



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)

FIRST QUARTERLY REPORT **2008**

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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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 Rmb108,433,000 for the three months ended 31 March 2008
- Unaudited net profit of approximately Rmb7,334,000 for the three months ended 31 March 2008
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2008

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 subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2008 together with the unaudited comparative figures for the corresponding period in 2007 as follows:

		Unaudited	
		For the three months	
		ended 31 March	
	<i>Note</i>	2008	2007
		Rmb'000	<i>Rmb'000</i>
Turnover	2	108,433	87,005
Cost of sales		(86,309)	(69,942)
		<hr/>	
Gross profit		22,124	17,063
Other gains		347	487
Selling expenses		(2,063)	(1,479)
Administrative expenses		(8,537)	(4,632)
		<hr/>	
Operating profit		11,871	11,439
Finance costs, net		(2,933)	(1,693)
Share of profit of an associate		31	172
		<hr/>	
Profit before taxation		8,969	9,918
Taxation	3	(1,635)	(1,450)
		<hr/>	
Profit for the period		7,334	8,468
		<hr/> <hr/>	
Attributable to:			
Equity holders of the Company		7,415	8,468
Minority interest		(81)	-
		<hr/>	
		7,334	8,468
		<hr/> <hr/>	
Earnings per share for profit to equity holders of the Company			
– basic and diluted	4	Rmb0.011	Rmb0.012
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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, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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 profit for statutory 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 preferential EIT rate. 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 ended 31 December 2007. The tax rate for the Company in 2008 is 18%. The subsidiaries of the Group in Mainland China are subject to a tax rate of 25%.

The amount of taxation charged to consolidated income statement represents:

	For the three months ended	
	31 March	
	2008	2007
	Rmb'000	Rmb'000
Current income tax – Provision for EIT	1,671	1,450
Over-provision in prior year	(49)	–
Deferred income tax	13	–
	<u>1,635</u>	<u>1,450</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated entities as follows:

	For the three months ended	
	31 March	
	2008	2007
	Rmb'000	Rmb'000
Profit before taxation	8,969	9,918
Adjustment: Share of profit of an associate	(31)	(172)
	<u>8,938</u>	<u>9,746</u>
Calculated at the tax rates applicable to results of the respective consolidated entities	1,586	1,462
Income not subject to tax	(17)	(12)
Tax losses for which no deferred income tax asset was recognised	115	–
Over-provision in prior year	(49)	–
Taxation	<u>1,635</u>	<u>1,450</u>

4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2008 is based on the Company's profit attributable to shareholders of approximately Rmb7,415,000 (2007: Rmb8,468,000) and the 683,700,000 shares (2007: 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 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
At 1 January 2008	87,159	30,899	-	151,975	270,033
Profit for the period	-	-	-	7,415	7,415
At 31 March 2008	87,159	30,899	-	159,390	277,448

REVIEW AND PROSPECT

Business review

In the first quarter of 2008, the Group has met its target in respects of production, sales, research, improvement of production lines and collaboration with international partners. The business of the Group developed towards a healthy direction.

The Group achieved a turnover of Rmb108,433,000 for the three months ended 31 March 2008, which increased by 24.6% compared to that of the corresponding period in last year.

The Group has an excellent sales team. It adopted successful and effective sales strategies to expand its sales network. In order to enhance its existing business and explore new markets, the salespersons of the Company has visited customers in China and overseas and participated in trade fairs to promote the products of the Group. The Group has gained new orders which lead to the continuing growth in turnover. Sales of the Group's main products, tartartic acid, aspartame and various kinds of malic acid had increased substantially.

The price of the raw material of the Group is still at a high level; Enterprise Income Tax rate has increased from 15% in last year to 18%. The Group has adopted different measures to minimize the impact of these factors. The Group has set targets to reduce energy consumption, reduce wastage rates and increase production volume and effectiveness. To achieve these targets, the Group will improve its production technologies and expand its production scale to further control its production costs. Gross profit margin for the three months ended 31 March 2008 was 20.4% which was slightly higher than that of the corresponding period in last year.

Prospect

The recent rapid development of food industry has promoted the increase in demand of food additives. This will give the Group a lot of business opportunities. With the advantages from the economy of scale and having strong ability in research and marketing, the Group will continue its development according to the following directions:

1. *Increase competitiveness of products*

Upon the completion of the second phase of the production plant, the production process of all the production lines became stable and effective. In addition, the Group adopts Good Manufacturing Practice (GMP) standards, ISO 9001 Quality System Standards and Hazard Analysis Critical Control Point (HACCP) Food Safety Management System in its production to create a best production environment and will increase the competitiveness of its products, enhancing its brand name and customers' confidence and will lead to the increase in market share.

2. *Explore new sales network*

With its outstanding sales team and its strategy on collaboration with international enterprise, the Group will endeavour to expand its sales network and apply effective sales strategy, actively explore new markets and new application for food additives products and strengthen customer services to increase 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. *Enhance new product research and development*

Innovation in technology is a key element to improve competitiveness and for continuing development. The Group therefore will make a lot of effort in technology innovation. It will consolidate its existing research resources and manpower to develop new products with great market potential. Through the Group's chirotechnology research centre and the Shanghai Medical Life Science Research Centre to enhance its research ability with an aim to extend its production chain. The Group will make use of the production platform of its associate, Changzhou Lanling Pharmaceutical Production Company Limited to increase its profitability. In addition its presence in Shanghai will become an international window of the Group. By adopting advanced international management system, it will attract high calibre people and advance technology. The Group will strengthen its product mix and promote business growth.

Base on the above directions, the Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application area. At the same time, the Group will develop new functional food additives and nutraceutical products based on the existing technologies. The Group will continue to extend its production chain and capitalise its production and research advantage to create new growth area and pursue best interests for its shareholders. The Group is confidence in its future.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2008.

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2008.

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 2008, 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:

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%
Prof. Ouyang Ping Kai	<i>(Note (f))</i>	-	-	<i>(Note (f))</i>	<i>(Note (f))</i>
Prof. Yang Sheng Li	<i>(Note (g))</i>	-	-	<i>(Note (g))</i>	<i>(Note (g))</i>

	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares
<i>Supervisor</i>					
Ms. Zhou Rui Juan	(Note (h))	-	-	(Note (h))	(Note (h))
Mr. Lu He Xing	(Note (i))	-	-	(Note (i))	(Note (i))
Mr. Pan Chun	(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. 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.
- (j) 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.
- (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 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 2008, 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 any of its subsidiaries 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 2008, the following, not being Directors, Supervisors 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:

Long positions in shares:

Name of Shareholder	Capacity	Percentage shareholding		Percentage shareholding		Number of H Shares	Percentage shareholding the H Shares
		Number of Domestic Shares	in the Domestic Shares	Number of Foreign Shares	in the Foreign Shares		
常州曙光化工厂 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	-	-	-	-
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	-	-	135,000,000	48.04%	-	-

Name of Shareholder	Capacity	Percentage shareholding		Percentage shareholding		Number of H Shares	Percentage shareholding the H Shares
		Number of Domestic Shares	in the Domestic Shares	Number of Foreign Shares	in the Foreign Shares		
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%	-	-
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%	-	-	-	-

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.

Save as disclosed above, as at 31 March 2008, 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 31 March 2008, 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.

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 2008 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 6 May 2008

As at the date hereof, Mr. Rui Xin Sheng (Chairman) is the executive director of the Company, Mr. Jiang Jun Jie, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Ms. Leng Yi Xin and Mr. Wang Jian Ping 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.