the six months ended 30 June 2004: 68%) of the Company's turnover while domestic sales in the PRC accounted for approximately 33% (for the six months ended 30 June 2004: 32%) of 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. The Company does not conclude any forward foreign currency agreements to limit exposure to adverse fluctuations in the US dollar. The Company will constantly review the situation and, if appropriate, carry out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Company had total outstanding bank borrowings of Rmb40 million (as at 31 December 2004: Rmb32 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 2005 and 31 December 2004, the Company did not have any committed borrowing facilities.

As at 30 June 2005, the Company had capital commitments for property, plant and equipment amounting to approximately Rmb 26 million. 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 in 2005. The Company intends to finance the capital commitments by cash flows generated from the Company's operations and/or bank financings.

The Company did not have any charge on its assets during the six months ended 30 June 2005. The gearing ratio (calculated based on total liabilities divided by total assets) was 23% and 19% as at 30 June 2005 and 31 December 2004 respectively. As at 30 June 2005, the Company's cash and cash equivalent amounted to Rmb52,085,000 (31 December 2004: Rmb 52,971,000). The Directors believe that the Company is in a healthy financial position.



CAPITAL STRUCTURE OF THE COMPANY

The H shares of the Company were listed on the 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. Excess cash held by the Company is generally placed at banks to earn interest income.

EMPLOYEES

Including the Directors, as at 30 June 2005, the Company employed a total of 301 employees (30 June 2004: 303 employees). Total amount of staff costs for the six months ended 30 June 2005 was approximately Rmb 6,978,000 (for the six months ended 30 June 2004: Rmb 6,279,000). The increase in staff cost was mainly due to salary increment. Employees are remunerated in accordance with the nature of the job and also on individual merit. The Company also formulated a staff incentive scheme under which for each of the three 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 Rmb 40 million (the "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 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 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 2005, 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 2005.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Company as at 30 June 2005 and 31 December 2004.

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 is no acquisitions and disposals of subsidiaries and affiliated companies by the Company during the six months ended 30 June 2005 and 2004.

CONTINGENT LIABILITIES

As at 30 June 2005 and 31 December 2004, 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 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	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 <i>(Note (a))</i>	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation <i>(Note (b))</i>	2,500,000	1.14%	135,000,000	48.04%



		Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
Mr. Jiang Jun Jie	Interest of controlled corporation (Note (c))	-	-	-	67,500,000	24.02%
Mr. Zeng Xian Biao	(Note (d))	-	-	-	(Note (d))	(Note (d))
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	-	-	-	66,000,000	23.49%
Mr. Zhu Lai Fa	(Note (f))	-	-	-	(Note (f))	(Note (f))
Prof. Ouyang Ping Kai	(Note (g))	-	-	-	(Note (g))	(Note (g))
Prof. Yang Sheng Li	(Note (h))	-	-	-	(Note (h))	(Note (h))
Supervisor						
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 常州新生物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 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 30 June 2005, 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 shareholding		Percentage shareholding		Percentage shareholding	
		Number of Domestic Shares	in the Domestic Shares	Number of Promoter Foreign Shares	in the Promoter Foreign Shares	Number of H Shares	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	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	-	-	-	-	25,788,000	14.04%
Chervon Holdings Limited	Interest of controlled corporation	-	-	-	-	25,788,000 (Note (c))	14.04%
PS Holdings Limited	Interest of controlled corporation	-	-	-	-	25,788,000 (Note (d))	14.04%



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 25,788,000 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 25,788,000 H Shares.

Save as disclosed above, as at 30 June 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 30 June 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 six months ended 30 June 2005.



COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Mr. Rui Xin Sheng is the Chairman of the Board and the General Manager of the Company. Save that, the Company has complied with the code provisions of the Code on Corporate Practice as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, 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 had 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.

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 interim results for the six months ended 30 June 2005 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 10 August 2005

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.