

Stock Code: 8208

*First Quarterly Report 2011*



**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”)**

**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.**

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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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this report misleading.*

## 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 2011 together with the unaudited comparative figures for the corresponding period in 2010 as follows:

		<b>Unaudited</b>	
		<b>For the three months</b>	
		<b>ended 31 March</b>	
	<i>Note</i>	<b>2011</b>	2010
		<b>Rmb'000</b>	<i>Rmb'000</i>
Turnover	2	<b>142,202</b>	94,699
Cost of sales		<b>(111,290)</b>	(71,398)
Gross profit		<b>30,912</b>	23,301
Other income		<b>837</b>	1,936
Other losses, net		<b>(309)</b>	(243)
Selling expenses		<b>(2,687)</b>	(2,624)
Administrative expenses		<b>(16,639)</b>	(10,774)
Operating profit		<b>12,114</b>	11,596
Finance costs, net		<b>(1,441)</b>	(1,646)
Share of profit of an associate		<b>4,628</b>	2,104
Profit before income tax		<b>15,301</b>	12,054
Income tax expense	3	<b>(1,784)</b>	(1,622)
Profit for the period		<b>13,517</b>	10,432
Other comprehensive income – currency translation difference		<b>20</b>	–
Total comprehensive income for the period		<b>13,537</b>	10,432
Profit for the period attributable to:			
Equity holders of the Company		<b>13,371</b>	10,484
Non-controlling interest		<b>146</b>	(52)
		<b>13,517</b>	10,432
Earnings per share for profit attributable to equity holders of the Company– basic and diluted	4	<b>Rmb0.025</b>	Rmb0.015

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:

	<b>For the three months ended 31 March</b>	
	<b>2011</b>	2010
	<b>Rmb'000</b>	Rmb'000
Current income tax		
– Provision for CIT	<b>1,816</b>	1,568
– Under-provision in respect of prior year	<b>14</b>	–
Deferred income tax	<b>(46)</b>	54
	<b>1,784</b>	1,622

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</b>	
	<b>31 March</b>	
	<b>2011</b>	2010
	<b>Rmb'000</b>	Rmb'000
Profit before income tax	<b>15,301</b>	12,054
Adjustment: Share of profit of an associate	<b>(4,628)</b>	(2,104)
	<b>10,673</b>	9,950
Calculated at the tax rates applicable to results of the respective consolidated entities	<b>1,765</b>	1,454
Income not subject to tax	<b>(28)</b>	(12)
Expenses not deductible for tax purposes	<b>-</b>	31
Tax losses for which no deferred income tax asset was recognised	<b>125</b>	149
Utilisation of tax losses for which no deferred income tax asset was recognised	<b>(92)</b>	-
Under-provision in respect of prior year	<b>14</b>	-
Income tax expense	<b>1,784</b>	1,622

#### **4 Earnings per share**

The calculation of basic earnings per share for the three months ended 31 March 2011 is based on the profit attributable to equity holders of the Company of approximately Rmb13,371,000 (Corresponding period in 2010: Rmb10,484,000) and the 529,700,000 shares (Corresponding period in 2010: 683,700,000 shares) in issue during the period.

The Company had no dilutive potential shares in issue during the period (Corresponding period in 2010: Nil).

## 5 Dividend

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2011.

In addition, the final dividend of Rmb0.043 (inclusive of tax) per share for the year ended 31 December 2010 which was recommended by the Directors on 8 March 2011 is to be approved by the shareholders at the Annual General Meeting on 6 May 2011. This final dividend, totalling Rmb22,777,000 has not been recognised as a liability in this financial information. It will be recognised in shareholders' equity in the year ending 31 December 2011.

## 6 Reserves

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2010	87,159	42,705	-	-	219,045	348,909
Profit and total comprehensive income for the period	-	-	-	-	10,484	10,484
At 31 March 2010	87,159	42,705	-	-	229,529	359,393

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2011	102,559	49,504	461	25	201,779	354,328
Profit for the period	-	-	-	-	13,371	13,371
Other comprehensive income						
– currency translation difference						
– Group	-	-	-	20	-	20
At 31 March 2011	102,559	49,504	461	45	215,150	367,719

Representing:

2010 proposed final dividend	22,777
Others	192,373
	<u>215,150</u>

## REVIEW AND PROSPECT

### Business review

In the first quarter of 2011, the production and operation of the Group were stable while its international collaboration projects, research and development and management condition achieved the goals of the Group. The Group developed with a fairly fast economic growth pace and increasing economic vitality.

The Group recorded a turnover of approximately Rmb142,202,000 for the three months ended 31 March 2011, which represented an increase of 50% compared to the corresponding period in last year; and a net profit of approximately Rmb13,371,000, which represented an increase of 28% 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 also further improved its product quality to satisfy the international market through enhancement in quality control and environmental management. It has optimized its production technology to reduce consumption of raw materials and release its operational pressure and increase the competitiveness of its products which made contribution to the Group's economic benefits.

Facing the competition in domestic and overseas, the Group has an excellent sales team that applied flexible sales strategies and increased its bargaining power to increase sales prices so as to offset the effect of increase in raw material costs. It also explores the sales market and new application area of the core products to increase brand awareness and customer recognition. These strategies were effective in exploring new markets and laid a good foundation for further growth in sales.

### Future and Prospect

China shows a strong economic recovery in year 2011. The complicated international situation and fierce competition within the industry will apparently generate new opportunities as well as challenges for future development. The Group will further improve its ability to adapt the international market change and explore the domestic market. It will also make use of its advantage in production with economy of scale and strong

research and sales ability to implement advanced international standardization management, with an aim to realize its long-term objectives of product innovation, product transformation and product upgrading in unceasing pursuit of enlargement and expansion.

(I) *Optimisation of product structure*

Innovation in technology is a key element to improve competitiveness and for continuing development. While focusing on its core products and making use of its advantage in production with economy of scale, the Group will make a lot of effort in technology innovation. It will consolidate its existing research resources and manpower to upgrade its products by means of launching competitive new product group in an organized way through research and development. In 2011, the natural food additives project will be implemented as scheduled, laying a solid foundation for future development.

(II) *Developing market for new products through expansion of sales network*

The Group will continuously enhance its sales personnel quality and the overall quality of the sales team. The Group will develop new sales channels and new application area to explore potential market. It will establish new overseas office to expand and serve the overseas market in a bid to enlarge the sales network globally and to secure a steady increase in sales.

Along with the year-on-year gradual increase in the healthcare consumption of the people, the sales of healthcare food is growing with an annual rate of 13%. In 2011, Healthy Companion brand (攜康牌) Vitamin K calcium tablet (維K鈣片) and Coenzyme Q10 Vitamin E capsule (輔酶Q10維E膠囊) that had obtained the approval for healthcare food from the State Food and Drug Administration, will face directly the consumers with a fashionable packaging and effective healthcare results, and with the elimination of intermediary parties, target a broader consumer market. Upon certification of the new Active Pharmaceutical Ingredients (“APIs”) related production and sale work will be fully implemented, targeting a broader room for profit making too. The enlargement and upgrading of our new product group is bound to be foundation for the Group’s creating new growing points.



(III) *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 (Hazard Analysis and Critical Control Point) and Guide for Standardization System, the Group has broken through the international environmental protection barrier so that it can extend its market further in Europe and America, and attain the most optimized order for corporate development. The Group was accredited as a “Green Corporation” in Changzhou City in March 2011, which helped to coordinate the Group’s sustainable development.

(IV) *Establishment of brand reputation and enhancement of competitiveness*

The Group builds its brand name with good product quality and gains customers with its brand name. In year 2011, the Group was accredited as 江蘇省品質信用等級A級企業 (Enterprise with Quality Rredit Grade A in Jiangsu Province), which strengthened the customers’ confidence on the Group’s product. In line with the expanding product group, the Group will, through its innovative and perfect services, endeavor to promote advances in quality, create both unique and popular reputations for brand upgrading of various products including the title of “Famous Brand Product of Jiangsu Province” for L(+)-tartaric acid and building of branded product group, so as to strengthen customer satisfaction and loyalty for Changmao Brand.

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, APIs, medicinal intermediaries, and nutraceutical products. 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 2011.

## DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2011.

## 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 2011, 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 Domestic Shares	Approximate Percentage shareholding in the Domestic Shares (Note (l))	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (m))	
<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	3.85%	135,000,000	48.04%

	Capacity	Number of Domestic Shares	Approximate Percentage shareholding in the Domestic Shares (Note (l))	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (m))
<i>Director</i>					
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	3.85%	135,000,000	48.04%
Mr. Pan Chun	(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. Wan Yi Dong	(Note (j))	-	-	(Note (j))	(Note (j))
Prof. Jiang Yao Zhong	(Note (k))	-	-	(Note (k))	(Note (k))

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. 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 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.

- (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. Wan 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.
- (k) 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.
- (l) The percentage is calculated based on the 65,000,000 Domestic Shares in issue as at 31 March 2011.
- (m) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 March 2011.

Save as disclosed above, as at 31 March 2011, 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 2011, 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	Number of Domestic Shares	Approximate Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares
			(Note (e))		(Note (f))
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%

Name of Shareholder	Capacity	Number of Domestic Shares	Approximate Percentage shareholding	Number of Foreign Shares	Approximate Percentage shareholding
			in the Domestic Shares (Note (e))		in the Foreign Shares (Note (f))
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	96.15%	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (d))	96.15%	-	-



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 65,000,000 Domestic Shares in issue as at 31 March 2011.
- (f) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 March 2011.

Save as disclosed above, as at 31 March 2011, 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 2011, 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> )	65,000,000
Foreign Shares ( <i>Note (c)</i> )	281,000,000
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	529,700,000
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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 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 2011 with the Directors.

By order of the Board

**Rui Xin Sheng**

*Chairman*

The PRC, 4 May 2011

*As at the date hereof, Mr. Rui Xin Sheng (Chairman) and Mr. Pan Chun are the executive directors of the Company, 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.*