

*Third Quarterly Report 2012*



**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 consolidated results of the Company and its subsidiaries (the "Group") for the three and the nine months ended 30 September 2012 together with the unaudited comparative figures for corresponding period in 2011 as follows:

	Note	Unaudited		Unaudited	
		For the three months		For the nine months	
		ended 30 September	ended 30 September	ended 30 September	ended 30 September
		2012	2011	2012	2011
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	2	171,041	160,287	485,504	464,163
Cost of sales		(132,884)	(132,293)	(389,707)	(376,077)
Gross profit		38,157	27,994	95,797	88,086
Other income		365	1,074	5,238	2,418
Other gains/(losses), net	3	355	(787)	11,596	(1,607)
Selling expenses		(3,964)	(3,746)	(12,026)	(9,065)
Administrative expenses		(15,167)	(10,978)	(46,570)	(36,118)
Operating profit		19,746	13,557	54,035	43,714
Finance costs, net	4	(2,531)	(2,413)	(7,850)	(5,889)
Share of profit of an associate		-	3,126	342	8,067
Profit before income tax		17,215	14,270	46,527	45,892
Income tax expense	5	(2,627)	417	(7,675)	(3,833)
Profit for the period		14,588	14,687	38,852	42,059
Other comprehensive income					
– currency translation difference		81	(51)	8	(36)
Total comprehensive income for the period		14,669	14,636	38,860	42,023
Profit for the period attributable to:					
Equity holders of the Company		14,735	14,781	39,226	42,113
Non-controlling interest		(147)	(94)	(374)	(54)
		14,588	14,687	38,852	42,059
Total comprehensive income for the period attributable to:					
Equity holders of the Company		14,816	14,730	39,234	42,077
Non-controlling interest		(147)	(94)	(374)	(54)
		14,669	14,636	38,860	42,023
Earnings per share for profit attributable to equity holders of the Company					
– basic and diluted	6	Rmb 0.028	Rmb 0.028	Rmb 0.074	Rmb 0.080

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 derivative financial instruments and financial asset at fair value through profit and loss which are stated at fair value.

**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 OTHER GAINS/(LOSSES), NET**

Included in other gains/(losses), net for the nine months ended 30 September 2012 is a gain on disposal of an associate amounting to approximately Rmb11,230,000.

**4 FINANCE COSTS, NET**

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011	2012	2011
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest on bank loans – wholly repayable within five years	2,662	2,520	8,214	6,311
Interest income on bank deposits	(131)	(107)	(364)	(422)
Net finance costs	2,531	2,413	7,850	5,889

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## 5 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. Upon obtaining the New and High Technology Enterprise certificate in 2008, the Company is entitled to a preferential CIT rate of 15%. The other subsidiaries of the Group in Mainland China are subject to a tax rate of 25%.

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current income tax				
– Provision for CIT	2,631	1,705	7,779	6,052
– Over provision in prior year	–	(240)	–	(226)
Tax Credit (note)	–	(1,891)	–	(1,891)
Deferred income tax	(4)	9	(104)	(102)
	<b>2,627</b>	<b>(417)</b>	<b>7,675</b>	<b>3,833</b>

Note: During the three months ended 30 September 2011, the Company obtained approval from the tax bureau in Mainland China whereby it is granted a tax credit of approximately Rmb1,891,000 in respect of purchase of certain equipment manufactured in Mainland China.

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 the results of the consolidated entities as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2012 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2012 <i>Rmb'000</i>	2011 <i>Rmb'000</i>
Profit before income tax	17,215	14,270	46,527	45,892
Adjustment: Share of profit of an associate	-	(3,126)	(342)	(8,067)
	<b>17,215</b>	<b>11,144</b>	<b>46,185</b>	<b>37,825</b>
Calculated at the tax rates applicable to results of the respective consolidated entities	2,513	1,451	6,744	5,669
Income not subject to tax	(61)	(14)	(63)	(65)
Expenses not deductible for tax purposes	-	-	69	1
Tax losses for which no deferred income tax asset was recognised	171	277	360	345
Tax credit	-	(1,891)	-	(1,891)
Over provision in prior year	-	(240)	-	(226)
Others	4	-	565	-
Income tax expense	<b>2,627</b>	<b>(417)</b>	<b>7,675</b>	<b>3,833</b>

## 6 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 September 2012 is based on the profit attributable to equity holders of the Company of approximately Rmb14,735,000 (for the three months ended 30 September 2011: Rmb14,781,000) and the 529,700,000 (for the three months ended 30 September 2011: 529,700,000) weighted average number of shares in issue during the period.

The calculation of earnings per share for the nine months ended 30 September 2012 is based on the profit attributable to equity holders of the Company of approximately Rmb39,226,000 (for the nine months ended 30 September 2011: Rmb42,113,000) and the 529,700,000 (for the nine months ended 30 September 2011: 529,700,000) weighted average number of shares in issue during the period.

The Company has no dilutive potential shares in issue during the period (2011: Nil).

## 7 DIVIDEND

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2012 (Corresponding period in 2011: Nil).

The final dividend of for the year ended 31 December 2011 totalling approximately Rmb12,713,000 has been paid to the shareholders of the Company in July 2012. Save for the above, there were no dividends paid or proposed and no amount absorbed thereby for the nine months ended 30 September 2012.

## 8 RESERVES

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Translation reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2011	102,559	49,504	461	25	201,779	354,328
Profit for the period	-	-	-	-	42,113	42,113
Other comprehensive income – currency translation difference – Group	-	-	-	(36)	-	(36)
Final dividend for the year ended 31 December 2010	-	-	-	-	(22,777)	(22,777)
At 30 September 2011	102,559	49,504	461	(11)	221,115	373,628

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Translation reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2012	102,559	53,622	461	(6)	215,989	372,625
Profit for the period	-	-	-	-	39,226	39,226
Other comprehensive income – currency translation difference – Group	-	-	-	8	-	8
Final dividend for the year ended 31 December 2010	-	-	-	-	(12,713)	(12,713)
At 30 September 2012	102,559	53,622	461	2	242,502	399,146



## REVIEW AND OUTLOOK

### Business review

In the first three quarters of 2012, 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 stable economic growth pace and enhanced economic vitality.

The Group recorded a turnover of approximately Rmb171,041,000 for the three months ended 30 September 2012, which represented an increase of approximately 6.7% compared to the corresponding period in last year; and a net profit of approximately Rmb14,735,000, which is at a similar level compared to the corresponding period in last year. Amid the decline in overall domestic and overseas economic conditions, all the employees of the Group worked together to stabilise production, expand sales and enhance management, and achieved a steady growth in sales revenue, and maintained the level of last year's net profit.

Facing the complicated and challenging situation in the domestic and overseas market, 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 and energy consumption, and applied these to all the production process. It has optimized its production technology and made break troughs to effectively control its production cost. It has also enhanced its quality and environmental management to further enhance its product quality to satisfy the demand in international market and to give full play of its strength of production of scale and to grasp new development opportunities.

In 2012, raw material price has continuously surged. Market competition was intense. The Group has lowered the wastage of raw material through improvement in production technology to control production costs effectively. The Group has also adopted flexible marketing strategy to continuously develop final high-end customers to reduce intermediate links. The obtaining of FSSC22000 (Food Safety System Certification) implies that the Group has

gained recognition from the global high-end customers in terms of food safety, and increased the Group's market competitiveness. It helped to changed the situation in the first half year where net profit of the Group did not increase although there was an increase in turnover.

For a long time, the Group builds its brand name with high product quality and gains customers with its brand name. With its tartaric acid and malic acid being recognised as "Famous Brand Product of Jiangsu Province", aspartame got accredited as "Famous Brand Product of Changzhou City" in the third quarter of 2012. The Group will continue to make efforts to enhance the management system, improve product quality and product awareness.

### **Future and Prospect**

Domestic and overseas economic conditions are facing more and more uncertainties, and there will always be fierce competition. In response, the Group will further enhance its ability to fend off market fluctuations, speed up the adjustment of its product mix by economies of scale as well as strong research, development and marketing capability, continue to develop new products and continue to expand into new markets to capture growth opportunities. In 2012, the Group will concentrate on the following areas:

(1) *Accelerating technology innovation and facilitating product upgrade*

The Group will put more efforts into technology innovation to consolidate its existing resources and research team, build a more optimised product mix through cultivating new product categories with strong competitiveness as planned, and create new growth drivers by promoting product upgrade. Meanwhile, the Group will continue to consolidate its core products and bring into play the economies of scale by actively developing natural food additives to meet the trend of the pursuit of human health and natural, and enhance the Group's competitiveness in the high-end product market, and to seek new profit source of the Group.

(II) *Adjusting market strategies to attract high-end customers*

The Group will strive to attract major customers and end-customers by optimising its sales structure, tap the market potential, and developing a steady, sustainable market for its products. In addition to the FSSC22000 (Food Safety System Certification) obtained by the Group, the major products of the Group including tartaric acid, malic acid and aspartame have passed the on-site review of some internationally renowned food companies. This will help open new international sales aspects and expand international sales networks. It will also ensure steady growth in sales, and constantly improve the economic efficiency.

(III) *Improving workforce structure and enhancing corporate management*

In line with its needs of development strategy, the Group will focus on innovating human resources management, optimising workforce structure and building an excellent team. The Group will, based on its fully implementation of ISO9001 (Quality Management System), ISO14001 (Environmental Management System), ISO22000 (Food Safety Management System) and Code of Good Practice for Standardisation, enhance its internal management, and to lay a foundation for its safe and green production and continuous development.

(IV) *Building brand reputation and registering international trademarks*

The Group has formulated strategic plans to upgrade its trademarks registration to international level. The Group will enhance its global brand awareness, continue its brand upgrade, improve its customers' satisfaction and loyalty to the Changmao brand, and increase the Group's market share.

(V) *Setting up of a wholly owned subsidiary – Changmao Biochemical Lianyungang Limited (常茂生物連雲港有限公司)*

The Group will establish a wholly owned subsidiary in Guanyun County of Lianyungang City, Jiangsu Province – Changmao Biochemical Lianyungang Limited. This will be the new focus of the Group's future development. The establishment of this subsidiary will promote the upgrade of the existing production chain of the Group and further increase the economy of scale and will be the new profit centre of the Group.

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 capitalise on its production and research strength to develop new functional food additives, natural food additives 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 had purchased, sold or redeemed any of its listed securities for the nine months ended 30 September 2012.

### **DIVIDEND**

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2012.

### **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 2012, 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	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	100%	135,000,000	39.30%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	100%	135,000,000	39.30%
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	19.21%
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 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 2,500,000 Domestic Shares in issue as at 30 September 2012.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 September 2012.

Save as disclosed above, as at 30 September 2012, 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 2012, 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:*

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Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage in Foreign Shares <i>(Note (f))</i>
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%
Union Top Development Limited	Interest of controlled corporation	67,500,000 <i>(Note (a))</i>	19.65%
Ms. Rakchanok Sae-lao	Interest of controlled corporation	67,500,000 <i>(Note (b))</i>	19.65%
Jomo Limited	Beneficial owner	66,000,000	19.21%
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	66,000,000 <i>(Note (c))</i>	19.21%

Name of Shareholder	Capacity	Number of Foreign Shares	Approximate percentage in Foreign Shares (Note (f))
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%
上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited)	Interest of controlled corporation	62,500,000 (Note (d))	18.20%
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (e))	18.20%

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 Limited is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited, which is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

- (e) 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 beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.
- (f) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 September 2012.

Save as disclosed above, as at 30 September 2012, 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.

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## 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 2012, the category of the issued shares of the Company is as follows:

	<b>No. of Shares</b>
H shares ( <i>Note (a)</i> )	183,700,000
Domestic Shares ( <i>Note (b)</i> )	2,500,000
Foreign Shares ( <i>Note (c)</i> )	343,500,000
	<hr/>
	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 Ms. Wei Xin.

The duties of the audit committee, among others, 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 2012 with the Directors.

By order of the Board

**Rui Xin Sheng**

*Chairman*

The PRC, 1 November 2012

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