



**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)

**Interim 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.**

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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 Rmb240,682,000 for the six months ended 30 June 2008
- Unaudited net profit of approximately Rmb21,509,000 for the six months ended 30 June 2008
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008

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 and the six months ended 30 June 2008 together with the unaudited comparative figures for corresponding period in 2007 as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2008 – Unaudited

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Turnover	2	132,249	113,053	240,682	200,058
Cost of sales		(100,541)	(94,951)	(186,850)	(164,893)
Gross profit		31,708	18,102	53,832	35,165
Other gains		507	347	854	834
Selling expenses		(1,555)	(1,603)	(3,618)	(3,082)
Administrative expenses		(11,178)	(6,017)	(19,715)	(10,649)
Operating profit	3	19,482	10,829	31,353	22,268
Finance costs, net	4	(2,924)	(2,567)	(5,857)	(4,260)
Share of profit of an associate		576	444	607	616
Profit before taxation		17,134	8,706	26,103	18,624
Taxation	5	(2,959)	(1,260)	(4,594)	(2,710)
Profit for the period		14,175	7,446	21,509	15,914
Attributable to:					
Equity holders of the Company		14,263	7,446	21,678	15,914
Minority interest		(88)	-	(169)	-
		14,175	7,446	21,509	15,914
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	6	Rmb0.021	Rmb0.011	Rmb0.032	Rmb0.023

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008 – Unaudited

	Note	30 June 2008 Rmb'000	31 December 2007 Rmb'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Patents	7	9,909	10,369
Property, plant and equipment	8	211,565	211,751
Land use rights	8	24,267	24,530
Construction in progress	8	84,626	83,773
Investment in an associate		7,440	6,833
Deferred income tax assets		107	72
		<b>337,914</b>	<b>337,328</b>
<b>Current assets</b>			
Inventories		110,091	110,252
Trade and bills receivables	9	57,332	47,444
Other receivables and prepayments		14,356	9,881
Derivative financial instruments		253	109
Bank balances and cash	10	62,365	51,716
		<b>244,397</b>	<b>219,402</b>
<b>Total assets</b>		<b>582,311</b>	<b>556,730</b>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	68,370	68,370
Reserves	12	291,711	270,033
		<b>360,081</b>	<b>338,403</b>
<b>Minority interest in equity</b>		<b>871</b>	<b>1,040</b>
<b>Total equity</b>		<b>360,952</b>	<b>339,443</b>

		<b>30 June</b>	31 December
		<b>2008</b>	2007
	<i>Note</i>	<b>Rmb'000</b>	<i>Rmb'000</i>
<b>LIABILITIES</b>			
<b>Non-current liability</b>			
Deferred income tax liabilities		771	710
<b>Current liabilities</b>			
Amount due to a shareholder		1,293	1,310
Trade payables	13	23,567	18,435
Other payables and accrued charges		24,193	16,423
Taxation payable		3,035	1,909
Bank borrowings	14	168,500	178,500
		<b>220,588</b>	216,577
<b>Total liabilities</b>		<b>221,359</b>	217,287
<b>Total equity and liabilities</b>		<b>582,311</b>	556,730
<b>Net current assets</b>		<b>23,809</b>	2,825
<b>Total assets less current liabilities</b>		<b>361,723</b>	340,153

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008 – Unaudited

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Minority Interest	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2007	68,370	111,738	138,688	318,796	-	318,796
Transfer from profit and loss account	-	6,320	(6,320)	-	-	-
Profit for the period	-	-	15,914	15,914	-	15,914
Final dividend for the year ended 31 December 2006	-	-	(15,041)	(15,041)	-	(15,041)
Balance at 30 June 2007	68,370	118,058	133,241	319,669	-	319,669
Balance at 1 January 2008	<b>68,370</b>	<b>118,058</b>	<b>151,975</b>	<b>338,403</b>	<b>1,040</b>	<b>339,443</b>
Transfer from profit and loss account	-	3,421	(3,421)	-	-	-
Profit for the period	-	-	21,678	21,678	(169)	21,509
Balance at 30 June 2008	<b>68,370</b>	<b>121,479</b>	<b>170,232</b>	<b>360,081</b>	<b>871</b>	<b>360,952</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008 – Unaudited

	For the six months ended 30 June	
	2008	2007
Note	Rmb'000	Rmb'000
Net cash generated from/(used in) operating activities	33,337	(6,910)
Net cash used in investing activities	(12,688)	(10,050)
Net cash (used in)/generated from financing activities	(10,000)	24,000
Net increase in cash and cash equivalents	10,649	7,040
Cash and cash equivalents at 1 January	51,716	57,448
Cash and cash equivalents at 30 June	62,365	64,488



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 2007 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 2007.

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 2008. 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:

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>Rmb’000</b>	Rmb’000
Mainland China	<b>83,245</b>	108,124
Europe	<b>57,781</b>	29,105
Asia Pacific	<b>69,131</b>	31,790
America	<b>26,360</b>	24,599
Others	<b>4,165</b>	6,440
	<b>240,682</b>	200,058

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	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Amortisation of patents recorded in administrative expense	230	167	460	334
Amortisation of land use rights recorded in administrative expense	131	131	263	263
Depreciation	5,657	3,558	11,073	7,108

### 4. Finance costs, net

	For the three months ended 30 June		For the six months ended 30 June	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Interest on bank loans – wholly repayable within five years	3,010	2,704	6,004	4,594
Less: Interest capitalised	–	(47)	–	(183)
Interest income on bank deposits	(86)	2,657	(147)	4,411
Net finance costs	2,924	2,567	5,857	4,260

## 5. 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 ending 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 30 June		For the six months ended 30 June	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Current income tax				
– Provision for EIT	3,029	1,260	4,700	2,710
Over-provision in prior year	(83)	–	(132)	–
Deferred income tax	13	–	26	–
	<b>2,959</b>	1,260	<b>4,594</b>	2,710

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 30 June		For the six months ended 30 June	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Profit before taxation	17,134	8,706	26,103	18,624
Adjustment: Share of profit of an associate	(576)	(444)	(607)	(616)
	<b>16,558</b>	<b>8,262</b>	<b>25,496</b>	<b>18,008</b>
Calculated at the tax rates applicable to results of the respective consolidated entities	2,960	1,239	4,546	2,701
Income not subject to tax	(41)	-	(58)	-
Tax losses for which no deferred income tax asset was recognised	123	-	238	-
Over provision in prior year	(83)	-	(132)	-
Others	-	21	-	9
Taxation	<b>2,959</b>	<b>1,260</b>	<b>4,594</b>	<b>2,710</b>

## 6. Earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2008 is based on the profit attributable to equity holders of the Company of approximately Rmb14,263,000 (for the three months ended 30 June 2007: Rmb7,446,000) and the 683,700,000 shares (for the three months ended 30 June 2007: 683,700,000 shares) in issue during the period.

The calculation of earnings per share for the six months ended 30 June 2008 is based on the profit attributable to equity holders of the Company of approximately Rmb21,678,000 (for the six months ended 30 June 2007: Rmb15,914,000) and the 683,700,000 shares (for the six months ended 30 June 2007: 683,700,000 shares) in issue during the period.

No diluted earnings per share is presented as the Company has no dilutive potential shares in issue during the period.

7. **Patents**

	<i>Rmb'000</i>
Net book value as at 1 January 2008	10,369
Amortisation	(460)
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Net book value as at 30 June 2008	9,909
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8. **Capital expenditure**

	<b>Property, plant and equipment</b>	<b>Land use rights</b>	<b>Construction in progress</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Net book value as at 1 January 2008	211,751	24,530	83,773
Transfer from construction in progress to property, plant and equipment	10,490	–	(10,490)
Additions	397	–	11,343
Depreciation/amortisation charge	(11,073)	(263)	–
	<hr/>		
Net book value as at 30 June 2008	211,565	24,267	84,626
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9. **Trade and bills receivables**

	<b>30 June 2008</b>	31 December 2007
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade receivables ( <i>note (a)</i> )	57,257	47,444
Bills receivables ( <i>note (b)</i> )	75	–
	<hr/>	
	57,332	47,444
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- (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:

	<b>30 June 2008 Rmb'000</b>	31 December 2007 Rmb'000
0 to 3 months	56,750	45,305
4 to 6 months	446	1,981
Over 6 months	61	158
	<hr/> <b>57,257</b> <hr/>	<hr/> <b>47,444</b> <hr/>

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

#### 10. Bank balances and cash

	<b>30 June 2008 Rmb'000</b>	31 December 2007 Rmb'000
Cash and cash equivalents	<b>62,365</b>	51,716

#### 11. Share capital

Registered, issued and fully paid

	<b>Share capital</b>	
	<b>Number of shares at Rmb0.10 each</b>	<b>Nominal value Rmb'000</b>
At 30 June 2008 and 31 December 2007	683,700,000	68,370

As at 30 June 2008 and 31 December 2007, 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 2007	87,159	16,386	8,193	138,688	250,426
Transfer from profit and loss account	-	6,320	-	(6,320)	-
Transfer	-	8,193	(8,193)	-	-
Profit for the year	-	-	-	34,648	34,648
Final dividend for the year ended 31 December 2006	-	-	-	(15,041)	(15,041)
At 31 December 2007	87,159	30,899	-	151,975	270,033

	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 2008	87,159	30,899	-	151,975	270,033
Transfer from profit and loss account	-	3,421	-	(3,421)	-
Profit for the period	-	-	-	21,678	21,678
At 30 June 2008	87,159	34,320	-	170,232	291,711

## 13. Trade payables

The ageing analysis of trade payables is as follows:

	30 June 2008 <i>Rmb'000</i>	31 December 2007 <i>Rmb'000</i>
0 to 6 months	23,293	18,385
7 to 12 months	244	20
Over 12 months	30	30
	23,567	18,435

#### 14. Bank borrowings

Bank borrowings are analysed as follows:

	<b>30 June 2008</b> <i>Rmb'000</i>	31 December 2007 <i>Rmb'000</i>
Current		
Unsecured, short-term bank borrowings	<b>168,500</b>	178,500

All 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 2008, the effective interest rates of the bank borrowings were as follows:

	<b>30 June 2008</b>	31 December 2007
Short-term bank borrowings, at fixed rate	<b>7.2%</b>	6.6%

#### 15. Contingent liabilities

As at 30 June 2008 and 31 December 2007, the Group did not have any material contingent liabilities.

#### 16. Commitments

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

	<b>30 June 2008</b> <i>Rmb'000</i>	31 December 2007 <i>Rmb'000</i>
Contracted but not provided for	–	–
Authorised but not contracted for	–	568
	<b>–</b>	568



(b) **Commitments under operating leases**

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2008, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	<b>30 June 2008 Rmb'000</b>	31 December 2007 Rmb'000
Not later than one year	<b>305</b>	305
Later than one year and not later than five years	-	153
Later than five years	-	-
	<hr/> <b>305</b> <hr/>	<hr/> 458 <hr/>

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 2008:

	<b>For the six months ended 30 June</b>	
	<b>2008 Rmb'000</b>	2007 Rmb'000
Purchases of raw materials from Shuguang Factory	<b>123</b>	-
Electricity charged by Shuguang Factory	-	695
Water supply charged by Shuguang Factory	-	118
Rental expenses to Shuguang Factory	-	93
Transportation expenses charged by Shuguang Factory	<b>211</b>	23
Processing fee and sales commission charged by Shuguang Factory	-	713
	<hr/> <b>-</b> <hr/>	<hr/> 713 <hr/>

## REVIEW AND PROSPECT

### Business Review

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

As a result of the rapid growth of the business, the Group recorded a turnover of Rmb132,249,000 in the second quarter of 2008, which has increased by 17% as compared to the corresponding period in last year. Net profit in the second quarter was Rmb14,175,000, which has increased by 90% as compared to the corresponding period in last year. For the six months ended 30 June 2008, the Group recorded a turnover of Rmb240,682,000 which has increased by 20% as compared to the corresponding period in last year; net profit was Rmb21,509,000, which has increased by 35% as compared to the corresponding period in last year.

The Group has focused on increasing the efficiency of the production lines and reducing the wastage rate. It has refined its production and operating process, improved its production technology and has made breakthroughs in cost reduction. In addition, the economy of scales achieved by the second phase production plant and the good production environment increased the Group's competitive advantages, enhanced the Group's brand awareness, established a quality brand and increased customer confidence, which brought economic benefit to the Group.

The Group has moderately increased the production capacity of certain core products according to the market conditions. The stable development of the Group's core products ensured the growth of the Group's profit. Market demand increased with the increase in quality of its major products, tartaric acid and malic acid. The sales volume of these products in the United States, Asia and Australia has surged as compared to that in the corresponding period in last year. The production cost of aspartame has largely reduced in this year through the improvement in production technology and enhancement in production management. The company has adjusted its production method

on aspartame according to the different requirements of the customers which makes aspartame more popular in the United States and European markets. The development of aspartame is encouraging. New collaboration opportunities will create synergy effects and help the Group to enhance its brand and improve overall return.

Raw material price continues to increase while refund rate of export tax decreased from 13% to 5%. These factors reduced the profitability of the Group. Facing the unfavourable macro environment, the Group adopts various measures including the improvement in production technology by reducing energy consumption and increasing production efficiency; increasing production scale to control production costs; further enhancing its sales network; actively exploring domestic and overseas new markets and increase new applications of its products to attract quality customers to achieve sales growth. Through these measures, the Group achieved a gross profit margin of 22.4% for the six months ended 30 June 2008, which is 4.8% higher than that in the corresponding period in last year.

### **Outlook and 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 production efficiency and 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 the 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 active marketing strategies*

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 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. *Develop new product with innovative technology*

Innovation in technology is a key element to improve competitiveness and for the Group's continuing development. The Group will put a lot of effort in technology innovation. It will make full use of its own intellectual property rights and further consolidate its existing research resources and manpower, to continuously introduce new products with great market potential into the market. The Group will make use of its 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 also 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; to expand its production scale to gain cost advantage; to increase the competitiveness and to explore new markets and new application area. At the same time, the Group will development 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.

The Group will also enhance its collaborations with its international partners; make use of its advantage on its brand awareness, its advanced sales network and new products to pursue best interests for its 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 69% (for the six months ended 30 June 2007: 53%) of the Group's turnover while domestic sales in the PRC accounted for approximately 31% (for the six months ended 30 June 2007: 47%) 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"). Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the period, the Group used forward contracts to hedge its foreign currency exposure in USD.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2008, the Group had total outstanding bank borrowings of Rmb168.5 million (as at 31 December 2007: Rmb178.5 million), all of which were repayable within one year. The interest rate of the outstanding bank loans is approximately 7.2% per annum (31 December 2007: 6.6%).

Except for the bank borrowings disclosed above, as at 30 June 2008 and 31 December 2007, the Group did not have any committed borrowing facilities.

The Group did not have any charge on its assets during the six months ended 30 June 2008. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 38% and 39% as at 30 June 2008 and 31 December 2007 respectively. As at 30 June 2008, the Group's bank balances and cash amounted to Rmb62,365,000 (31 December 2007: Rmb51,716,000). 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 2008, the Group employed a total of 479 employees (30 June 2007: 435 employees). Total amount of staff costs for the six months ended 30 June 2008 was approximately Rmb14,095,000 (for the six months ended 30 June 2007: Rmb10,273,000). 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 the year ending 31 December 2008, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and minority interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb40 million (the "Target Profit"):

- (a) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;

- (b) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to all the directors (other than Mr. Rui Xin Sheng and the independent non-executive directors) for the time being of the Company as a bonus for the relevant year; and
- (c) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities for the six months ended 30 June 2008.

### **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008.

### **SIGNIFICANT INVESTMENTS**

There is no significant investments held by the Group as at 30 June 2008 and 31 December 2007.

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 2008.

### **CONTINGENT LIABILITIES**

As at 30 June 2008 and 31 December 2007, 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 2008, 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	Percentage shareholding		Percentage shareholding		
	Number of Domestic Shares	in the Domestic Shares	Number of Foreign Shares	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 (Note (a))	2,500,000	1.14%	135,000,000	48.04%



	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares
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))
<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 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 30 June 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 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 2008, the following, not being a Director, Supervisor or chief executives of the Company, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

*Long positions in shares:*

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

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.

Save as disclosed above, as at 30 June 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 30 June 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
	<hr/>
	683,700,000
	<hr/> <hr/>

*Notes:*

- (a) Overseas listed foreign shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in a currency other than Rmb and are traded in Hong Kong dollars and listed on GEM.
- (b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in Rmb and issued to the promoters of the Company.
- (c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

Although the 到境外上市公司章程必備條款 (the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of “domestic shares”, “foreign shares” and “overseas listed foreign shares” (which definitions have been adopted in the Articles of Association of the Company), the rights attached to 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 CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES**

Mr. Rui Xin Sheng is the Chairman of the Board and the General Manager of the Company. Save that, the Company has complied with the code provisions of the Code on Corporate Governance Practice as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2008.

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2008, 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 2008 with the Directors.

By order of the Board

**Rui Xin Sheng**

*Chairman*

The PRC, 6 August 2008

*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.*