

FIRST QUARTERLY REPORT **2007**



CMBEC



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)

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This report, for which the directors of Changmao Biochemical Engineering Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“GEM Listing Rules”) for the purposes of giving information with regard to Changmao Biochemical Engineering Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Unaudited turnover of approximately Rmb87,005,000 for the three months ended 31 March 2007
- Unaudited net profit of approximately Rmb8,468,000 for the three months ended 31 March 2007
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2007

RESULTS

The board of Directors (the “Board”) of Changmao Biochemical Engineering Company Limited (the “Company” or “Changmao”) is pleased to present the unaudited results of the Company and its subsidiary (collectively referred to as the “Group”) for the three months ended 31 March 2007 together with the unaudited comparative figures for the corresponding period in 2006 as follows:

		Unaudited	
		For the three months	
		ended 31 March	
		2007	2006
	<i>Note</i>	Rmb'000	<i>Rmb'000</i>
Turnover	2	87,005	81,224
Cost of sales		(69,942)	(51,861)
Gross profit		17,063	29,363
Other operating income		487	793
Selling expenses		(1,479)	(1,601)
Administrative expenses		(4,632)	(4,264)
Operating profit		11,439	24,291
Finance costs		(1,693)	(701)
Share of profit of an associate		172	–
Profit before taxation		9,918	23,590
Taxation	3	(1,450)	(3,537)
Profit for the period, attributable to the equity holders of the Company		8,468	20,053
Earnings per share for profit attributable to equity holders of the Company during the period			
– basic and diluted	4	Rmb0.012	Rmb0.029

*Notes:***1. Basis of preparation and accounting policies**

The unaudited 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

PRC Enterprise Income Tax (“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 not subject to any local income tax. Upon renewal of the 技術密集型知識密集型企業證書 (The Certificate of Technology-intensive and Knowledge-intensive Enterprise) in November 2005, the Company is entitled to a preferential EIT rate of 15% up to the financial year ending 31 December 2007. The subsidiary of the Group in Mainland China does not have assessable profit during the period.

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

	For the three months ended	
	31 March	
	2007	2006
	Rmb'000	<i>Rmb'000</i>
Profit before taxation	9,918	23,590
Adjustment: Share of profit of an associate	(172)	–
	9,746	23,590
Calculated at the taxation rate of 15% (2006:15%)	1,462	3,537
Others	(12)	–
Taxation	1,450	3,537

As at 31 March 2007 and 2006, there was no significant unprovided deferred taxation.

4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2007 is based on the Company's profit attributable to shareholders of approximately Rmb8,468,000 (2006: Rmb20,053,000) and the 683,700,000 shares (2006: 683,700,000 shares) in issue during the period.

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
Profit for the period	-	-	-	20,053	20,053
At 31 March 2006	87,159	9,526	4,763	124,235	225,683

	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 2007	87,159	16,386	8,193	138,688	250,426
Profit for the period	-	-	-	8,468	8,468
At 31 March 2007	87,159	16,386	8,193	147,156	258,894

REVIEW AND PROSPECT

I. Financial Review

In the first quarter of 2007, sales of the Group were satisfactory, production and operation were stable. The progress of construction projects was in line with the management's expectation. The business of the Group is developing towards a healthy direction.

The Group's turnover was approximately Rmb87,005,000 and the net profit attributable to the equity holders of the Company was approximately Rmb8,468,000 for the three months ended 31 March 2007. Although the results of this quarter was not satisfactory, the Group still has great earning potential in the future as it has the advantages from the economy of scale in production, the new production lines are gradually completed and it maintains a healthy financial position. The Group is confident that it will grasp the opportunities and expand its business. The results of the first quarter were mainly affected by the following factors:

1. *Increase in raw material prices*

In the first quarter, price of the initial raw material in the production chain increased considerably, which caused the increase in production cost of fumaric acid (including maleic anhydride) and its downstream products. The selling prices of these products had not increased along with the increase in costs and therefore affected the Group's profitability in the first quarter.

2. *Increase in costs from the trial run of new production lines*

Trial run of certain new production lines was started in the first quarter. The time required for the trial run was longer than expected and the actual production volume was therefore also less than expected. These factors caused the increase in costs of the trial run. In addition, the quality assurance of certain products took longer time than expected, which also caused the delay in commercialising those products in the market. Furthermore, the appreciation of Reminbi, the increase in finance costs, selling and administration expenses further affected the results of the first quarter.

II. Business Review

The fast growth in food and beverage industry will increase the demand in food additives in China. The Group has made a lot of effort in expanding its market, enhancing its production, operation and new projects in order to lay a solid foundation for the future development.

A. Marketing

The sales in the first quarter were satisfactory. The demand on L(+)-tartaric acid, L-malic acid and aspartame remained robust. The Group's advantage gained from its international production standards and a satisfactory marketing strategy caused the improvement in turnover.

1. *International production standards*

The Group adopts the ISO9001 quality standards and Hazard Analysis Critical Control Point (HACCP) standards in the production process. These help the Group to maintain an environmental friendly production environment and also increase its competitiveness. In addition, the adoption of the Good Manufacturing Practice (GMP) standards in production is well recognised by new and old customers, which is important to increase the confidence of the customers and would help the Group to increase its market share.

2. *Marketing strategy*

The Group has an outstanding sales and marketing team which made a lot of efforts in expanding the Group's sales network. The good relationship with the United States and Australia distributors enabled the Group to gain more sales orders in these areas. The Group's sales team has visited new and old customers and participated in trade fairs to promote new products. The Group has succeeded in gaining new orders and promoted growth in turnover.

The Group has carried on the strategy of last year on export, the European market of L(+)-tartaric acid remained stable and becoming less affected by the anti-dumping import tax imposed by European Commission. Sales volume of L(+)-tartaric acid gradually increased. In addition, the Food and Drug Administration (FDA) certificate and the wider application of L(+)-tartaric acid also promote the increase in market share, especially in the United States.

The marketing of new products was also satisfactory. The Group's strategy of collaboration with an international enterprise and on market expansion made aspartame becoming more popular in the market. The sales network of aspartame gradually increased and the sales are expected to increase.

B. Production

In the first quarter, the Group's production and operation was stable. The progress of projects was satisfactory. Sales gradually increased to satisfy the market demand.

1. Fumaric acid (including maleic anhydride)

Fumaric acid was greatly affected by the increase in price of raw material. The Group has improved its production technology and it is the second time the Group to improve its production technology to reuse the energy discharged during the production process to reduce production costs. The Group continues to increase the ratio of fumaric acid (including maleic anhydride) as raw materials for the downstream products to create more economical benefits to the Group.

2. L(+)-tartaric acid

The Group has made a lot of efforts in the trial run of the new L(+)-tartaric acid production line and to overcome the difficulties arising from the switching from old production line to the new one, as well as that from the increasing in

production scale. Although it takes longer time than expected for the trial run, the actual production volume has recently increased to its maximum capacity. The level of energy saving and wastage was satisfactory. This production line adopts a sophisticated production technology. There is a great improvement in terms of design, construction and environmental protection as compared to the old production line. The advanced automation facilities benefit the Group economically and also improve the production environment.

3. *L-malic acid*

The production technology of L-malic acid was developed by the Group on its own. Apart from being used as a food additive, L-malic acid also has a lot of other applications. The Group also produces L-malic acid for the medicinal market, the response from the customers was encouraging. In order to satisfy the increasing market demand, the Group has gradually switched from the old production line to a new production line with a larger production capacity. The new production line adopts GMP standards, which will increase the competitiveness of L-malic acid and expected to bring more sales to the Group.

4. *Medicinal intermediaries*

In the first quarter, the progress of the collaboration with the Japanese enterprise was satisfactory. The quality of certain products has obtained approval from the Japanese collaborator in last year. Some products started production according to the plan and the progress was satisfactory. Both the Group and the Japanese collaborator are confident to the product quality of the medicinal intermediaries and the collaboration in the future.

5. *DL-malic acid*

In the first quarter, the Group has started to improve the production line of DL-malic acid. The Group will continue to use the environmental friendly patented Concurrent Production Technology and expect the improvement project to be completed in the second half of 2007. The building of the second phase production premises, which started three years ago, will be completed upon the completion of the DL-malic acid improvement project. The second phase production premises will create economical benefit to the Group in the coming two years.

III. Outlook

The economy of China will continue to grow rapidly in 2007. There will be a lot of opportunities for the Group. Having a strong research and development and sales team, the Group will continue its development according to the following directions:

1. *Increasing production scale and reducing production costs*

The food additive industry in China has a good prospect. The Group's existing food additives products and new functional food additive products will satisfy the increasing customer demand both in China and overseas. The Group will increase its production scale and reduce production costs by improving its production technologies. It is expected that the Group will gain more benefits from the economy of scales.

2. *Exploring more business opportunities and expanding the markets*

The Group will endeavor to expand its sales network and apply effective sales strategy, actively explore new markets of and new application for food additive products and strengthen customer services to increase sales orders from both existing and new customers. The Group will launch new functional food additives and medicinal intermediaries to extend its production chain and enter into new markets.

3. *Putting more effort on research for future development*

The development of China is moving from the dependence on traditional production elements to innovation elements. Innovation in technology is a way to improve competitiveness and a key element for continuing development. The Group therefore will make a lot of efforts on technology innovation, in addition to the Chirotechnology Centre, the Group will acquire 上海醫學生命科學研究中心有限公司 (Shanghai Medical Life Science Research Centre Limited) for research purpose, and to attract more high calibre researcher for developing new products and for the future development of the Group.

Based on the above directions, the Group will continue the production of food additives as its core business, develop new functional food additives to extend its production chain, make use of its competitive advantages in manufacturing and research, continue the collaboration with international enterprises, commercialise new products by making use of its brand awareness and international sales network to promote further growth of business and create best interest to the shareholders. The Group is confident in its future development.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2007.

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2007.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2007, the interests (including interests in shares and short positions) of the Directors, the supervisors of the Company (the "Supervisors") or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules

5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

Director	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the 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%
Mr. Jiang Jun Jie	(Note (c))	-	-	(Note (c))	(Note (c))
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	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares
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 foreign shares of the Company (“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 常州新新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 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 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 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 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 380,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 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 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 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 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 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 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 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 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 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 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 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 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class “A” shares of HK\$1 each and 100,000 Class “B” shares of HK\$1 each.

Save as disclosed above, as at 31 March 2007, 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.

DIRECTORS' AND SUPERVISORS RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the period was the Company or its subsidiary a party to any arrangement (including share option scheme) to enable the Directors or Supervisors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31 March 2007, 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	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares	Number of H Shares	Percentage shareholding in the H Shares
常州曙光化工廠 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	-	-	-	-
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	-	-	135,000,000	48.04%	-	-
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	-	-	67,500,000	24.02%	-	-
Union Top Development Limited	Interest of controlled corporation	-	-	67,500,000 (Note (a))	24.02%	-	-

Name of Shareholder	Capacity	Percentage		Percentage		Number of H Shares	Percentage shareholding in the H Shares
		Number of Domestic Shares	shareholding in the Domestic Shares	Number of Foreign Shares	shareholding in the Foreign Shares		
Ms. Rakchanok Sae-lao	Interest of controlled corporation			67,500,000 (Note (b))	24.02%	-	-
Jomo Limited	Beneficial owner	-	-	66,000,000	23.49%	-	-
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	-	-	66,000,000 (Note (c))	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 (d))	28.54%	-	-	-	-
Chervon Investment Limited	Beneficial owner	-	-	-	-	12,820,000	6.98%
Chervon Holdings Limited	Interest of controlled corporation	-	-	-	-	12,820,000 (Note (e))	6.98%
PS Holdings Limited	Interest of controlled corporation	-	-	-	-	12,820,000 (Note (f))	6.98%

Notes:

- (a) Union Top Development Limited is the beneficial owner of 37.03% of the issued share capital of Hong Kong Bio-chemical Advanced Technology Investment Company Limited, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares.
- (b) Ms. Rakchanok Sae-lao is the beneficial owner of 100% of the issued share capital of Union Top Development Limited, which is the is the beneficial owner of 37.03% of the issued share capital of Hong Kong Bio-chemical Advanced Technology Investment Company Limited. Hong Kong Bio-chemical Advanced Technology Investment Company Limited is the registered holder and beneficial owner of 67,500,000 Foreign Shares.
- (c) 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 Foreign Shares.
- (d) 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.
- (e) Chervon Holdings Limited is the beneficial owner of 85% of the issued share capital of Chervon Investment Limited, which is the beneficial owner of 12,820,000 H Shares.
- (f) 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 12,820,000 H Shares.

Save as disclosed above, as at 31 March 2007, 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 underling 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 31 March 2007, 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
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 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 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 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 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 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 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 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 Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

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

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules at any time during the three months ended 31 March 2007.

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 Wei Xin.

The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the unaudited first quarterly results for the three months ended 31 March 2007 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 8 May 2007

As at the date hereof, Mr. Rui Xin Sheng (Chairman) and Mr. Jiang Jun Jie are the executive directors of the Company, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Lu Chong Zhu and Ms. Leng Yi Xin are the non-executive directors of the Company, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin are the independent non-executive directors of the Company.