



CMBEC

■ THIRD 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)

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 Rmb230,923,000 for the nine months ended 30 September 2006, representing an increase of 9% as compared to the corresponding period in last year
- Unaudited net profit of approximately Rmb52,577,000 for the nine months ended 30 September 2006, representing an increase of 9% as compared to the corresponding period in last year
- The Directors do not recommend the payment of an dividend for the nine months ended 30 September 2006



RESULTS

The board of Directors (the “Board”) of Changmao Biochemical Engineering Company Limited (the “Company” or “Changmao”) is pleased to present the unaudited consolidated results of the Company and its subsidiary (the “Group”) for the three and the nine months ended 30 September 2006 together with the unaudited comparative figures for corresponding period in 2005 as follows:

	Notes	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2006 Rmb'000	2005 Rmb'000	2006 Rmb'000	2005 Rmb'000
Turnover	2	79,937	76,432	230,923	212,479
Cost of sales		(56,254)	(48,109)	(153,412)	(136,670)
Gross profit		23,683	28,323	77,511	75,809
Other operating income		4,564	524	5,794	1,029
Selling expenses		(1,672)	(1,766)	(5,227)	(4,830)
Administrative expenses		(5,214)	(5,072)	(13,580)	(13,756)
Operating profit		21,361	22,009	64,498	58,252
Finance costs		(1,587)	(584)	(3,354)	(1,443)
Profit before taxation		19,774	21,425	61,144	56,809
Taxation	3	(2,363)	(3,213)	(8,567)	(8,519)
Profit attributable to shareholders		17,411	18,212	52,577	48,290
Basic earnings per share	4	Rmb0.025	Rmb0.027	Rmb0.077	Rmb0.071



Notes:

1. Basis of preparation and accounting policies

The unaudited consolidated results of the Group 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 Group 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 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.



The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate, as explained above, as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2006 Rmb'000	2005 Rmb'000	2006 Rmb'000	2005 Rmb'000
Profit before taxation	19,774	21,425	61,144	56,809
Taxation charge calculated at the approved taxation rate of 15%	2,967	3,213	9,171	8,519
Income not subject to tax	(604)	-	(604)	-
Tax expense	2,363	3,213	8,567	8,519

As at 30 September 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 30 September 2006 is based on the profit attributable to shareholders of the Company of approximately Rmb17,411,000 (2005: Rmb18,212,000) and the 683,700,000 shares (2005: 683,700,000 shares) in issue during the period.

The calculation of earnings per share for the nine months ended 30 September 2006 is based on the profit attributable to shareholders of the Company of approximately Rmb52,577,000 (2005: Rmb48,290,000) 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 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	-	-	-	52,577	52,577
At 30 September 2006	87,159	16,386	8,193	123,907	235,645



	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 to and 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 period	-	-	-	48,290	48,290
At 30 September 2005	87,159	9,526	4,763	83,885	185,333

BUSINESS REVIEW

With the efforts of the Board and all the staff during the nine months ended 30 September 2006, the Company's production and operation were stable, the progress for research and development and the projects with international partners were satisfactory, and the acquisition of an associated company was smooth.

In the third quarter of 2006, the sales of tartaric acid went up again as a result of the Company's new adjusted strategy on export and the customers' loyalty to the Changmao brand. The increase has offset the effect of the anti-dumping tariffs in Europe and reversed the decreasing trend in the first half year. Sales of tartaric acid increased by 5% in the third quarter 2006 as compared to the corresponding period in the last year. It is expected that the sales of tartaric acid will grow stably as there are more new usages of tartaric acid and new markets are explored. At the same time, the production and sales of malic acid, maleic anhydride and other products recorded a satisfactory growth and they continue to make contribution to the profit.



The turnover for the nine months ended 30 September 2006 was approximately Rmb230,923,000, representing an increase of 9% as compared to that in the corresponding period in last year. Profit attributable to shareholders amounted to approximately Rmb52,577,000, representing an increase of 9% as compared to last year. The gross profit margin was 34%, at a similar level as the 36% recorded in the corresponding period in last year. The gross margin in the third quarter of 2006 decreased as compared to that in the corresponding period of last year mainly because of maleic anhydride. The fumaric acid (including maleic anhydride) production line with a 20,000 tonnes annual production capacity provides raw materials for tartaric acid, malic acid, etc., which will be produced in the second phase production plant. Most of the production lines in the in the second phase production plant are expected to be completed in late 2006 to 2007. Before their completion, the Company has to directly sell the excess maleic anhydride to the market. The decrease in gross profit margin of maleic anhydride was due to market competition. As the second phase production plant gradually complete, the maleic anhydride

produced will be mainly used as raw material for the down stream products. The Company will then be less affected by the up stream products. As there will be more high value products launched to the market, the Company will speed up its progress in gaining advantages from economy of scale.

PROSPECT AND OUTLOOK

The food industry production in China reached Rmb1,000 billion for the first three quarters of 2006 which implies that there is a great potential market for food additives and food ingredients. The Company will continue to enhance its advantages in production technologies and production, improve product quality, increase production scale, optimize product mix, and to achieve continuous growth in economic value.



(I) PRODUCTION AND SALES

1. *L(+)-tartaric acid*

L(+)-tartaric acid is a major product of the Company. 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 extent. The Company's tartaric acid sales also decreased by 6% in the first half year. As the world's largest *L(+)-tartaric acid* producer, the Company has positively defended the accusation by the European Commission and adjusted its export strategy to stabilise the European market. In addition, the Company's *L(+)-tartaric acid* obtained the FDA (Food and Drug Administration) certificate and the Hazard Analysis Critical Control Point (HACCP) certificate to establish a brand of high quality. These strategies strengthen customers' confidence on Changmao's products and help the Company to increase market shares in United States and Asia. Sales of tartaric acid increased by 5% in the third quarter 2006 as compared to the corresponding period in the last year. It is expected that the sales of tartaric acid will grow stably as there are more new usages of tartaric acid and new markets are explored.

2. *Fumaric acid, malic acid and maleic anhydride*

Fumaric acid and DL-malic acid are two major products of the Company. The Company owns a patented concurrent production technology which can be used to produce fumaric acid and DL-malic in one production line and the output ratio can be adjusted according to the market demand. The production line produces high quality products, and is environmental friendly which lowers the Company's production costs. The Company believes that with the increase in product usages and our marketing efforts, this production line will further enhance the Company's competitiveness and bring more revenue to the Company.

The fumaric acid (includes maleic anhydride) production line with an annual capacity of 20,000 tonnes continues to operate smoothly and is a driver for the Company to achieve economy of scale and is important to the continuous development of the Company. The direct sale of maleic anhydride also made an appreciable contribution to the Company's revenue in 2006 and has increased by 21% in the third quarter as compared to that in the corresponding period in last year.

3. *Aspartame*

Aspartame is a product in relation to a project with a well known Japanese enterprise. The Company has put a lot of efforts to satisfy the requirement of the Japanese partner. Since the product quality requirements are much stricter than the generally accepted international requirements, it is more difficult and took longer time to complete the trial production. Therefore, the production line has not yet been fully commercialised in the third quarter of 2006. At present, the production technology is stable with the production volume gradually increasing. The product quality is under further verification. It is expected that the production line will commence full production in the near future. The Company will explore the market further with its advantages in brand awareness and high product quality. The Company believes that aspartame will be an important growth area in the future and make appreciable contribution to the Company's earnings.



(II) PROJECTS

1. *Medicinal intermediaries*

The Company is carrying out another project with another Japanese enterprise in relation to medicinal intermediaries. The project started smoothly with the advices from the Japanese partner. With the efforts of both parties over a long period of time, the development and preparation work for production of a number of products has been completed. Some products have started trial production and are under quality verification. It is expected that some products will commence sales in 2007. The Japanese partner is satisfied with the project and the progress on trial production. The Company and the Japanese partner are confident on the product quality and project ahead.

2. *Construction of the second phase production plant*

The construction of the second phase production plant is an important milestone to the Company. The aspartame and medicinal intermediary production lines which are in the second phase production plant were on trial production. It is expected that the construction of production lines for tartaric acid and malic acid, as well as the environment protection facilities will be completed by the end of 2006. With the second phase production plant, the Company will expand its production capacity, uplift its product quality and enhance its strength. It is expected that the contribution from the second phase production plant will be amply reflected in the Company's return in the next two years.



(III) ACQUISITION AND EXPANSION

1. *Acquisition of an associated company – 常州蘭陵制葯有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd. or “Lanling Pharm”)*

On 30 August 2006, the Company entered into an agreement to acquire 42% equity interest in Lanling Pharm. Lanling Pharm is a comprehensive medicine producer which produces pharmaceuticals such as antibiotic medicine, synthetic medicine and various raw medicines. It is recognised as a 國家大型二類企業 (National Large-Scale Second Class Enterprise) in 1996. Lanling Pharm is located in a superior geographical position, with an area of 74,000 square meters which includes 10,000 square meter production lines of Goods Manufacturing Practice (GMP) standards. It holds a pharmaceutical production licence and various invention patents. The acquisition of Lanling Pharm adds new aspects to the product mix of the Company. The Company's product chain is composed of organic acids with four carbons in their structures. Most of them are chiral products. They are generally used as food additives and can also be widely applied in the area of chiral pharmaceuticals and chiral intermediaries. Some of the Company's products are currently used as chiral intermediaries and has made contribution to the Company's returns. The acquisition of Lanling Pharm benefits the Company by extending the Company's production chain and provides a platform for the Company to extend its business into the bio-medicine industry which is of great market potential. In addition, some of the Company's overseas customers have indicated interests to acquire pharmaceutical products of the same category, the Company believes that this acquisition may increase the Company's profitability.

2. *Setting up of a wholly owned subsidiary – 上海常茂生物化學工程有限公司 (Shanghai Changmao Biochemical Engineering Company Limited or “Shanghai Changmao”)*

In the third quarter of 2006, the Company has set up Shanghai Changmao as a research and sales centre. The Company will capitalise the advantages of rich resources from this international city, adopts advantages management style and further expand its business.



3. *Acquisition plan – a research centre in Shanghai*

The Company intends to acquire a research centre which belongs to a Shanghai tertiary institution. The research centre has a team of senior researchers and holds a number of patented nutrition medicines. The Company believes that this research centre will enable the Company to develop more high value products and enrich the product mix, which provides a further area on growth.

(IV) MANAGEMENT

The Company considers that the continuous improvement in product quality is important to gain customer loyalty and gain more return. As such, the Company endeavours to attain advanced production management and international quality standards to build up brand awareness.

The Company has attained the ISO9001 Quality System Standards in 2003 and the HACCP Standards in 2006. The Company has built GMP production lines and adopted the GMP management standards. These accreditations proved that the Company's product quality is of international and advanced standards.

The Company has made a lot of effort to obtained the FDA certificate for L(+)-tartaric acid and Islamic accreditation (HALAL certificate) for various products. These certificates increase the Company's competitiveness in export and benefit the Company to further explore the markets in the United States and other overseas countries.

(V) FUTURE DEVELOPMENT

The rapid development in the food industry and the improvement in the production and applications of food additives promote the development in the food industry. People are more health conscious nowadays which drives the development of the bio-medicine market. The Company believes that expansion of its business into this market will bring a bright prospect to the Company.

The Company will continue the production and sales of food additives as its core business and develop more functional food additives. The Company will also enhance its strength through acquisitions, research on medicinal intermediaries with high value and extend its product chain. The Company will well make use of its well established brand awareness and international sales network to expand its business scope to pharmaceutical market and create more return and make contribution to peoples' health. The Company believes that it will have a better performance in product innovation and marketing and is confident to its future.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiary had purchased, sold or redeemed any of its listed securities for the nine months ended 30 September 2006.

SHARE OPTIONS

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

DIVIDEND

The Directors do not recommend the payment of an dividend for the nine months ended 30 September 2006.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD

The Company has set up a wholly-owned subsidiary, 上海常茂生物化學工程有限公司 (Shangahi Changmao Biochemical Engineering Co., Ltd.) in Shanghai with a registered capital of Rmb20 million in July 2006. For details, please also refer to the section headed "Prospect and Outlook" above.



The Company has entered into an agreement in August 2006 for the acquisition of 42% interest in 常州蘭陵制藥有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.), a limited liability company incorporated in the PRC principally engaged in the manufacture and sales of pharmaceutical products. The amount of investment by the Company is Rmb4.2 million. The acquisition is expected to be completed in the fourth quarter 2006. For details, please also refer to the section headed "Prospect and Outlook" above.

Save as disclosed above, there is no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the nine months ended 30 September 2006 and 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 2006, the interests (including interests in shares and short positions) of the Directors, supervisors of the Company (“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 常州新生物化科技開發有限公司 (“Changzhou Xinsheng”). The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each. Mr. Rui is the registered holder and beneficial owner of 96,500 Class “A” shares. He is also the registered holder of 53,000 Class “B” shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.
- (b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class “A” shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (a) above.
- (c) Mr. Jiang is the registered holder and beneficial owner of 2,600,000 shares of HK\$0.01 each in Hong Kong Bio-chemical Advanced Technology Investment Company Limited (“HK Biochem Ltd”), which is the registered holder and beneficial owner of 67,500,000 Promoter Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Jiang is also the registered holder and beneficial owner of 15,000 Class “B” shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.

- (d) Mr. Zeng is the registered holder and beneficial owner of 880,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Promoter Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign Shares.
- (f) 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 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 or its subsidiary 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 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		Number of Promoter		Percentage shareholding	
		Domestic Shares	Domestic Shares	Foreign Shares	Promoter Foreign Shares	Number of H Shares	Percentage 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		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
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	-	-	66,000,000 (Note (a))	23.49%	-	-
 上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited)	Beneficial owner	62,500,000	28.54%	-	-	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (b))	28.54%	-	-	-	-
Chervon Investment Limited	Beneficial owner	-	-	-	-	22,008,000	11.98%
Chervon Holdings Limited	Interest of controlled corporation	-	-	-	-	22,008,000 (Note (c))	11.98%
PS Holdings Limited	Interest of controlled corporation	-	-	-	-	22,008,000 (Note (d))	11.98%
Atlantis Investment Management Ltd.	Investment manager	-	-	-	-	14,700,000	8.00%

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 22,008,000 H Shares.
- (d) PS Holdings Limited is the beneficial owner of 59.99% 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 22,008,000 H Shares.



Save as disclosed above, as at 30 September 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 Group.

SHARE CAPITAL STRUCTURE

As at 30 September 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
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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 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 third quarterly results for the nine months ended 30 September 2006 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 3 November 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.