



■ INTERIM 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)

Stock Code: 8208

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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 Rmb150,986,000 for the six months ended 30 June 2006, representing an increase of 11% as compared to the corresponding period in last year
- Unaudited net profit of approximately Rmb35,166,000 for the six months ended 30 June 2006, representing an increase of 17% as compared to the corresponding period in last year
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006



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

CONDENSED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2006 – Unaudited

	Note	For the		For the	
		three months ended		six months ended	
		30 June		30 June	
		2006	2005	2006	2005
		<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	2	69,762	70,287	150,986	136,047
Cost of sales		(45,297)	(43,599)	(97,158)	(88,561)
Gross profit		24,465	26,688	53,828	47,486
Other operating income		389	241	1,230	505
Selling expenses		(1,954)	(1,873)	(3,555)	(3,064)
Administrative expenses		(4,102)	(4,583)	(8,366)	(8,684)
Operating profit	3	18,798	20,473	43,137	36,243
Finance costs	4	(1,018)	(433)	(1,767)	(859)
Profit before taxation		17,780	20,040	41,370	35,384
Taxation	5	(2,667)	(3,004)	(6,204)	(5,306)
Profit attributable to shareholders		15,113	17,036	35,166	30,078
Basic earnings per share	6	Rmb0.022	Rmb0.025	Rmb0.051	Rmb0.044



CONDENSED BALANCE SHEET*As at 30 June 2006 – Unaudited*

		30 June	31 December
		2006	2005
	<i>Note</i>	Rmb'000	<i>Rmb'000</i>
ASSETS			
Non-current assets			
Acid patent	7	6,611	6,944
Property, plant and equipment	8	136,336	101,124
Land use rights	8	10,941	11,062
Construction in progress	8	104,624	75,652
		258,512	194,782
Current assets			
Inventories		62,833	48,075
Trade and bills receivables	9	37,712	55,457
Other receivables and prepayments		10,457	10,258
Bank balances and cash	10	58,219	29,526
		169,221	143,316
Total assets		427,733	338,098



CONDENSED BALANCE SHEET (Cont'd)*As at 30 June 2006 – Unaudited*

		30 June 2006 Rmb'000	31 December 2005 Rmb'000
	<i>Note</i>		
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	68,370	68,370
Reserves	12	218,234	183,068
Proposed final dividend	12	–	22,562
Total equity		286,604	274,000
LIABILITIES			
Non-current liability			
Long-term bank borrowings	13	4,500	9,000
Current liabilities			
Amounts due to shareholders		2,341	2,285
Trade payables	14	4,070	3,244
Other payables and accrued charges		10,456	16,987
Dividend payable		22,562	–
Taxation payable		2,700	3,582
Bank borrowings	13	94,500	29,000
		136,629	55,098
Total liabilities		141,129	64,098
Total equity and liabilities		427,733	338,098
Net current assets		32,592	88,218
Total assets less current liabilities		291,104	283,000



CONDENSED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2006 – Unaudited*

	Note	Attributable to equity holders of the Company			Total Rmb'000
		Share capital Rmb'000	Other reserves (Note 12) Rmb'000	Retained earnings Rmb'000	
Balance at 1 January 2005		68,370	95,871	56,213	220,454
Transfer from profit and loss account		–	5,577	(5,577)	–
Profit for the period		–	–	30,078	30,078
Final dividend for the year ended 31 December 2004		–	–	(15,041)	(15,041)
Balance at 30 June 2005		68,370	101,448	65,673	235,491
Balance at 1 January 2006		68,370	101,448	104,182	274,000
Transfer from profit and loss account	12	–	10,290	(10,290)	–
Profit for the period		–	–	35,166	35,166
Final dividend for the year ended 31 December 2005		–	–	(22,562)	(22,562)
Balance at 30 June 2006		68,370	111,738	106,496	286,604

CONDENSED CASH FLOW STATEMENT*For the six months ended 30 June 2006 – Unaudited*

	Note	For the six months ended 30 June	
		2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>
Net cash generated from operating activities		38,048	33,783
Net cash used in investing activities		(70,355)	(37,851)
Net cash generated from financing activities		61,000	3,182
Net increase/(decrease) in cash and cash equivalents		28,693	(886)
Cash and cash equivalents at 1 January		28,526	52,971
Cash and cash equivalents at 30 June	10	57,219	52,085



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 (“HKICPA”).

These condensed financial information should be read in conjunction with the 2005 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 2005.

In this reporting period, the Company had applied for the first time, a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.



2. 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	
	2006 Rmb'000	2005 Rmb'000
The People's Republic of China (the "PRC")	82,127	62,592
Europe	21,926	32,984
Asia Pacific	17,801	20,915
America	24,335	17,733
Others	4,797	1,823
	150,986	136,047

The Asia Pacific region includes Australia, Hong Kong, India, Indonesia, Japan, South Korea, Taiwan and Thailand.

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. Substantially all of its assets, liabilities and capital expenditure for the period were located or utilised in Mainland China.



3. Operating profit

Operating profit is stated after charging the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>
Amortisation of acid patent recognised in administrative expense	167	167	333	333
Amortisation of land use rights recognised in administrative expense	60	60	121	121
Depreciation	2,999	2,390	5,629	4,452

4. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>
Interest on bank loans – wholly repayable within five years	1,084	433	1,867	859
Less: Interest capitalised	(66)	–	(100)	–
	1,018	433	1,767	859

5. 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 Cooperation Office), under which the Company was 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. In 2005, 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.



5. Taxation (Cont'd)

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	
	2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2006 <i>Rmb'000</i>	2005 <i>Rmb'000</i>
Profit before taxation	17,780	20,040	41,370	35,384
Taxation charge calculated at the approved taxation rate of 15%	2,667	3,004	6,204	5,306

As at 30 June 2006 and 2005, there was no significant unprovided deferred taxation.

6. Earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2006 is based on the Company's profit attributable to shareholders of approximately Rmb15,113,000 (for the three months ended 30 June 2005: Rmb17,036,000) and the 683,700,000 shares (for the three months ended 30 June 2005: 683,700,000 shares) in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the Company's profit attributable to shareholders of approximately Rmb35,166,000 (for the six months ended 30 June 2005: Rmb30,078,000) and the 683,700,000 shares (for the six months ended 30 June 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.

7. Acid patent

	<i>Rmb'000</i>
Net book value as at 1 January 2006	6,944
Amortisation	(333)
	<hr/>
Net book value as at 30 June 2006	6,611
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8. 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 2006	101,124	11,062	75,652
Transfer from construction in progress to property, plant and equipment	39,747	–	(39,747)
Additions	1,577	–	68,719
Disposal	(483)	–	–
Depreciation/amortisation charge	(5,629)	(121)	–
	<hr/>	<hr/>	<hr/>
Net book value as at 30 June 2006	136,336	10,941	104,624
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



9. Trade and bills receivables

	30 June 2006 Rmb'000	31 December 2005 Rmb'000
Trade receivables (Note (a))	35,668	45,724
Bills receivables (Note (b))	2,044	9,733
	37,712	55,457

- (a) The credit terms of trade receivables range from 30 days to 90 days and the aging analysis of the trade receivables is as follows:



	30 June 2006 Rmb'000	31 December 2005 Rmb'000
0 to 3 months	34,247	44,625
4 to 6 months	1,049	796
Over 6 months	372	303
	35,668	45,724

- (b) The maturity dates of bills receivables are normally within 30 days.

The carrying amount of trade and bills receivables approximate to their fair value.

There is no concentration of credit risk with respect to trade and bills receivables, as the Company has a large number of internationally dispersed customers.

10. Bank balances and cash

	30 June 2006 Rmb'000	31 December 2005 Rmb'000
Cash and cash equivalents	57,219	28,526
Short-term bank deposit with an initial term of more than three months	1,000	1,000
	58,219	29,526

11. Share capital

Registered, issued and fully paid

	Share capital Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 30 June 2006 and 31 December 2005	683,700,000	68,370

As at 30 June 2006 and 31 December 2005, 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.



12. 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	-	3,718	1,859	(5,577)	-
Final dividend for the year ended 31 December 2004	-	-	-	(15,041)	(15,041)
Profit for the year	-	-	-	68,587	68,587
At 31 December 2005	87,159	9,526	4,763	104,182	205,630

	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
Transfer from profit and loss account	-	6,860	3,430	(10,290)	-
Final dividend for the year ended 31 December 2005	-	-	-	(22,562)	(22,562)
Profit for the period	-	-	-	35,166	35,166
At 30 June 2006	87,159	16,386	8,193	106,496	218,234

13. bank borrowings

Bank borrowings of the Company are analysed as follows:

	30 June 2006 Rmb'000	31 December 2005 Rmb'000
Non-current		
Unsecured, long-term bank borrowings wholly repayable within five years	13,500	18,000
Less: current portion of long-term bank borrowings	(9,000)	(9,000)
	4,500	9,000
Current		
Unsecured, short-term bank borrowings	85,500	20,000
Current portion of long-term bank borrowings as shown above	9,000	9,000
	94,500	29,000
Total borrowings	99,000	38,000

The Company's non-current bank borrowings were repayable as follows:

	30 June 2006 Rmb'000	31 December 2005 Rmb'000
Within one year	9,000	9,000
In the second year	4,500	9,000
	13,500	18,000



13. bank borrowings (Cont'd)

All the Company's borrowings are denominated in Renminbi. The carrying amounts of these bank borrowings approximate their fair values.

As at 30 June 2006, the effective interest rates of the bank borrowings were as follows:

	30 June 2006	31 December 2005
Long-term bank borrowings, at fixed rate	5.8%	5.8%
Short-term bank borrowings, at fixed rate	5.3%	5.4%

14. Trade payables

The aging analysis of trade payables is as follows:

	30 June 2006 Rmb'000	31 December 2005 Rmb'000
0 to 6 months	3,992	3,150
7 to 12 months	8	21
Over 12 months	70	73
	4,070	3,244

15. Contingent liabilities

As at 30 June 2006 and 31 December 2005, the Company did not have any material contingent liabilities.



16. Commitments

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

	30 June 2006 Rmb'000	31 December 2005 Rmb'000
Authorised but not contracted for	10,000	25,000
Contracted but not provided for	16,646	11,739
	26,646	36,739

(b) Commitments under operating leases

The Company leases various offices and warehouses under non-cancellable operating leases. At 30 June 2006, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2006 Rmb'000	31 December 2005 Rmb'000
Not later than one year	371	423
Later than one year and not later than five years	102	251
Later than five years	999	1,011
	1,472	1,685



17. Related party transactions

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 2006:

	For the six months ended 30 June	
	2006	2005
	<i>Rmb'000</i>	<i>Rmb'000</i>
Purchases of raw materials from Shuguang Factory	87	3,699
Electricity charged by Shuguang Factory	1,240	1,163
Water supply charged by Shuguang Factory	139	162
Rental expenses to Shuguang Factory	93	93
Transportation expenses charged by Shuguang Factory	327	211
Processing fee and sales commission charged by Shuguang Factory	805	278
	805	278



BUSINESS REVIEW

During the six months ended 30 June 2006, the Company's production and operation was smooth; the progress of the research, the projects with international enterprises and the acquisition was satisfactory. The turnover and net profit of the first half of this year increased as compared to the corresponding period in last year. The business of the Company is developing towards a healthy direction. The projects on hand laid a solid foundation for Changmao's future development.

In the first half of this year, the sales of malic acid increased by approximately 22% as compared to that for the corresponding period in last year. Sales of maleic anhydride surged by approximately 252% as compared to that for the corresponding period in last year and continued to make contribution to the growth in profit.

In early 2006, the European Commission has finalised its investigation on anti-dumping of tartaric acid from China, which influenced the whole tartaric acid industry in China to different degrees. The Company's sales of tartaric acid in the first half of 2006 decreased by approximately 6% as compared to the corresponding period in last year. Being the largest L(+)- tartaric acid producer in the world, the Company has positively defended the accusation by the European Commission and adjusted its export strategy. The Company also obtained the FDA (Food and Drug Administration) certificate for L(+)- tartaric acid and is the only producer in China that obtained this certificate. By obtaining this certificate, the Company will be able to further explore the market in United States and for markets of new usage.


Aspartame is an important new product of the Company. It is the product in relation to a project with a well known Japanese enterprise. The product quality is of very high standard. The Company has put a lot of efforts into the trial production. Due to various factors, the progress of the trial production is delayed and this project has not yet made contribution to the profit of the Company in this quarter as originally expected. Recently, the product quality



is in the progress of verification by the Japanese party and the production cost is well controlled at a satisfactory level. The production volume will be increased in the second half of this year. The Company will be more efficient in the production and will further explore the market, aiming to make this project a new growth area of the Company.

The gross margin for the six months ended 30 June 2006 was 36%, which was slightly higher than the 35% recorded for the corresponding period in last year. Profit attributable to shareholders reached Rmb35,166,000, representing an increase of 17% as compared to that for the corresponding period in last year.

PROSPECT AND OUTLOOK



In 2006, the Chinese economy continues to develop at a stable pace, which drives the rapid growth in the chemical industry. In addition, the fast growth in food industry and the enhancement in people's living standard promote the development in the food additive industry in China and overseas, which leads to the development of the Company's major business in food additives. With the efforts of the Company's staff and the Board, the Company is in a good position for further growth in business. It is believed that there will be further growth in the second half of this year. Through the strategies of improving production technologies, expanding production scale to increase the sales of the existing products, expanding business by teaming up with international partners and acquiring business to move into the bio-medical industry, the Company laid a solid foundation for the continuous growth in the future.

PRODUCTION

In the second half of this year, the Company will continue to utilise its advantages in technology and production, improve product quality by uplifting its production technologies and increasing production scale to lower production cost, thereby increasing its competitiveness.

PROJECTS

The Company is carrying out a project with another well known Japanese partner in respect of medicinal intermediaries. The first phase of the project has been completed. The Japanese partner is satisfied with the progress and the result of the trial production. Both Changmao and the Japanese partner are confident in the product quality and the collaboration ahead. In the second half of this year, the Company will put more effort in the preparation work and trial production of the products under the later phases of the project. The project will make more contribution to the profit in the second half of this year and the years ahead.

The construction of the second phase production plant is an important milestone to the Company. Among the new products to be produced in the second phase production plant are aspartame and the medicinal intermediary products under the project with the Japanese partner. The trial production of these products has been commenced in the first half of this year. The construction of production lines for malic acid and environmental protection facilities is expected to be completed by the end of 2006. The Company's production scale and the product quality will be enhanced by the completion of the construction of the second phase production plant. The second phase production plant will form a solid ground for the Company to grasp new opportunities. It is expected that contribution from these new production facilities will be reflected on the profit of the Company in the coming two years.



MANAGEMENT

In order to provide high quality services to customers and to cope with the international standards, the Company's quality system had conformed to the ISO9001 Quality System Standards. The Company also obtained HACCP (Hazard Analysis Critical Control Point) Certificate in January 2006.

The Company has adopted the GMP (Goods Manufacturing Practice) standards to build the production facilities in the second phase production plant and provided relevant trainings to the staff, so as to better control on the production process and enhance product quality. The Company will strictly comply with the GMP standards in the production process in the new plant to ensure that the production conditions and the product quality will meet the international standards.

In addition, the Company has started the application of FDA certificate for L(+)- tartaric acid in order to further explore the United States market in 2003. FDA is recognised as one of the world's largest fund and drug administrative authority. Through two year's effort, Changmao's L(+)- tartaric acid has successfully obtained the FDA certificate in March 2006, which increased the competitiveness of this products in the international market.



ACQUISITION AND EXPANSION

The Company has been seeking opportunities to enter into the bio-medicine industry. The Company is considering acquiring a pharmaceutical factory and a research centre in Shanghai for the future development of the Company. In addition, the Company will make use of the advantages of Shanghai and set up a company there to attract capable research staff and international partners to research and develop advanced products with high value.

FUTURE DEVELOPMENT

The enhancement in people's living standard promotes the further development in the food industry. The increase popularity in low-fat, low-calorie food induces the adoption of new type of food additives in the food industry and drives the further growth in the food industry, which are favourable to the Company's food additive business.

The bio-medicine industry is related to human lives and health. With the increasing concern over healthiness, the safety and efficiency of medicine become more important. The demand of medicine has been gradually increasing each year. The medicine industry in China is of very high potential. It is expected that China will be the fifth largest medicine market in the world in the coming five years. The entrance into this industry will be favourable to the Company's development.

The Company will continue the production of food additives as its core business and to extend its production chain. The Company will make use of its advantages in technologies and production and launch new products to further explore the domestic and overseas markets to increase the profitability of the Company. The Company is considering acquiring a pharmaceutical factory and a research centre in Shanghai to enter into the bio-medicine industry. It will also enhance its research team and productivity to enhance its product mix. It will increase its operational scale and expand business geographically. The Company is confident in the food additives and the bio-medicine industry and is highly certain about its 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 57% (for the six months ended 30 June 2005: 67%) of the Company's turnover while domestic sales in the PRC accounted for approximately 43% (for the six months ended 30 June 2005: 33%) of turnover. The Company had increased its production capacity of fumaric acid (including maleic anhydride) to 20,000 per year in mid-2005. Maleic anhydride is produced for using as a raw material for the Company's downstream products. For the six months ended 30 June 2006, there was more excessive maleic anhydride produced and was sold to the domestic market as compared to that in the corresponding period last year, which increased the proportion of the Company's domestic sales.

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 2006, the Company had total outstanding bank borrowings of Rmb99 million (as at 31 December 2005: Rmb38 million), of which Rmb 94.5 million (as at 31 December 2005: Rmb29 million) were unsecured short-term bank borrowings, Rmb4.5 million (as at 31 December 2005: Rmb9 million) were unsecured long-term bank borrowing. The average interest rate of the outstanding bank loans is approximately 5.4% (as at 31 December 2005: 5.6%) per annum.

Except for the bank borrowings disclosed above, as at 30 June 2006 and 31 December 2005, the Company did not have any committed borrowing facilities.

As at 30 June 2006, the Company had capital commitments for property, plant and equipment amounting to approximately Rmb26.6 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. 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 2006. The gearing ratio (calculated based on total liabilities divided by total assets) was 33% and 19% as at 30 June 2006 and 31 December 2005 respectively. As at 30 June 2006, the Company's bank balances and cash amounted to Rmb58,219,000 (31 December 2005: Rmb29,526,000). 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 2006, the Company employed a total of 318 employees (30 June 2005: 301 employees). Total amount of staff costs for the six months ended 30 June 2006 was approximately Rmb7,976,000 (for the six months ended 30 June 2005: Rmb6,978,000). The increase in staff cost was mainly due to the increase in number of employees and 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 Rmb40 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 2006.

SHARE OPTIONS

The Company does not operate any share option scheme during the six months ended 30 June 2006.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Company as at 30 June 2006 and 31 December 2005.

The Company has no plans for material investments or capital assets.

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 2006 and 2005.

CONTINGENT LIABILITIES

As at 30 June 2006 and 31 December 2005, 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 2006, 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:

	Capacity	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%



	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:

- (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 June 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.

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 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		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%	-	-
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		Number of Promoter Foreign Shares	Percentage shareholding		
		Number of Domestic Shares	in the Domestic Shares		in the Promoter Foreign Shares	Percentage shareholding in the H 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%
Atlantis Investment Management Ltd.	Investment manager	-	-	-	-	12,868,000	7.00%



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 85% 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 85% 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 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 30 June 2006, the category of the issued shares of the Company is as follows:

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

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 2006.

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 2006.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, 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 2006 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 11 August 2006

As at the date hereof, Mr. Rui Xin Sheng (Chairman) and Mr. Jiang Jun Jie are the executive Directors, Mr. Zeng Xian Biao, 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.

