



**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)

THIRD QUARTERLY REPORT **2008**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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.**

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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 Rmb333,720,000 for the nine months ended 30 September 2008
- Unaudited net profit of approximately Rmb30,889,000 for the nine months ended 30 September 2008
- The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2008

## RESULTS

The board of Directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and the nine months ended 30 September 2008 together with the unaudited comparative figures for corresponding period in 2007 as follows:

	Note	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Turnover	2	93,038	102,126	333,720	302,184
Cost of sales		(74,039)	(84,498)	(260,889)	(249,391)
Gross profit		18,999	17,628	72,831	52,793
Other gains		449	410	1,303	1,244
Selling expenses		(1,795)	(1,971)	(5,413)	(5,053)
Administrative expenses		(4,072)	(4,451)	(23,787)	(15,100)
Operating profit		13,581	11,616	44,934	33,884
Finance costs, net		(2,922)	(2,716)	(8,779)	(6,976)
Share of profit of an associate		703	563	1,310	1,179
Profit before taxation		11,362	9,463	37,465	28,087
Taxation	3	(1,982)	(1,510)	(6,576)	(4,220)
Profit for the period		9,380	7,953	30,889	23,867
Attributable to:					
Equity holders of the Company		9,455	7,953	31,133	23,867
Minority interest		(75)	-	(244)	-
		9,380	7,953	30,889	23,867
Earnings per share for profit attributable to equity holders of the Company					
- basic and diluted	4	Rmb0.014	Rmb0.012	Rmb0.046	Rmb0.035

Notes:

**1 Basis of preparation and accounting policies**

The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of GEM Listing Rules. They have been prepared under historical cost convention, as modified by the revaluation of financial assets and 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 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 September		For the nine months ended 30 September	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Current income tax - Provision for EIT	1,967	1,283	6,667	3,993
(Over)/under provision in prior year	2	227	(130)	227
Deferred income tax	13	-	39	-
	<b>1,982</b>	<b>1,510</b>	<b>6,576</b>	<b>4,220</b>

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 September		For the nine months ended 30 September	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Profit before taxation	11,362	9,463	37,465	28,087
Adjustment: Share of profit of an associate	(703)	(563)	(1,310)	(1,179)
	<b>10,659</b>	8,900	<b>36,155</b>	26,908
Calculated at the tax rates applicable to results of the respective consolidated entities	1,899	1,335	6,445	4,036
Income not subject to tax	(28)	-	(86)	-
Tax losses for which no deferred income tax asset was recognised	109	-	347	-
(Over)/under provision in prior year	2	227	(130)	227
Others	-	(52)	-	(43)
Taxation	<b>1,982</b>	1,510	<b>6,576</b>	4,220

#### 4 Earnings per share

The calculation of basic earnings per share for the three months ended 30 September 2008 is based on the profit attributable to shareholders of the Company of approximately Rmb9,455,000 (for the three months ended 30 September 2007: Rmb7,953,000) and the 683,700,000 shares (for the three months ended 30 September 2007: 683,700,000 shares) in issue during the period.

The calculation of earnings per share for the nine months ended 30 September 2008 is based on the profit attributable to shareholders of the Company of approximately Rmb31,133,000 (for the nine months ended 30 September 2007: Rmb23,867,000) and the 683,700,000 shares (for the nine months ended 30 September 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
Transfer to and from profit and loss account	-	6,320	-	(6,320)	-
Transfer		8,193	(8,193)		
Profit for the period	-	-	-	23,867	23,867
Final dividend for the year ended 31 December 2006	-	-	-	(15,041)	(15,041)
At 30 September 2007	87,159	30,899	-	141,194	259,252
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	-	-	-	31,133	31,133
At 30 September 2008	87,159	34,320	-	179,687	301,166

## REVIEW AND OUTLOOK

### 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 approximately Rmb333,720,000 for the nine months ended 30 September 2008 which has increased by 10.4% as compared to the corresponding period in last year; net profit was approximately Rmb30,889,000, which has increased by 29.4% as compared to the corresponding period in last year.

The Group has continued to focus 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 Group was active in exploring new markets and new product applications and attracted new customers and increased sales revenue. With the help of the Group's brand awareness, sales of one of the Group's major product, tartaric acid, was encouraging. New product applications helped the Group to gain more orders from Australia and Europe. The mature production technology and new production facilities of malic acid created competitive advantage to the Group. The efficiency and quality of malic acid have been enhanced. The Group applied flexible sales strategy on different customer groups which further promote its business. Although aspartame was affected by the slow down of the global economy in the third quarter of 2008, there is still a great potential in its market. The Group adopts various measures to cope with the market change. With its advanced production facilities and environment, high quality product, brand awareness and high potential market, the Group is confident to maintain its growth momentum and expected to have more handsome return in the future.

The global economy was affected by the economic crises in the United States which created some unfavourable factors to export companies. The Group has taken measures to cope with these factors including the adjusting the sales strategy and its product mix to cope with the market, integrating its production chain and reduce risk. Through these measures, the Group achieved a gross profit margin of 21.8% for the nine months ended 30 September 2008, which is 4.3% 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.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities for the nine months ended 30 September 2008.

## **DIVIDEND**

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 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 30 September 2008, the interests (including interests in shares and short positions) of the Directors, supervisors of the Company (“Supervisors”) or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.48 to 5.67

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

**Long positions in shares:**

	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 (Note (a))	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	1.14%	135,000,000	48.04%
Mr. Jiang Jun Jie	(Note (c))	-	-	(Note (c))	(Note (c))
Mr. Zeng Xian Biao	(Note (d))	-	-	(Note (d))	(Note (d))
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	-	-	66,000,000	23.49%
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))

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. 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 September 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 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 30 September 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%



Name of Shareholder	Capacity	Percentage shareholding		Percentage shareholding	
		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 62.3% 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 September 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 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 September 2008, the category of the issued shares of the Company is as follows:

	<b>No. of Shares</b>
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 Ms. Wei Xin.

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the unaudited third quarterly results for the nine months ended 30 September 2008 with the Directors.

By order of the Board

**Rui Xin Sheng**

*Chairman*

The PRC, 31 October 2008

*As at the date hereof, Mr. Rui Xin Sheng (Chairman) is the executive Directors, 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.*