

Third 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”)

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

	Note	Unaudited		Unaudited	
		For the three months ended 30 September		For the nine months ended 30 September	
		2011	2010	2011	2010
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	2	160,287	137,232	464,163	357,185
Cost of sales		(132,293)	(103,815)	(376,077)	(269,033)
Gross profit		27,994	33,417	88,086	88,152
Other income		1,074	595	2,418	3,868
Other losses, net		(787)	(829)	(1,607)	(1,203)
Selling expenses		(3,746)	(2,134)	(9,065)	(6,777)
Administrative expenses		(10,978)	(12,344)	(36,118)	(34,713)
Operating profit		13,557	18,705	43,714	49,327
Finance costs, net		(2,413)	(2,250)	(5,889)	(5,591)
Share of profit of an associate		3,126	2,076	8,067	6,014
Profit before income tax		14,270	18,531	45,892	49,750
Income tax expense	3	417	(2,534)	(3,833)	(6,859)
Profit for the period		14,687	15,997	42,059	42,891
Other comprehensive income					
– currency translation difference		(51)	–	(36)	–
Total comprehensive income for the period		14,636	15,997	42,023	42,891
Profit for the period attributable to:					
Equity holders of the Company		14,781	16,077	42,113	43,119
Non-controlling interest		(94)	(80)	(54)	(228)
		14,687	15,997	42,059	42,891
Earnings per share for profit attributable to equity holders of the Company					
– basic and diluted	4	Rmb0.028	Rmb0.027	Rmb0.080	Rmb0.066

Notes:

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of GEM Listing Rules. They have been prepared under historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

2 TURNOVER

The Group is principally engaged in the production and sale of organic acids. Turnover represents sales of organic acids for the period.

3 INCOME TAX EXPENSE

PRC Company Income Tax ("CIT") is provided on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. 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	
	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2010 <i>Rmb'000</i>
Current income tax				
– Provision for CIT	1,705	2,526	6,052	6,753
– (Over)/under provision in prior year	(2,131)	6	(2,117)	68
Deferred income tax	9	2	(102)	38
	(417)	2,534	3,833	6,859

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	
	2011 Rmb'000	2010 Rmb'000	2011 Rmb'000	2010 Rmb'000
Profit before income tax	14,270	18,531	45,892	49,750
Adjustment: Share of profit of an associate	(3,126)	(2,076)	(8,067)	(6,014)
	11,144	16,455	37,825	43,736
Calculated at the tax rates applicable to results of the respective consolidated entities	1,451	2,531	5,669	6,518
Income not subject to tax	(14)	(15)	(65)	(44)
Expenses not deductible for tax purposes	–	8	1	16
Tax losses for which no deferred income tax asset was recognised	277	4	345	301
(Over)/under provision in prior year	(2,131)	6	(2,117)	68
Income tax expense	(417)	2,534	3,833	6,859

4 EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 September 2011 is based on the profit attributable to equity holders of the Company of approximately Rmb14,781,000 (for the three months ended 30 September 2010: Rmb16,077,000) and the 529,700,000 (for the three months ended 30 September 2010: 596,656,522) weighted average number of shares in issue during the period.

The calculation of earnings per share for the nine months ended 30 September 2011 is based on the profit attributable to equity holders of the Company of approximately Rmb42,113,000 (for the nine months ended 30 September 2010: Rmb43,119,000) and the 529,700,000 (for the nine months ended 30 September 2010: 654,366,667) weighted average number of shares in issue during the period.

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

5 DIVIDEND

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2011 (Corresponding period in 2010: Nil).

The final dividend of for the year ended 31 December 2010 totalling approximately Rmb22,777,000 has been paid to the shareholders of the Company in July 2011. Save for the above, there were no dividends paid or proposed and no amount absorbed thereby for the nine months ended 30 September 2011.

6 RESERVES

	Share premium	Statutory common reserve	Capital reserve	Translation reserve	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2010	87,159	42,705	-	-	219,045	348,909
Share repurchase	15,400	-	-	-	(86,240)	(70,840)
Profit and total comprehensive income for the period	-	-	-	-	43,119	43,119
At 31 September 2010	102,559	42,705	-	-	175,924	321,188
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 31 September 2011	102,559	49,504	461	(11)	221,115	373,628

REVIEW AND OUTLOOK

Business Review

In the first three quarters 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 Rmb464,163,000 for the nine months ended 30 September 2011, which represented an increase of 30% compared to the corresponding period in last year; and the net profit was approximately Rmb42,113,000, which was at a similar level as compared to the corresponding period in last year. In this year, the prices of raw materials derived from petroleum continuously increased, together with the devaluation of USD, caused negative impacts on the growth of profits.

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 further improved its product quality to satisfy the international market through enhancement in quality control and environmental management and its products are well recognized by the old and new customers. It has optimized its production technology and made break troughs to reduce consumption of raw materials and increase the competitiveness of its products, which made the outstanding contribution to the Group's economic benefits.

Facing the complicated and tough situation at home and abroad, the Group applied flexible sales strategies including direct contact with more end-customers and with the elimination of intermediary parties to increase its competitiveness in the markets. In the meantime, the Group's outstanding sales team actively seized the opportunities in market expansion to explore new market and new application arena for its core products, continuously promote brand recognition and awareness laid the foundation for continuous sales growth.

Future and Prospect

China shows a strong economic recovery in year 2011. The complicated international economic 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.

In 2011, the Group's 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 effective healthcare results and explore a broader consumer market along with the year-on-year gradual increase in the healthcare consumption of the people. Upon certification of the new Active Pharmaceutical Ingredients ("APIs") related production and sales work will be fully implemented, expecting to target a broader room for profit making.

(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 GMP 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.

(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 Credit 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 had purchased, sold or redeemed any of its listed securities for the nine months ended 30 September 2011.

DIVIDEND

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 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 30 September 2011, 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))

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>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 2011.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 September 2011.

Save as disclosed above, as at 30 September 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 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 2011, the following persons, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	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%
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 <i>(Note (d))</i>	18.20%
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 <i>(Note (e))</i>	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 2011.

Save as disclosed above, as at 30 September 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 were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETING BUSINESS

None of the Directors, Supervisors or management shareholders of the Company and their respective associate (as defined in the GEM Listing Rules) has an interest in a business which competes with the business of the Group.

SHARE CAPITAL STRUCTURE

As at 30 September 2011, the category of the issued shares of the Company is as follows:

	No. of Shares
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
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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 Ms. Wei Xin.

The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the unaudited third quarterly results for the nine months ended 30 September 2011 with the Directors.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 8 November 2011

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.