

Stock Code: 8208

*First Quarterly Report 2010*



**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”)**

**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 Stock 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.**

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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 results of the Company and its subsidiary (collectively referred to as the “Group”) for the three months ended 31 March 2010 together with the unaudited comparative figures for the corresponding period in 2009 as follows:

		<b>Unaudited For the three months ended 31 March</b>	
	<i>Note</i>	<b>2010 Rmb'000</b>	2009 Rmb'000
Turnover	2	94,699	78,021
Cost of sales		(71,398)	(56,701)
Gross profit		23,301	21,320
Other income		1,936	848
Other losses, net		(243)	(420)
Selling expenses		(2,624)	(1,777)
Administrative expenses		(10,774)	(7,973)
Operating profit		11,596	11,998
Finance costs, net		(1,646)	(1,936)
Share of profit of an associate		2,104	394
Profit before income tax		12,054	10,456
Income tax expense	3	(1,622)	(1,467)
Profit and total comprehensive income for the period		10,432	8,989
Attributable to:			
Equity holders of the Company		10,484	9,052
Minority interest		(52)	(63)
		10,432	8,989
Earnings per share for profit to equity holders of the Company			
– basic and diluted	4	Rmb0.015	Rmb0.013

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 Corporate 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 Company, being registered as a New and High Technology Enterprise since 2008, is entitled to a preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

The amount of income tax charged to consolidated statement of comprehensive income represents:

	For the three months ended 31 March	
	2010 Rmb'000	2009 Rmb'000
Current income tax – Provision for CIT	1,568	1,454
Deferred income tax	54	13
	<b>1,622</b>	<b>1,467</b>

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

	<b>For the three months ended 31 March</b>	
	<b>2010</b>	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit before income tax	<b>12,054</b>	10,456
Adjustment: Share of profit of an associate	<b>(2,104)</b>	(394)
	<b>9,950</b>	10,062
Calculated at the tax rates applicable to results of the respective consolidated entities	<b>1,454</b>	1,463
Income not subject to tax	<b>(12)</b>	(125)
Expenses not deductible for tax purposes	<b>31</b>	–
Tax losses for which no deferred income tax asset was recognised	<b>149</b>	129
Income tax expense	<b>1,622</b>	1,467

#### 4. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2010 is based on the profit attributable to equity holders of the Company of approximately Rmb10,484,000 (2009: Rmb9,052,000) and the 683,700,000 shares (2009: 683,700,000 shares) in issue during the period.

The Company had no dilutive potential shares in issue during the period (2009: Nil).

## 5. DIVIDEND

There were no dividends paid or proposed and no amount absorbed thereby for the three months ended 31 March 2010.

## 6. RESERVES

	<b>Share premium</b> <i>Rmb'000</i>	<b>Statutory common reserve</b> <i>Rmb'000</i>	<b>Retained earnings</b> <i>Rmb'000</i>	<b>Total</b> <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

	<b>Share premium</b> <i>Rmb'000</i>	<b>Statutory common reserve</b> <i>Rmb'000</i>	<b>Retained earnings</b> <i>Rmb'000</i>	<b>Total</b> <i>Rmb'000</i>
At 1 January 2010	87,159	42,705	219,045	348,909
Profit for the period	–	–	10,484	10,484
At 31 March 2010	87,159	42,705	229,529	359,393

## REVIEW AND PROSPECT

### Business review

In the first quarter of 2010, the production and operation of the Group were stable while its international collaboration projects, research and development and management condition generally achieved the goals of the Group. The Group developed in a healthy direction with a fairly fast economic growth pace and increasing economic vitality.

The Group recorded a turnover of Rmb94,699,000 for the three months ended 31 March 2010, which represented an increase of 21% compared to the corresponding period in last year; and a net profit of Rmb10,484,000, which represented an increase of 16% compared to the corresponding period in last year.

The Group's yearly target is to focus on increasing the efficiency of the production lines, increasing the production volume and reducing the wastage rate to give full play of its strength of production of scale. It has optimized its production technology to reduce consumption of raw materials and effectively controlled its production costs. It has also further improved its product quality to satisfy the international market through enhancement in quality control and environmental management. The adjustment in export tax refund policy has benefited the Group by releasing its operational pressure and increasing the competitiveness of its products which made contribution to the Group's economic benefits.

In the meantime, facing competition at home and abroad, the Group's outstanding sales team took initiative to revise the sales strategy, increase its bargaining power, explore new market and new application arena for core products, continuously promote brand recognition and awareness and start to gradually entering into new markets which laid the foundation for continuous sales growth.

## Future and Prospect

The international and domestic economic situation is filled with increasing uncertainties in 2010 and the competition in the industry has all the time been fierce. As such, the Group will fortify further its ability to adapt market change; make use of its advantage in production with economy of scale, strong research and sales ability; increase its pace on adjusting its product mix; and explore new markets continuously to seize new development opportunities.

### A. *Product upgrading through product structure optimization*

Innovation in technology is a key element to improve competitiveness and for continuing development. The Group therefore will make a lot of effect in technology innovation. It will consolidate its existing research resources and manpower to extend its production chain, create a reasonable product structure and upgrading its products by way of launching competitive new product group in an organised way through its advantage on research and development, promote product development from low value-added products to high value added ones and natural food additives. It will also explore nutraceutical product business, focus on core products, make use of advantage of scale production and expand into the biomedical domain, which will create new growing points for the Group.

### B. *Intensifying market exploration effort through expansion of sales network*

The pace of corporate development is determined by personnel quality. Under the environment of the financial crisis, an outstanding corporate management team is particularly needed. The Group will put its business strength into full play by strengthening team building, optimizing personnel structure, enhancing personnel quality and reinforcing professional skills, and will realize all-rounded, balanced and coordinated development through fine management. The Group will actively bring in new model of sales with an aim to enlarge sales network and increase sales.



C. *Perfecting talent structure system and enhancing corporate management standard*

Based on the need of the development strategy, the Group will focus on innovating human resource management, and optimize personnel structure to strengthen team building. Through the full implementation of ISO9001, ISO14001, HACCP and Guide for Standardization System, the Group has broken down the international environmental protection barrier so that it can extend its market further in Europe and American which helped to coordinate the Group's sustainable development.

D. *Persisting in establishment of brand reputation*

Quality builds a brand name, which in turn wins 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 2010 with an aim to zealously build brand effect, promote corporate culture, explore product market and drive corporate development unto a new level.

There will be opportunities and challenges in the future. 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.

## **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 2010.

## **DIVIDEND**

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2010.

## 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 2010, 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) 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, were as follows:

### *Long positions in shares:*

Capacity		Number of	Approximate	Number of	Approximate
		Domestic	Percentage	Foreign	Percentage
		Shares	shareholding in the Domestic Shares <i>(Note (m))</i>	Shares	shareholding in the Foreign Shares <i>(Note (n))</i>
<i>Director</i>					
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian <i>(Note (a))</i>	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation <i>(Note (b))</i>	2,500,000	1.14%	135,000,000	48.04%

Capacity		Number of	Approximate	Number of	Approximate
		Domestic	Percentage	Foreign	Percentage
		Shares	shareholding in the Domestic Shares (Note (m))	Shares	shareholding in the Foreign Shares (Note (n))
<i>Director</i>					
Mr. Jiang Jun Jie	(Note (c))	-	-	(Note (c))	(Note (c))
Mr. Zeng Xian Biao	(Note (d))	-	-	(Note (d))	(Note (d))
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	-	-	66,000,000	23.49%
Prof. Ouyang Ping Kai	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Yang Sheng Li	(Note (g))	-	-	(Note (g))	(Note (g))
<i>Supervisor</i>					
Ms. Zhou Rui Juan	(Note (h))	-	-	(Note (h))	(Note (h))
Mr. 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.
- (m) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 31 March 2010.
- (n) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 March 2010.

Save as disclosed above, as at 31 March 2010, 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 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 2010, the following, not being 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 or were substantial shareholder 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 Number of Domestic Shares shareholding in the Domestic Shares		Approximate Percentage Number of Foreign Shares shareholding in the Foreign Shares	
			(Note (e))		(Note (f))
常州曙光化工廠 (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	Approximate Percentage shareholding in the Domestic Shares (Note (e))		Approximate Percentage shareholding in the Foreign Shares (Note (f))	
		Number of Domestic Shares	Percentage shareholding in the Domestic Shares (Note (e))	Number of Foreign Shares	Percentage shareholding in the Foreign Shares (Note (f))
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.
- (e) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 31 March 2010.
- (f) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 March 2010.

Save as disclosed above, as at 31 March 2010, 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 or 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 31 March 2010, 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 2010 with the Directors.

By order of the Board

**Rui Xin Sheng**

*Chairman*

The PRC, 5 May 2010

*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.*