



■ FIRST QUARTERLY REPORT 2006 ■

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)

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

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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 Rmb81,224,000 for the three months ended 31 March 2006, representing an increase of 24% as compared to that of the corresponding period in last year
- Unaudited net profit of approximately Rmb20,053,000 for the three months ended 31 March 2006, representing an increase of 54% as compared to that of the corresponding period in last year
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2006



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 2006 together with the unaudited comparative figures for the corresponding period in 2005 as follows:

		Unaudited	
		For the three months ended	
		31 March	
	<i>Note</i>	2006	2005
		Rmb'000	<i>Rmb'000</i>
Turnover	2	81,224	65,760
Cost of sales		(51,861)	(44,962)
Gross profit		29,363	20,798
Other operating income		841	264
Selling expenses		(1,601)	(1,191)
Administrative expenses		(4,264)	(4,101)
Operating profit		24,339	15,770
Finance costs		(749)	(426)
Profit before taxation		23,590	15,344
Taxation	3	(3,537)	(2,302)
Profit for the period attributable to the equity holders of the Company		20,053	13,042
Basic earnings per share	4	Rmb0.029	Rmb0.019



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% and is not subject to any local income tax. 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 or the "Certificate") obtained by the Company in June 2001.



Upon expiry of the above special tax treatments, with effect from 1 January 2005, the Company is entitled to a preferential tax rate of 15% with reference to the renewed Certificate obtained by the Company in December 2003. During the year, such preferential tax treatment has been further extended for a period of two years up to the financial year ending 31 December 2007 upon renewal of the Certificate in November 2005.

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	
	2006	2005
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit before taxation	23,590	15,344
Taxation charge calculated at the approved taxation rate of 15%	3,537	2,302

As at 31 March 2006 and 2005, there was no significant unprovided deferred taxation.

4 Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the profit attributable to the equity holders of the Company of approximately Rmb20,053,000 (2005: Rmb 13,042,000) and the 683,700,000 shares (2005: 683,700,000 shares) in issue during the period.

No diluted earnings per share 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 2006	87,159	9,526	4,763	104,182	205,630
Profit for the period	-	-	-	20,053	20,053
At 31 March 2006	87,159	9,526	4,763	124,235	225,683

BUSINESS REVIEW

The Company has maintained a satisfactory growth and met its objectives in respect of its production, sales, research and development, as well as the project with an international enterprise in the first quarter of 2006. The Company's turnover reached approximately Rmb 81,224,000 for the three months ended 31 March 2006, representing an increase of 24% as compared to that of the corresponding period in last year. Profit attributable to the equity shareholders of the Company was approximately Rmb20,053,000, representing an increase of 54% as compared to that of the corresponding period in last year.

The second set of fumaric acid production line (including maleic anhydride) with an annual production capacity of 10,000 tonnes provided positive contribution to the Company in respect of reducing production costs and energy costs. Apart from providing raw materials for the production of the downstream products, this production line also generated direct revenue from the sales of maleic anhydride which amounted to approximately Rmb16 million for the three months ended 31 March 2006 (2005: Nil). In addition, the sales of all types of malic acid surged by 44% as compared to that of the corresponding period in last year. The progress on the project with an international enterprise was also satisfactory. The gross profit margin was approximately 36% for the three months ended 31 March 2006.



PROSPECTS

The economy of the PRC is expected to grow steadily in 2006. The economic condition in the PRC is favorable for the development of the food additives industry in the PRC. Food additives, the major products of the Company, will also continue to sustain a stable growth.

Aspartame is of high sweetness and low calories and is also safe for consumption. These properties agree with the international trend on food additives. It is expected that the market of aspartame is of high potential. Aspartame is an important new product of the Company in 2006. The Company has started the trial production and continues fine tuning its production process and expected this new product will be a new area of growth of the Company.

The Company has obtained the certificate issued by Food and Drug Administration (FDA) for L(+)- tartaric acid in March 2006. This will help the Company to further explore the market in the United States. The demand of L(+)- tartaric acid in the United States is over 5,000 tonnes per year. The regulations for food additives in the United States are very strict and complicated. This limited the Company's market in the United States. Since L(+)- tartaric acid is a major product of the Company, which accounts for around 50% of the Company's sales, the Company has started to prepare for the application of FDA certificate in 2003 with an aim to overcome the entry barrier of the United States market. The Company has successfully obtained the FDA certificate for L(+)- tartaric acid through two years' effort. With the FDA certificate, the Company believes that the sales in the United States will grow rapidly and it will make positive contribution to the Company's profit.



The progress of the project with a Japanese enterprise is critical in the first quarter of 2006. The Japanese enterprise was satisfied with the progress of the project. The trial production will be started in the second quarter. It is expected that the project will generate profit to the Company in the near future.

The Company is considering acquiring a research centre in Shanghai to strengthen the Company's ability on research and development and as a basis for the Company to enter into the bio-medical industry. Nowadays, people are more health conscious which leads to the increasing demand on bio-medicines and chiral medicinal intermediaries. The Company is expected to create value in this area. The acquisition is under negotiation. In addition, the Company will make use of the advantage position of Shanghai as an international city, to recruit high calibre research personnel and strengthen its management to international level, as a platform for the Company's future development.

The Company is well equipped with production technology in commercial scale and chiral technology. This will enable the Company to obtain a prominent results and market recognition in 2006 in the industries of food additive, chiral auxiliary materials, medicinal intermediaries. The Board is confident to the future of the Company.

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 2006.

SHARE OPTIONS

At a shareholders' meeting held on 18 June 2001, a share option scheme (the "Scheme") was conditionally approved pursuant to which the Company may grant options to any eligible person (including employees, Directors and shareholders of the Company) to subscribe for H shares in the Company subject to a maximum of 10% of the issued share capital of the Company from time to time. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of (i) the closing price of the H Shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant; (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 a H Share. However, employees who are PRC nationals in Mainland China 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 Mainland China have been amended or removed. The Scheme will remain in force for a period of 10 years since the date on which the Scheme becomes unconditional and the Scheme shall lapse should the conditions as set out in the Scheme not be fulfilled within 36 months immediately after the date when the Company commenced the trading of its shares on GEM of the Stock Exchange (the "Expiry Date").

Up to the Expiry Date, the relevant conditions have not yet been fulfilled and the Scheme lapsed accordingly in 2005. No options have been granted under the Scheme since its adoption.

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2006.



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 2006, the interests (including interests in shares and short positions) of the Directors, the supervisors of the Company (the "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:

Director	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
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%

Director	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%
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))
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:

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- (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 31 March 2006, 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 2006, 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 in the		Percentage shareholding in the		Number of H Shares	Percentage shareholding in the H Shares
		Number of Domestic Shares	Domestic Shares	Number of Promoter Foreign Shares	Promoter Foreign Shares		
常州曙光化工厂 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	-	-	-	-
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	-	-	135,000,000	48.04%	-	-
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	-	-	67,500,000	24.02%	-	-
Jomo Limited	Beneficial owner	-	-	66,000,000	23.49%	-	-



Name of Shareholder	Capacity	Percentage shareholding		Percentage shareholding		Number of H Shares	Percentage shareholding in the H Shares
		Number of Domestic Shares	in the Domestic Shares	Number of Promoter Foreign Shares	in the Promoter Foreign Shares		
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 31 March 2006, 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 2006, 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 three months ended 31 March 2006.

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 2006 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 8 May 2006

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.