

INTERIM 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)

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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 Rmb200,058,000 for the six months ended 30 June 2007
- Unaudited net profit of approximately Rmb15,914,000 for the six months ended 30 June 2007
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007

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 and the six months ended 30 June 2007 together with the unaudited comparative figures for corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007 – Unaudited

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
Turnover	2	113,053	69,762	200,058	150,986
Cost of sales		(94,951)	(45,297)	(164,893)	(97,158)
Gross profit		18,102	24,465	35,165	53,828
Other operating income		347	308	834	1,101
Selling expenses		(1,603)	(1,954)	(3,082)	(3,555)
Administrative expenses		(6,017)	(4,102)	(10,649)	(8,366)
Operating profit	3	10,829	18,717	22,268	43,008
Finance costs	4	(2,567)	(937)	(4,260)	(1,638)
Share of profit of an associate		444	–	616	–
Profit before taxation		8,706	17,780	18,624	41,370
Taxation	5	(1,260)	(2,667)	(2,710)	(6,204)
Profit for the period, attributable to equity holders of the Company		7,446	15,113	15,914	35,166
Earnings per share for profit attributable to equity holders of the Company during the period – basic and diluted	6	Rmb0.011	Rmb0.022	Rmb0.023	Rmb0.051

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30 June 2007 – Unaudited*

	Note	30 June 2007 Rmb'000	31 December 2006 Rmb'000
ASSETS			
Non-current assets			
Acid patent	7	5,944	6,278
Property, plant and equipment	8	139,717	145,604
Land use rights	8	24,793	25,056
Construction in progress	8	146,702	136,539
Investment in an associate		5,082	4,465
		<u>322,238</u>	<u>317,942</u>
Current assets			
Inventories		88,306	83,662
Trade and bills receivables	9	65,120	33,064
Amount due from a shareholder		–	128
Other receivables and prepayments		11,472	9,163
Bank balances and cash	10	64,488	58,448
		<u>229,386</u>	<u>184,465</u>
Total assets		<u>551,624</u>	<u>502,407</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	68,370	68,370
Reserves	12	251,299	250,426
Total equity		<u>319,669</u>	<u>318,796</u>
LIABILITIES			
Current liabilities			
Amounts due to shareholders		1,488	–
Trade payables	13	16,805	6,978
Other payables and accrued charges		14,368	14,292
Dividend payable		15,041	–
Taxation payable		1,253	3,341
Bank borrowings	14	183,000	159,000
		<u>231,955</u>	<u>183,611</u>
Total liabilities		<u>231,955</u>	<u>183,611</u>
Total equity and liabilities		<u>551,624</u>	<u>502,407</u>
Net current (liabilities)/assets		<u>(2,569)</u>	<u>854</u>
Total assets less current liabilities		<u>319,669</u>	<u>318,796</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007- Unaudited

	Attributable to equity holders of the Company			Total Rmb'000
	Share capital Rmb'000	Other reserves Rmb'000	Retained earnings Rmb'000	
Balance at 1 January 2006	68,370	101,448	104,182	274,000
Transfer from income statement	-	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
Balance at 1 January 2007	68,370	111,738	138,688	318,796
Transfer from income statement	-	6,320	(6,320)	-
Profit for the period	-	-	15,914	15,914
Final dividend for the year ended 31 December 2006	-	-	(15,041)	(15,041)
Balance at 30 June 2007	68,370	118,058	133,241	319,669

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2007 – Unaudited*

	Note	For the six months ended 30 June	
		2007 <i>Rmb'000</i>	2006 <i>Rmb'000</i>
Net cash (used in)/ generated from operating activities		(6,910)	38,048
Net cash used in investing activities		(10,050)	(70,355)
Net cash generated from financing activities		24,000	61,000
Net increase in cash and cash equivalents		7,040	28,693
Cash and cash equivalents at 1 January		57,448	28,526
Cash and cash equivalents at 30 June	10	64,488	57,219

Notes:

1. Basis of preparation and accounting policies

These unaudited condensed consolidated 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 2006 annual financial statements of the Group.

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 2006.

In this reporting period, the Group 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 2007. 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 Group is principally engaged in the production and sale of organic acids. Turnover represents sales of organic acids for the period.

An analysis of the Group’s turnover for the period by geographical segment is as follows:

	For the six months ended	
	30 June	
	2007	2006
	Rmb’000	Rmb’000
The People’s Republic of China (the “PRC”)	108,124	82,127
Europe	29,105	21,926
Asia Pacific	31,790	17,801
America	24,599	24,335
Others	6,440	4,797
	200,058	150,986

The Asia Pacific region includes Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, 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 Group's overall ratio of profit to turnover.

No analysis of the segment information by business segment has been presented as the Group 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	
	2007 <i>Rmb'000</i>	2006 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2006 <i>Rmb'000</i>
Amortisation of acid patent recognised in administrative expense	167	167	334	333
Amortisation of land use rights recognised in administrative expense	131	60	263	121
Depreciation	3,558	2,999	7,108	5,629

4. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2007 <i>Rmb'000</i>	2006 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2006 <i>Rmb'000</i>
Interest on bank loans – wholly repayable within five years	2,704	1,084	4,594	1,867
Less: Interest capitalised	(47)	(66)	(183)	(100)
	2,657	1,018	4,411	1,767
Interest income on bank deposits	(90)	(81)	(151)	(129)
	2,567	937	4,260	1,638

5. 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 year.

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 30 June		For the six months ended 30 June	
	2007 <i>Rmb'000</i>	2006 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2006 <i>Rmb'000</i>
Profit before taxation	8,706	17,780	18,624	41,370
Adjustment: share of profit of an associate	(444)	–	(616)	–
	8,262	17,780	18,008	41,370
Calculated at the taxation rate of 15% (2006: 15%)	1,239	2,667	2,701	6,204
Others	21	–	9	–
Taxation	1,260	2,667	2,710	6,204

As at 30 June 2007 and 2006, 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 2007 is based on the profit attributable to equity holders of the Company of approximately Rmb7,446,000 (for the three months ended 30 June 2006: Rmb15,113,000) and the 683,700,000 shares (for the three months ended 30 June 2006: 683,700,000 shares) in issue during the period.

The calculation of earnings per share for the six months ended 30 June 2007 is based on the profit attributable to equity holders of the Company of approximately Rmb15,914,000 (for the six months ended 30 June 2006: Rmb35,166,000) and the 683,700,000 shares (for the six months ended 30 June 2006: 683,700,000 shares) in issue during the period.

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 2007	6,278
Amortisation	(334)
	<hr/>
Net book value as at 30 June 2007	<u>5,944</u>

8. Capital expenditure

	Property, plant and equipment <i>Rmb'000</i>	Land use rights <i>Rmb'000</i>	Construction in progress <i>Rmb'000</i>
Net book value as at 1 January 2007	145,604	25,056	136,539
Transfer from construction in progress to property, plant and equipment	1,215	–	(1,215)
Additions	6	–	11,378
Depreciation/amortisation charge	(7,108)	(263)	–
	<hr/>	<hr/>	<hr/>
Net book value as at 30 June 2007	<u>139,717</u>	<u>24,793</u>	<u>146,702</u>

9. Trade and bills receivables

	30 June 2007 <i>Rmb'000</i>	31 December 2006 <i>Rmb'000</i>
Trade receivables (note (a))	63,001	27,880
Bills receivables (note (b))	2,119	5,184
	<hr/>	<hr/>
	65,120	33,064
	<hr/> <hr/>	<hr/> <hr/>

- (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 2007 Rmb'000	31 December 2006 Rmb'000
0 to 3 months	62,387	27,631
4 to 6 months	500	47
Over 6 months	114	202
	63,001	27,880

- (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 Group has a large number of internationally dispersed customers.

10. Bank balances and cash

	30 June 2007 Rmb'000	31 December 2006 Rmb'000
Cash and cash equivalents	64,488	57,448
Short-term bank deposit with an initial term of more than three months	-	1,000
	64,488	58,448

11. Share capital

Registered, issued and fully paid:

	Share capital Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 30 June 2007 and 31 December 2006	683,700,000	68,370

As at 30 June 2007 and 31 December 2006, 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 2006	87,159	9,526	4,763	104,182	205,630
Transfer from income statement	–	6,860	3,430	(10,290)	–
Profit for the year	–	–	–	67,358	67,358
Final dividend for the year ended 31 December 2005	–	–	–	(22,562)	(22,562)
At 31 December 2006	87,159	16,386	8,193	138,688	250,426

	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
Transfer from income statement	–	6,320	–	(6,320)	–
Transfer	–	8,193	(8,193)	–	–
Profit for the period	–	–	–	15,914	15,914
Final dividend for the year ended 31 December 2006	–	–	–	(15,041)	(15,041)
At 30 June 2007	87,159	30,899	–	133,241	251,299

13. Trade payables

The aging analysis of trade payables is as follows:

	30 June 2007 Rmb'000	31 December 2006 Rmb'000
0 to 6 months	16,711	6,889
7 to 12 months	9	13
Over 12 months	85	76
	16,805	6,978

The carrying amount of trade payables approximate to their fair value.

14. Bank borrowings

Bank borrowings are analysed as follows:

	30 June 2007 Rmb'000	31 December 2006 Rmb'000
Non-current		
Unsecured, long-term bank borrowings wholly repayable within five years	4,500	13,500
Less: current portion of long-term bank borrowings	(4,500)	(13,500)
	-	-
Current		
Unsecured, short-term bank borrowings	178,500	145,500
Current portion of long-term bank borrowings as shown above	4,500	13,500
	183,000	159,000
Total borrowings	183,000	159,000

All the bank borrowings were repayable within one year.

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

As at 30 June 2007, the effective interest rates of the bank borrowings were as follows:

	30 June 2007	31 December 2006
Long-term bank borrowings, at fixed rate	5.8%	5.8%
Short-term bank borrowings, at fixed rate	6.1%	5.8%

15. Contingent liabilities

As at 30 June 2007 and 31 December 2006, the Group did not have any material contingent liabilities.

16. Commitments

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

	30 June 2007 Rmb'000	31 December 2006 Rmb'000
Contracted but not provided for	–	–
Authorised but not contracted for	117	7,186
	117	7,186

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2007, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2007 Rmb'000	31 December 2006 Rmb'000
Not later than one year	397	171
Later than one year and not later than five years	474	102
Later than five years	973	986
	1,844	1,259

17. Related party transactions

The Group entered into the following significant transactions in the ordinary course of business with a shareholder, Shuguang Factory during the six months ended 30 June 2007:

	For the six months ended 30 June	
	2007	2006
	Rmb'000	<i>Rmb'000</i>
Purchases of raw materials from Shuguang Factory	–	87
Electricity charged by Shuguang Factory	695	1,240
Water supply charged by Shuguang Factory	118	139
Rental expenses to Shuguang Factory	93	93
Transportation expenses charged by Shuguang Factory	23	327
Processing fee and sales commission charged by Shuguang Factory	713	805

REVIEW AND OUTLOOK

I. FINANCIAL REVIEW

In the first half of 2007, the Group's production and operation were stable. Sales were satisfactory. The Group has met its objectives in building new production lines, research on new products and management. The business of the Group is developing towards a healthy direction.

The Group recorded a turnover of Rmb200,058,000 for the six months ended 30 June 2007. Profit attributable to the equity holders of the Company was Rmb15,914,000. Owing to the increase in raw material price, the increasing costs caused by the trial production of new production line and the slow progress on the quality assurance process of certain projects, the results for the first half of this year was not satisfactory as compared to the corresponding period of last year. However, with the advantage of economy of scale and the stable production of the new production lines, the Group has great earning potentials. The Group is confident to seize the huge business opportunities and expand its business.

II. BUSINESS REVIEW

The fast growth in food and beverage industry encourages the vigorous development of the food additive industry. In the first half year, the Group's production and operation were stable; the new production line gradually reached its fully capacity; sales were satisfactory with steady growth in turnover. In addition, there was a good progress on the collaboration with an international enterprise. Construction of new production lines was progressed as planned, and the Group will be benefited from the new production lines in future years. The launch of new products will also make contribution to the Group in the future. The Group believes that its business will develop in a healthy direction.

(1) *Production*

The Group has increase the amount of fumaric acid (including maleic anhydride) as raw materials for downstream productions in the first half year, so as to reduce the impact from the rise in cost of raw material.

The Group has invested a lot of manpower and physical resources in the newly built L(+)-tartaric acid production line to overcome the difficulties arisen from the trial run and the increase in operating scale. The production volume gradually increased to the maximum capacity. Based on the successful experience of the old production line, the Group has modified the new production line by using some advanced equipments. The advanced automation facilities benefit the Group economically and also improve the production environment. In addition, the production line adopts the Good Manufacturing Practice (GMP) standards. L(+)-tartaric acid also got the Food and Drug Administration (FDA) certificates. These factors help the Group to explore overseas market such as the United States. Sales of L(+)-tartaric grow steadily with the continuous increasing demand in the market.

L-malic acid is produced with the technology developed by the Group. It has wide applications in the food additive market. The Group extends its application to the medicinal market. The response from the customers is encouraging. In order to improve the product quality to meet the market demand, the Group has increased the production capacity of L-malic acid by building a GMP production line. This production line uses sophisticated technology and is now moving to a stable production phase and is expected to make contribution to the growth in sales.

(2) *Sales*

(i) *Marketing*

The Group has an excellent sales team. It adopts a continuous stable selling strategy to expand its sales network. The turnover in the first half year increased as a result of the increase sales by the distributors in the United States and Australia. The Group also improved its services to the customers. The sale staff has visited customers and participated in trade shows to promote the Group's products and has received new orders.

(ii) Collaboration

The collaboration with an international enterprise on the new product, aspartame, has been under the quality assurance phase for a long time. The collaborator sets a very high standard on the quality which is well above the international recognised standards. The prolonged time spent on quality assurance slowed the market development of aspartame; therefore aspartame has still not yet made any contribution to the profit of the Group. To speed up the pace of marketing, the Group has enhanced its communication with the international collaborator; on the other hand, the Group adopts an active approach in marketing strategy to expand the sales network by its excellent sales staff. In the first half year, sales of aspartame increased. The Group will speed up the quality assurance process and expand the sales network with a target that aspartame will make contribution to the profit.

The collaboration with another international enterprise on medicinal intermediaries was well progressed. Through the efforts of both parties, certain products have attained customer satisfaction on their quality. Some products have been progressed to the quality assurance stage as planned. Both parties are satisfied with the progress of the project, and are confident on the market and the future collaboration and expect that the project will bring economic benefits.

(3) *New production lines*

DL – malic acid is one of the major products of the Group. In the first half year, the Group made use of its existing resources to modify the DL – malic acid production line. The modified production line will still use the environmental friendly, patented Concurrent Production Technology. The advantage of this technology is that one production line can produce two kinds of products, fumaric acid and DL – malic acid. It will not cause pollution and can adjust the product ratio in accordance with the market demand. In addition, the new production line is more automated and controlled by the Digital Control System (DCS). It stabilises product quality and reduces production costs. With the efforts of our staff, the production line runs smoothly, produces at its maximum capacity and has met the market demand. The Group believes that this production line will enable the Group to increase its competitiveness and create economic value to the Group.

The second phase production premises, including the warehouse, environmental protection facilities as well as production lines for aspartame, medicinal intermediaries, L(+)-tartaric acid, L-malic acid, DL-malic acid are substantially completed. It will benefit the Group in the coming two years.

(4) *New products*

The objective of the Group is to gradually shift its product mix, moving the focus from currently the food additives to high value functional food additives and their derivatives. In the first half year, The Group has put more effort on the development of various new products including derivative of malic acid. The Group has hired more overseas doctors for research and development on new products. The Group has laid a solid foundation for its future by selecting new products with market potentials and put more effort on their developments.

(5) *Management*

The Group adopts the ISO9001 standards and the Hazard Analysis Critical Control Point (HACPP) standards in its production. More DCSS are used in production to increase the level of automation. In addition, the increase in new GMP standard production lines and the more stringent safety measures enhances the production environment and product quality, strengthen customer confidence, and improve brand awareness which helps to increase market shares.

The Group adopts flexible and prudent financial and risk management strategies to ensure that investment in new production lines and research on new products will bring return to the Group and further consolidate the Group's financial foundation. The Group is financially stable.

III. PROSPECT AND OUTLOOK

The economy of China will continue to grow rapidly in 2007. There will be a lot of opportunities for the Group. With the advantage from economy of scale and having strong research and development and sales teams, the Group will continue its development according to the following directions:

1. Increase production scale and reduce 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 in China. 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. Explore more business opportunities and expand the markets

With its outstanding sales team and its strategy on collaboration with international enterprises, the Group will endeavor to expand its sales network and apply effective sales strategies, 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

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 or "Shanghai Life Science") for research purpose, and to attract more high calibre researchers for developing new products and for the future development of the Group.

Base 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 well recognized brand name and international sales network to promote further growth of business and create best interest to the shareholders. The Group is confident in its future.

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. In terms of percentage, export sales (including sales through import-export agents in the PRC) accounted for approximately 53% (for the six months ended 30 June 2006: 57%) of the Group's turnover while domestic sales in the PRC accounted for approximately 47% (for the six months ended 30 June 2006: 43%) of turnover.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("USD"). The Group constantly reviews the situation and had carried out prudent and appropriate hedging policies. The Group has entered into forward contracts to hedge its exposure to fluctuations in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group had total outstanding bank borrowings of Rmb183 million (as at 31 December 2006: Rmb159 million), all of which were repayable within one year. The average interest rate of the outstanding bank loans is approximately 6.1% per annum (31 December 2006: 5.8%).

Except for the bank borrowings disclosed above, as at 30 June 2007 and 31 December 2006, the Group did not have any committed borrowing facilities.

As at 30 June 2007, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb 117,000. These capital commitments are mainly related to the expansion of production lines or establishment of new production lines for the Group's proposed new products. The Group intends to finance the capital commitments by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the six months ended 30 June 2007. The gearing ratio (calculated based on total liabilities divided by total assets) was 42% and 37% as at 30 June 2007 and 31 December 2006 respectively. As at 30 June 2007, the Group's bank balances and cash amounted to Rmb64,488,000 (31 December 2006: Rmb 58,448,000). The Directors believe that the Group 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 Group generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Group is generally placed at banks to earn interest income.

EMPLOYEES

Including the Directors, as at 30 June 2007, the Group employed a total of 435 employees (30 June 2006: 318 employees). Total amount of staff costs for the six months ended 30 June 2007 was approximately Rmb 10,273,000 (for the six months ended 30 June 2006: Rmb 7,976,000). 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 Rmb 40 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

Neither the Company nor its subsidiary has purchased, sold or redeemed any of its listed securities for the six months ended 30 June 2007.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Group as at 30 June 2007 and 31 December 2006.

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

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD

There is no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2007.

CONTINGENT LIABILITIES

As at 30 June 2007 and 31 December 2006, the Group 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 2007, the interests (including interests in shares and short positions) of the Directors, the 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:

Capacity		Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares
<i>Director</i>					
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian <i>(Note (a))</i>	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation <i>(Note (b))</i>	2,500,000	1.14%	135,000,000	48.04%
Mr. Jiang Jun Jie	<i>(Note (c))</i>	-	-	<i>(Note (c))</i>	<i>(Note (c))</i>
Mr. Zeng Xian Biao	<i>(Note (d))</i>	-	-	<i>(Note (d))</i>	<i>(Note (d))</i>
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation <i>(Note (e))</i>	-	-	66,000,000	23.49%

	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))
<i>Supervisor</i>					
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 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 30 June 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 30 June 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%	-	-
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%	-	-

Name of Shareholder	Capacity	Percentage shareholding in the		Percentage shareholding in the		Percentage shareholding in the	
		Number of Domestic Shares	Domestic Shares	Number of Foreign Shares	Foreign Shares	Number of H Shares	H Shares
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 Promoter 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 30 June 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 30 June 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
	<u>683,700,000</u>

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 six months ended 30 June 2007.

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. Since Mr. Rui is well aware of the Group's business and operation, the Company considers that it is in the best interest of the Company for Mr. Rui to act as the general manager of the Company. Save that, the Company has complied with the code provisions of the Code on Corporate Governance Practice as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2007.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2007, 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 Group, to review the Group's financial information and to review the audit plan, audit findings and independence of the Auditor of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters of the Group including a review of the unaudited interim results for the six months ended 30 June 2007 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 8 August 2007

As at the date hereof, Mr. Rui Xin Sheng (Chairman) is the executive Director, Mr. Jiang Jun Jie, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Wang Jian Ping 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.