

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 THIRD 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 Rmb 212,479,000 for the nine months ended 30 September 2005, representing an increase of 54% as compared to the corresponding period in last year
- Unaudited net profit of approximately Rmb 48,290,000 for the nine months ended 30 September 2005, representing an increase of 96% 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 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 nine months ended 30 September 2005 together with the unaudited comparative figures for the corresponding period in 2004 as follows:

		Unaudited		Unaudited	
		For the three months ended 30 September		For the nine months ended 30 September	
	Note	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Turnover	2	76,432	50,455	212,479	137,918
Cost of sales		(48,109)	(35,307)	(136,670)	(93,534)
Gross profit		28,323	15,148	75,809	44,384
Other revenues		55	12	151	502
Selling expenses		(1,766)	(1,934)	(4,830)	(4,885)
Administrative expenses		(5,072)	(3,869)	(13,756)	(11,909)
Other operating income		469	–	878	–
Operating profit		22,009	9,357	58,252	28,092
Finance costs		(584)	(84)	(1,443)	(734)
Profit before taxation		21,425	9,273	56,809	27,358
Taxation	3	(3,213)	(928)	(8,519)	(2,736)
Profit attributable to shareholders		18,212	8,345	48,290	24,622
Basic earnings per share	4	Rmb 0.027	Rmb 0.012	Rmb 0.071	Rmb 0.036



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 31 March		For the nine months ended 31 March	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Profit before taxation	21,425	9,273	56,809	27,358
Taxation charge calculated at the approved taxation rate of 15% (2004: 10%)	3,213	928	8,519	2,736

As at 30 September 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 30 September 2005 is based on the Company's profit attributable to shareholders of approximately Rmb 18,212,000 (2004: Rmb 8,345,000) and the 683,700,000 shares (2004: 683,700,000 shares) in issue during the period.

The calculation of EPS for the nine months ended 30 September 2005 is based on the Company's profit attributable to shareholders of approximately Rmb 48,290,000 (2004: Rmb 24,622,000) 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	Statutory common reserve	Statutory public welfare fund	Retained earnings	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January 2005	87,159	5,808	2,904	56,213	152,084
Transfer to and 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	-	-	-	48,290	48,290
At 30 September 2005	87,159	9,525	4,763	83,886	185,333

	Share premium	Statutory common reserve	Statutory public welfare fund	Retained earnings	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January 2004	87,159	3,714	1,857	30,377	123,107
Transfer to and from profit and loss account	-	2,094	1,047	(3,141)	-
Final dividend for the year ended 31 December 2003	-	-	-	(8,204)	(8,204)
Profit for the period	-	-	-	24,622	24,622
At 30 September 2004	87,159	5,808	2,904	43,654	139,525



BUSINESS REVIEW

Sales

The Company had a turnover of approximately Rmb 212,479,000 for the nine months ended 30 September 2005, with an increase of 54% as compared to that of the corresponding period in last year. Profit attributable to shareholders reached approximately Rmb 48,290,000 for the nine months ended 30 September 2005, representing an increase of 96% compared to that of the corresponding period in last year. The Company has enhanced its sales network and strengthen its sales team and has successful in gaining new customers resulting in increase in sales. The fumaric acid production line which commenced operation in the second quarter this year increased the overall production capacity of the Company. 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 10% as compared to the corresponding period in last year.

Gross profit

The gross profit margin was 36% for the six months ended 30 June 2005, which is higher than the 32% 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

The Company's performance in terms of sales and profit was satisfactory for the first three quarters of 2005. Changmao's objective is to continuously develop through market oriented strategies. The Company will increase production capacity, put more effort on research and development in order to increase its market share. The Company will also enhance its sales strategies and internal management to keep up its growth momentum.

New production facilities

Aspartame is a product developed recently and a very popular sweetener worldwide, especially in the United States and Europe. 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. The construction of the aspartame production line was commenced half year ago. The basic construction is now completed and will be in operation in the forth quarter this year. It is expected that the production will reach its full capacity by the end of the year. The launching of aspartame, will extend the vertical production chain of Changmao. Aspartame will be a very competitive product in terms of product quality and production costs. With its good brand awareness, the Company has already attracted potential customers requesting production information or asking for cooperation. The Company believes that aspartame will be an important growth point for the Company in 2006 and will bring handsome return to the Company.

Production

The second fumaric acid (includes maleic anhydride) production line of the Company with an annual production capacity of 10,000 tonnes was put into operation in the second quarter this year, which increased the production capacity of fumaric acid (includes maleic anhydride) to 20,000 tonnes per year. These two sets of production lines are operating smoothly and have created economic value to the Company. These production facilities are technologically very competitive. They provide raw materials for the Company's downstream products and help the Company to reduce production costs through economy of scale. They also increased the production capacity of the Company effectively.



Cooperation

Changmao's strategy is to cooperate with large enterprise to develop new products and new markets through the synergy effects in terms of human resources, financial resources, technologies and management with an aim to bring more return to the Company. Changmao has put more effort on negotiating with some internationally renowned enterprises for certain cooperation projects since the end of last year. These projects involve products that are of high technology and high valued added. The progress is satisfactory. The project on medicinal intermediary products with a Japanese customer was at a very important stage in this quarter. The Japanese customer was satisfactory with the progress and production environment of the project. It is expected that production will be commenced in early 2006. These cooperation projects will be the one of the driving force for Changmao's future development.

Management, research and development

Changmao will continue to strength its internal management to ensure its operation is effective. In addition, the Company will obtain the Hazard Analysis and Critical Control Point ("HACCP") certificate to enhance production safety and product quality. By obtaining the HACCP certificate, the Company will be more competitive in the international food industry market. The research and development team will put more effort on the commercialisation of new products as well as developing new products with high market potential according to the market demand to maintain the growth momentum of the Company.

Future development

Changmao will utilise the competitiveness of its research centre, the Chirotechnology Centre, and will integrate the resources by cooperation with enterprises in the PRC and overseas, continue to develop high market potential products with high technology and high valued added and will launch them into the market with an aim to expand the Company's business into medicine industry by adopting biotechnologies, which forms a good foundation for the Company's future growth.



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 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.

The Scheme was automatically lapsed on 28 June 2005 because certain required conditions of the Scheme had not been met.

No options have been granted by the Company to any of its employees, Directors or supervisors of the Company (the "Supervisors") since its adoption.

DIVIDEND

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 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 30 September 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 Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
Director					
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%
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%
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))



Capacity		Percentage shareholding		Percentage shareholding	
		Number of Domestic Shares	in the Domestic Shares	Number of Promoter Foreign Shares	in the Promoter Foreign Shares
Supervisor					
Ms. Zhou Rui Juan	(Note (h))	-	-	(Note (h))	(Note (h))
Mr. Pan Chun	(Note (i))	-	-	(Note (i))	(Note (i))
Mr. Lu He Xing	(Note (j))	-	-	(Note (j))	(Note (j))
Prof. Gu Jian Xin	(Note (k))	-	-	(Note (k))	(Note (k))
Prof. Jiang Yao Zhong	(Note (l))	-	-	(Note (l))	(Note (l))

Notes:

- (a) The 135,000,000 promoter foreign shares of the Company ("Promoter Foreign Shares") are held by Hong Kong Xinsheng Pioneer Investment Company Limited ("HK Xinsheng Ltd") and the 2,500,000 domestic shares of the Company ("Domestic Shares") are held by 常州新生生化科技開發有限公司 ("Changzhou Xinsheng"). The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.



- (b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class “A” shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (a) above.
- (c) Mr. Jiang is the registered holder and beneficial owner of 2,600,000 shares of HK\$0.01 each in Hong Kong Bio-chemical Advanced Technology Investment Company Limited (“HK Biochem Ltd”), which is the registered holder and beneficial owner of 67,500,000 Promoter Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Jiang is also the registered holder and beneficial owner of 15,000 Class “B” shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.
- (d) Mr. Zeng is the registered holder and beneficial owner of 880,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Promoter Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class “B” shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.
- (e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign Shares.
- (f) 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.



- (g) 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.
- (h) 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.
- (i) 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.
- (j) 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.
- (k) 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.
- (l) 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 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 September 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 in the		Number of H Shares	Percentage shareholding in the H Shares
		Number of Domestic Shares	in the Domestic Shares	Number of Foreign Shares	Promoter Foreign 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	-	-	-	-	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 September 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 September 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>)	281,000,000
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	683,700,000
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Notes:

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



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

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

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;



- (c) disputes between holders of Domestic Shares and Promoter Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Promoter Foreign Shares and overseas listed foreign shares; and
- (d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Promoter Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

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

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules at any time during the nine months ended 30 September 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 third quarterly results for the nine months ended 30 September 2005 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 8 November 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. 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.