

Stock Code: 8208

First Quarterly Report 2009



CMBEC

CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

常茂生物化學工程股份有限公司

(A Joint Stock Limited Company Incorporated In The People's Republic Of China)

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

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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 Rmb78,021,000 for the three months ended 31 March 2009
- Unaudited net profit of approximately Rmb9,052,000 for the three months ended 31 March 2009
- The Directors do not recommend the payment of a dividend for the three months ended 31 March 2009

RESULTS

The board of Directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is pleased to present the unaudited results of the Company and its subsidiary (collectively referred to as the "Group") for the three months ended 31 March 2009 together with the unaudited comparative figures for the corresponding period in 2008 as follows:

		Unaudited	
		For the three months	
		ended 31 March	
	<i>Note</i>	2009	2008
		Rmb'000	<i>Rmb'000</i>
Turnover	2	78,021	108,433
Cost of sales		(56,701)	(86,309)
Gross profit		21,320	22,124
Other income		848	347
Other losses, net		(420)	(1,465)
Selling expenses		(1,777)	(2,063)
Administrative expenses		(7,973)	(7,072)
Operating profit		11,998	11,871
Finance costs, net		(1,936)	(2,933)
Share of profit of an associate		394	31
Profit before income tax		10,456	8,969
Income tax expense	3	(1,467)	(1,635)
Profit for the period		8,989	7,334
Attributable to:			
Equity holders of the Company		9,052	7,415
Minority interest		(63)	(81)
		8,989	7,334
Earnings per share for profit to equity holders of the Company			
– basic and diluted	4	Rmb0.013	Rmb0.011

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 Income tax expense

PRC Company Income Tax ("CIT") 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 CIT rate for the first three quarters of 2008 of the Company was 18%. Upon obtaining the New and High Technology Enterprise certificate in the forth quarter of 2008, the Company is entitled to a preferential CIT rate of 15% with retrospective effect from 1 January 2008. The other 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	
	2009 Rmb'000	2008 Rmb'000
Current income tax – Provision for CIT	1,454	1,671
Over-provision in prior year	–	(49)
Deferred income tax	13	13
	<u>1,467</u>	<u>1,635</u>

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

	For the three months ended 31 March	
	2009 Rmb'000	2008 Rmb'000
Profit before taxation	10,456	8,969
Adjustment: Share of profit of an associate	(394)	(31)
	<u>10,062</u>	<u>8,938</u>
Calculated at the tax rates applicable to results of the respective consolidated entities	1,463	1,586
Income not subject to tax	(125)	(17)
Tax losses for which no deferred income tax asset was recognised	129	115
Over provision in prior year	–	(49)
Income tax expense	<u>1,467</u>	<u>1,635</u>

4 Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2009 is based on the profit attributable to the equity holders of the Company of approximately Rmb9,052,000 (2008: Rmb7,415,000) and the 683,700,000 shares (2008: 683,700,000 shares) in issue during the period.

The Company had no dilutive potential shares in issue during the period.

5 Reserves

	Share premium <i>Rmb'000</i>	Statutory common reserve <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
Profit for the period	–	–	7,415	7,415
At 31 March 2008	87,159	30,899	159,390	277,448

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2009	87,159	38,729	190,074	315,962
Profit for the period	–	–	9,052	9,052
At 31 March 2009	87,159	38,729	199,126	325,014

REVIEW AND PROSPECT

Business review

In the first quarter of 2009, the production and operation of the Group are stable. International collaboration projects, research and development and management were progressed as planned. The business of the Group developed in a healthy direction.

Recent financial crisis caused pressure on product sales and reduced the sales growth. However, the Group was benefited by the reduction in raw material price and the decrease in interest expense. The Group recorded a net profit of Rmb9,052,000 for the three months ended 31 March 2009, representing an increase of 22% as compared to that of the corresponding period in last year.

The Group focused on increasing the efficiency of the production lines, increasing the production volume and reducing the wastage rate. It has refined its production and operating process, optimized its production technology and has made breakthroughs in cost reduction. Performance of major products was outstanding. Costs of major products continued to be lowered with less wastage which increased the profit margin.

In addition, the Group applied flexible sales strategies, including visiting customers by the sales team, participating trade fairs, enhancing services to customers, making use of internet sales platform, to increase brand awareness and customer recognition. These strategies were effective in helping the Group to consolidate its existing business and explore new markets.

Future and Prospect

The current economic situation is full of uncertainty, thus the Group will face even more pressure in 2009. The Group is actively taking measures to cope with the increasingly complex external environment. Currently, the world is flooded with too many negative influences, but the overall climate in China, which is to maintain stable and relatively fast economic development, will not change. We are of the conviction that we can surely turn pressure into motivation, and crisis into opportunities through careful evaluation of situation, positive response, new ways of thinking and solid work.

Looking ahead, 2009 will be a year of opportunities and challenges. The Group will carry out work around the following areas:

A. *Product upgrading through product structure adjustment*

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 create a reasonable product structure by way of launching competitive new product group in an organized way through technological advancement. Through the Group's chirotechnology research centre and the Shanghai Medical Life Science Research Centre to enhance its research ability with an aim to actively develop new products and extend its production chain. The Group will make use of the production platform of its associate, Changzhou Lanling Pharmaceutical Production Company Limited to enter into biomedical domain, an area with huge growth potential, step by step, thus inject vitality into the Group's product structure and increase its profitability. Meanwhile, with formal launch of the Group's nutraceutical business, Shanghai Changmao, as a main force to develop the nutraceutical market, will break the traditional sales and marketing modes in the market and zealously identify new profit margins so as to promote rapid growth of the business.

1. To develop from low value-added products to high value-added ones and natural food additives
Benefiting from steady and sustained growth of the food industry, the food additive industry is also in the process of steady and rapid development, leading to an increasingly prominent position boasted by food additives. Safe and poison-free natural food additives are becoming increasingly favoured by consumers who are more health conscious with higher living standard. The Group will focus on the developing from low value-added products to high value-added ones and natural food additives, with an aim to gain a leading position in the domain, which is full of vigor and vitality.
2. To make use of research ability to actively launch new products and continuously extend production chain
Through the Group's chirotechnology research centre and the Shanghai Medical Life Science Research Centre to enhance its research ability with an aim to consolidate its existing research resources and manpower. The Group will adhere to innovation in technology to extend its production chain and continuously develop new products with good prospect and profitability. Through faster pace of launching new products, the Group will drive its business to a newer and broader horizon in 2009 and embark on a new journey of profit making.
3. By developing new nutraceutical business, Shanghai Changmao will market its products to end-users.
Currently, countries around the world are actively seeking proper plans that can improve living environment, sustain growth and even promote health. As a result of which, nutraceutical is in great demand in many places. It can therefore be expected that the room of growth for functional food additives and nutraceutical is enormous. In line with the trend toward nutritious and multi-functional food, the Group will do its utmost to speed up new product development. As a main force to develop the nutraceutical market, Shanghai Changmao will open up the market through innovative sales and marketing modes, marketing products to end-users and developing a brand new domain in human health market.

B. Establishment of sales channel and expansion of sales network

The Group has an outstanding sales team. Under the exceptional world economic situation, the Group will continuously upgrade all-round quality of its sales personnel and enhance the overall standard of the sales team. 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 in 2009, actively explore new markets and new application for food additives products and strengthen customer services to ensure increased orders from both existing and new customers.

C. Upgrading of personnel quality and enhancement of corporate management standard

The pace of corporate development is determined by personnel quality. Under today's exceptional economic environment, an outstanding corporate management team is particularly needed. The Group will put its business strength into full play in 2009 by strengthening team building, optimizing personnel structure, enhancing personnel quality and reinforcing professional skill training, and will realize all-rounded, balanced and coordinated development through fine management.

D. Product branding and establishment of brand reputation

Quality builds a brand name, which in turn win the market. Under the precondition of carrying forward proprietary innovation, the Group will emphasize product quality and brand name to continuously enhance product reputation, recognition and goodwill in 2009 with an aim to zealously build brand effect, promote corporate culture, explore product market and drive corporate development unto a new level.

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 capitalize on its production and research strength to develop new functional food additives, natural food additives, medicinal intermediaries and nutraceutical products based on the existing technologies. The Group will continue to extend its production chain and 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 2009.

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2009.

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 2009, 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 (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. 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 promoter 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. 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 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 2009, 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 2009, the following, not being Directors, Supervisors or chief executives of the Company, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

Long positions in shares:

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

Name of Shareholder	Capacity	Percentage shareholding		Percentage shareholding	
		Number of Domestic Shares	in the Domestic Shares	Number of Foreign Shares	in the Foreign Shares
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 31 March 2009, 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 2009, 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 were 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 were 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 were 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 2009 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 6 May 2009

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.