

Third Quarterly Report 2009



CMDEC

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.

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 2009 together with the unaudited comparative figures for corresponding period in 2008 as follows:

	Note	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000
Turnover	2	91,945	93,038	283,483	333,720
Cost of sales		(67,912)	(74,039)	(213,429)	(260,889)
Gross profit		24,033	18,999	70,054	72,831
Other income		208	449	1,360	1,303
Other losses, net		(270)	(888)	(882)	(3,614)
Selling expenses		(2,155)	(1,795)	(5,727)	(5,413)
Administrative expenses		(7,778)	(3,184)	(23,523)	(20,173)
Operating profit		14,038	13,581	41,282	44,934
Finance costs, net		(1,408)	(2,922)	(4,980)	(8,779)
Share of profit of an associate		519	703	1,569	1,310
Profit before income tax		13,149	11,362	37,871	37,465
Income tax expense	3	(2,260)	(1,982)	(6,426)	(6,576)
Profit and total comprehensive income for the period		10,889	9,380	31,445	30,889
Attributable to:					
Equity holders of the Company		10,978	9,455	31,710	31,133
Minority interest		(89)	(75)	(265)	(244)
		10,889	9,380	31,445	30,889
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	4	Rmb0.016	Rmb0.014	Rmb0.046	Rmb0.046

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 financial liabilities (including derivative instruments) at fair value through profit and 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 fourth 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 30 September		For the nine months ended 30 September	
	2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000
Current income tax				
– Provision for CIT	1,964	1,967	5,532	6,667
Under/(over)-provision in prior year	289	2	855	(130)
Deferred income tax	7	13	39	39
	2,260	1,982	6,426	6,576

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 30 September		For the nine months ended 30 September	
	2009 <i>Rmb'000</i>	2008 <i>Rmb'000</i>	2009 <i>Rmb'000</i>	2008 <i>Rmb'000</i>
Profit before income tax	13,149	11,362	37,871	37,465
Adjustment: Share of profit of an associate	(519)	(703)	(1,569)	(1,310)
	12,630	10,659	36,302	36,155
Calculated at the tax rates applicable to results of the respective consolidated entities	1,828	1,899	5,270	6,445
Income not subject to tax	(18)	(28)	(165)	(86)
Tax losses for which no deferred income tax asset was recognised	161	109	466	347
Under/(over)-provision in prior year	289	2	855	(130)
Income tax expense	2,260	1,982	6,426	6,576

4. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 September 2009 is based on the profit attributable to shareholders of the Company of approximately Rmb10,978,000 (for the three months ended 30 September 2008: Rmb9,455,000) and the 683,700,000 shares (for the three months ended 30 September 2008: 683,700,000 shares) in issue during the period.

The calculation of earnings per share for the nine months ended 30 September 2009 is based on the profit attributable to shareholders of the Company of approximately Rmb31,710,000 (for the nine months ended 30 September 2008: Rmb31,133,000) and the 683,700,000 shares (for the nine months ended 30 September 2008: 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 Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
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
At 1 January 2009	87,159	38,729	190,074	315,962
Profit for the period	–	–	31,710	31,710
Final dividend for the year ended 31 December 2008	–	–	(10,256)	(10,256)
At 30 September 2009	87,159	38,729	211,528	337,416

REVIEW AND OUTLOOK

Business Review

In the first three quarters of 2009, the production, sales, research and development as well as the construction of production lines were progressed as planned. The business of the Group developed in a healthy direction.

The Group's sales was still affected by the global financial crises in the third quarter of 2009. The Group recorded a turnover of approximately Rmb91,945,000 for the three months ended 30 September 2009, which is slightly lower than that of the corresponding period in last year. The Group has modified its production technologies to control production cost, and increased the gross profit margin of the products. The Group was also benefited from the revised export tax refund policy in China. The gross profit margin for the three months ended 30 September 2009 reached 26%, which was approximately 6% higher than that of 20% recorded in the corresponding period in last year; net profit was approximately Rmb10,978,000, which was approximately 16% than that in the corresponding period in last year. The Group recorded a net profit of Rmb31,710,000 for the nine months ended 30 September 2009, which was slightly higher than that in the corresponding period of last year.

Faced with the difficulty brought by the financial crises in the third quarter, the management and all the staff are still confident on the Group's future development and will turn the pressure to motive and seek for new ways for development. On one hand, the Group will continue to increase the efficiency of the production lines, increase the production volume and reduce the wastage rate, make use of its advantage on economy of scale. It will also optimise its production technology to reduce raw material consumption and effectively control its costs and increase its profit margin; on the other hand the Group will actively grasp its opportunities in the market, analyse the market trend and explore new sales channel and create business opportunities, and increase sales orders. In addition, the Group has seized the opportunity from the revision of export tax refund policy in China. The Group has timely released the operational pressure with the adjustment on export tax refund rate of its

major products. The tax refund rate of the Group's major products increased from 5% to 9%, some increased even up to 13%. This helped the Group to reduce production costs and increased the market competitiveness of the Group's products. Raw material price was at a low level which reduced the production costs and released the impact of increased raw material price and high inventory costs in 2008 and caused the increase in gross margin. With the improvement in the global market sentiment, the overseas and domestic sales orders will increase. Sales is expected to be improved with further increase in economic growth.

Future and Prospect

The economic indexes of China in the first three quarters of the 2009 have been gradually improved. The growth in food industry in China will promote the growth in food additives. The financial crises improved the Group's ability to adapt market change. Looking into the future, there are numerous business opportunities for the Group. With the Group's advantage in production with economy of scale, strong research and sales ability, the Group will increase its pace on adjusting its product mix, maintain its existing customers and exploring new markets to seize the business opportunities.

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. The Group will improve its products to create new growth point.

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. With its innovation on technology, the Group will strive to develop the “natural four-carbon series edible organic acid” to cope with people’s increasing admiration on natural, nutrition, health and environmental protection. This project is a “National 863 project” and a project under “Fund for transform of results from scientific technology in Jinangsu Province” (江蘇省科技成果轉化專項資金專案). This project uses natural and reproducible resources such as sweet corns and beans to replace the non-reproducible petrochemical resources to produce fumaric acid, maleic acid, tartaric acid and malic acid. It is safe and environmental friendly and can satisfy people’s need for natural and healthy food and will help protecting peoples’ health. The Group will focus on the developing high value-added natural four-carbon series food additives, with an aim to gain a leading position in the domain, which is full of vigor and vitality and bring economic contribution to the Group.

2. Actively exploring the nutraceutical product market

To cope with the trend on nutritional and multi-functional food, the Group will actively explore the nutraceutical product market. As the major entity in exploring the nutraceutical product market, Shanghai Changmao Biochemical Engineering Company Limited, the subsidiary of the Company will adopt new selling mode by facing the ultimate customers directly and promote its business to grow fast and explore a new area for human health.

3. Focus on core products and make use of advantage on scale production

The core products of the Group, tartaric acid and malic acid, continues to make contributions to the turnover. With the advanced production technologies and good production environment, the advantage on scale production will contribute more to the Group's business. In addition, people are more concern on healthy products and keen on sweetener which has a high level of sweetness and low calories. In 2009, the development of aspartame is impressive. As such, the Group planned to expand the aspartame production line to cope with the market demand. It will focus on the improvement in production equipment, environmental protection facilities and be well prepared for the future growth.

4. Entering the biomedical domain

Changzhou Lanling Pharmaceutical Production Co., Ltd. ("Lanling") is an associate of Changmao. It has increased production volume and efficiency, increased sales and increased its earning ability and obtained a better result this year. The Group will make use of the production platform of Lanling 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.

5. Make use of its advantage on research and development to launch new products and extend its production line

Through the Group's research centres, the Chirotechnology Research Centre, the Shanghai Medical Life Science Research Centre and Enterprise Professor Station, the Group will integrate its existing resources and research team, insist in innovation on technology with an aim to actively develop new products which are of high future potential and productivity. The Group will increase in the pace in launching new products, promote its business to new area with more potential and productivity.

B. *Establishment of sales channel and expansion of sales network*

The Group has an outstanding sales team. Under the financial crisis, 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 and actively explore new markets and new application for food additives products and strengthen customer service. In addition, the Group will actively bring in new mode of sales and try to explore new customers through electronic commercial platform with an aim to enlarge sales network and increase sales.

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

The pace of corporate development is determined by personnel quality under the exceptional economic environment. The Group will reinforce professional skill training to enhance personnel quality. It will also optimize personnel structure to strengthen team building, actively building an operational standard system and improve its management system standard. The Group will enhance its management level and coordinate the Group's continuing development.

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 natural food additives, new functional food additives, nutraceutical products and medicinal intermediaries 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 had purchased, sold or redeemed any of its listed securities for the nine months ended 30 September 2009.

DIVIDEND

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 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 30 September 2009, 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) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares:

Capacity		Approximate percentage shareholding in		Approximate percentage shareholding in	
		Number of Domestic Shares	the Domestic Shares (Note (m))	Number of Foreign Shares	the Foreign Shares (Note (n))
<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%
Ma. 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	Approximate percentage shareholding in the Domestic Shares (Note (m))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (n))
<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.

- (m) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 30 September 2009.
- (n) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 30 September 2009.

Save as disclosed above, as at 30 September 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) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 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 INTERESTS OR SHORT POSITIONS WHICH ARE 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 2009, the following persons, not being a Director, Supervisor or chief executive of the Company, had 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 were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Approximate percentage		Approximate percentage	
		Number of Domestic Shares	shareholding in the Domestic Shares (Note (e))	Number of Foreign Shares	shareholding in the Foreign Shares (Note (f))
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%

Name of Shareholder	Capacity	Approximate percentage shareholding in		Approximate percentage shareholding in	
		Number of Domestic Shares	the Domestic Shares (Note (e))	Number of Foreign Shares	the Foreign Shares (Note (f))
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 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.
- (e) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 30 September 2009.
- (f) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 30 September 2009.

Save as disclosed above, as at 30 September 2009, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had 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 were substantial shareholders as recorded in the register required to be kept 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 2009, the category of the issued shares of the Company is as follows:

	No. of Shares
H shares (Note (a))	183,700,000
Domestic Shares (Note (b))	219,000,000
Foreign Shares (Note (c))	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 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 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 2009 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 28 October 2009

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.