



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)



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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 the GEM (“GEM Listing Rules”) for the purposes of giving information with regard to Changmao Biochemical Engineering Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE PROFILE

Established in 1992, Changmao Biochemical Engineering Company Limited (the “Company” or “Changmao”) is a leading organic acid producer in the People’s Republic of China (the “PRC”), specializing in the manufacture and sale of high quality and high value organic acids. The Company’s products conform to the highest international standards and exports to Western Europe, the US, Australia and Japan account for more than 75% of the Company’s total turnover.

The core products of the Company include D-malic acid, L-malic acid, DL-malic acid, D(-)-tartaric acid, L(+)-tartaric acid, L-aspartic acid, fumaric acid and maleic acid. They are mainly used for pharmaceutical intermediaries, natural food additives and industrial purposes.

A key competitive edge of Changmao is its sophisticated production systems which successfully apply the theoretical concepts of enzyme technology and chirotechnology in actual production processes and are highly efficient and cost effective. The Company has strong research and development capabilities, supported by the Chirotechnology Centre, the research and development centre jointly established by the Company and the Chengdu Institute of Organic Chemistry under the Chinese Academy of Science.

Through its dedicated research and development efforts, Changmao is poised to produce a great variety of organic acid products. The mission of the Company is to produce healthy and natural organic acid products, from which people will benefit on their everyday lives.



CORPORATE INFORMATION

Executive Directors

Mr. Rui Xin Sheng
Mr. Jiang Jun Jie

Non-executive Directors

Mr. Zen Xiao Biao
Mr. Zhu Lai Fa
Mr. Yu Xiao Ping
Mr. Lu Chong Zhu
Ms. Leng Yi Xin

Independent non-executive Directors

Prof. Ouyang Ping Kai
Prof. Yang Sheng Li

Supervisors nominated by Shareholders or employees

Ms. Zhou Rui Juan
Mr. Pan Chun
Mr. Lu He Xing

Independent Supervisors

Prof. Gu Jian Xin
Prof. Qian Shu Fa

Company Secretary

Ms. Wan, Pui Ling Alice (ACCA, AHKSA)

Authorised Representatives

Mr. Rui Xin Sheng
Ms. Wan, Pui Ling Alice (ACCA, AHKSA)

Compliance Officer

Mr. Rui Xin Sheng

Qualified Accountant

Ms. Wan, Pui Ling Alice (ACCA, AHKSA)

Audit Committee

Prof. Ouyang Ping Kai
Prof. Yang Sheng Li

Legal address

Western Chemical Area
Jiangbian Developing Zone
Changzhou City
Jiangsu Province, 213033
The PRC

Principal place of business in Hong Kong

Room 2202, Chekiang First Bank Centre
1 Duddell Street
Central
Hong Kong

Principal bankers

Bank of China
Changzhou Branch, the PRC

Industrial and Commercial Bank of China
Changzhou Branch, the PRC

Hong Kong share registrar and transfer office

Computershare Hong Kong Investor Services Limited
Shops 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Sponsor

Tai Fook Capital Limited

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Company's website address

www.cmbec.com
www.ccbec.com

GEM stock code

8208

CHAIRMAN'S STATEMENT

To the Shareholders,

On behalf of the board of directors of the Company (the "Board"), I am pleased to present the annual report of the Company for the year ended 31 December 2002.

BUSINESS REVIEW

The H shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM" and the "Stock Exchange" respectively) on 28 June 2002, making 2002 a very important year in Changmao's development.

The Company raised net proceeds of approximately Rmb84 million for its business expansion and development. Also, the successful listing enhanced the brand awareness of "Changmao".

Sales

The Company faced new challenges over the year under review. Market competition among manufacturers of L(+)-tartaric acid has intensified since mid 2001, resulting in the gradual decrease of the price of this product and a 35% decline in its sales compared to 2001. The average selling price per tonne has decreased by approximately 46% for the period under review compared to the year before. Some manufacturers of L(+)-tartaric acid had to cut down production scale due to the intensive competition. As a result, this product's market has stabilised since the fourth quarter of 2002 and the price has slightly rebounded.

With fewer manufacturers in supply side, the Company has taken steps to increase its market share. By adopting a more competitive pricing structure, the Company has secured some new orders. The sales volume of L(+)-tartaric acid for the year ended 31 December 2002 has thus increased by approximately 19% compared to 2001. Even more impressive was that the sales volume in the second half of 2002 increased by 140% compared to the first half of the year. In addition, through a series of technological improvements, the Company has cut average production cost per tonne of L(+)-tartaric acid by more than 15% compared to 2001. Therefore, this product remains profitable even though its market price has decreased significantly.

Sales of the other three major products of the Company – L-malic acid, DL-malic acid and L-aspartic acid – which in aggregate accounted for approximately 60% of total turnover, remained stable comparing to last year.



CHAIRMAN'S STATEMENT

**Production**

The construction of phase 1 of the Company's new production plant at Jiangbian Development Zone of Changzhou City (常州市江邊開發區) in Jiangsu Province, the PRC (the "new factory") was completed in September 2002. Two of the Company's major production lines, for the production of L(+)-tartaric acid and L-aspartic acid respectively, have been reallocated to the new factory with annual production capacity increased from 2,000 tonnes to 2,500 tonnes and from 3,000 tonnes to 5,000 tonnes respectively. Several production lines for new products were also established in 2002, including that

for D-malic acid, L-homo-phenylalanine, S-3-hydroxy- γ -butyrolactone and L-carnitine with annual capacities of 20 tonnes and 5 tonnes for the former two products and 10 tonnes for each of the other two products.

The Company is also building a new production line for fumaric acid with an annual production capacity of 10,000 tonnes. Fumaric acid is important to the Company because it has a high potential market. In addition to being an end product, fumaric acid can be used as a raw material to derive L-aspartic acid and L-malic acid. Changmao will use this production line to manufacture crude maleic anhydride, the principal raw material used for production of several of the Company's products. This new production line is expected to further reduce manufacturing costs and enhance product quality. Originally scheduled for completion by the end of 2002, construction has been delayed due to lengthy approval process. The new completion date is expected to be in April 2003. The directors of the Company (the "Directors") believe that this new production line will enhance both competitiveness and profitability of the Company's products.

Research and development

The Company focuses continuously on research and development of the Company's products and technologies. The Chirotechnology Centre, which was relocated to the new factory in 2002, is responsible for the planning and execution of the Company's research and development activities. The major goal of the Chirotechnology Centre is to carry out ongoing research to improve technology in the areas of fine chemicals, immobilized enzymes, simultaneous reactions and separations, and chirotechnology, as well as the application of these technologies in commercial production of chemical products. During the period under review, the Company completed research on production technologies for BTCA (butanetetracarboxylic acid), L-carnitine, D-malic acid, L-homo-phenylalanine and S-3-hydroxy- γ -butyrolactone, which were introduced to the market in late 2002. The research of aspartame (a sweetener), L-alanine and D-phenylalanine is currently underway. The Directors believe that these new products, which are mainly used as pharmaceutical intermediaries and food additives, have great commercial potential and their entry into the market will result in handsome returns to the Company.



CHAIRMAN'S STATEMENT

Apart from the new products, the Company's research team also focused on enhancing the production technologies of existing products in order to reduce manufacturing costs and thus maintain its competitive edge. The research team has reduced the cost of producing L(+)-tartaric acid and has explored new lower cost methods to manufacture D(-)-tartaric acid, which has been proven successful in the laboratory research scale of production.

Marketing and promotion

The Company focuses its efforts on brand awareness, product promotion and market development. A representative office was set up in Hong Kong in 2002 in order to strengthen the connection between the Company and international markets. To extend its marketing activities, Changmao has expanded its sales force. During the period under review, the Company participated in trade fairs and visited customers in France, the United States, Hong Kong, Australia and the PRC to promote its products. Changmao has collaborated with an Australian distributor, which became the exclusive agent of a number of selected products of the Company in Australia. This strategy has boosted business opportunities and, as a result, increased sales volume of L(+)-tartaric acid in the second half of 2002. Changmao is considering several cooperation opportunities with overseas distributors to enhance the effectiveness of its sales network.

PROSPECTS

In the year ahead, the Company will continue to concentrate on the research and development of new products and enhancing production technologies of existing products.

The Company will also continue to seek opportunities for strategic cooperation in order to increase profit and returns and explore new business opportunities and distribution networks to capitalise business potential of its products.

The completion of the Company's new fumaric acid production line will strengthen profitability and competitiveness of the Company's products. In particular, the Company's market share of fumaric acid will increase significantly, making Changmao potentially the largest manufacturer of this chemical in the PRC.

To achieve further growth, the Company will closely monitor its costs and expenditure. In addition, the Company intends to increase its productivity, enhance its product quality as well as to expand its marketing efforts thereby enhancing Changmao's position in the organic acid industry.

Rui Xiu Sheng

Chairman

The PRC, 14 March 2003

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

Turnover

The Company's turnover of Rmb96,769,000 for the year ended 31 December 2002 represented a 17% decrease compared to the year ended 31 December 2001. This drop was mainly due to the decrease in sales of a major product, L(+)-tartaric acid.

Gross profit margin

The gross profit margin for the year ended 31 December 2002 was 37%, similar to the 39% recorded for 2001.

Expenses

Due to the continuous growth of business and production volume, this year the Company recruited new staff and established a representative office in Hong Kong. The increasing scale of Changmao's research and development resulted in an increase in research expenses in 2002 as compared to 2001. In addition, the Company has devoted increasing effort to sales and promotion, by participating in technical conferences and trade fairs devoted to relevant products as well as visiting customers overseas and in the PRC. As a result, selling and administrative expenses increased by approximately Rmb5,945,000 as compared to 2001.

SEGMENTAL INFORMATION

Most of the Company's products are exported to Western Europe, Australia and Japan. During the year ended 31 December 2002, direct export sales (excluding sales through import-export agents in the PRC) accounted for approximately 54% of the Company's turnover while sales through import-export agents in the PRC accounted for about 22% of the turnover. The percentage of export sales for the year ended 31 December 2002 remained similar to that for the year ended 31 December 2001.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company's borrowings are primarily denominated in Rmb. Over 95% of the Company's domestic sales (including sales to import-export agents established in the PRC) are denominated and settled in Rmb. The remaining domestic sales are denominated and settled in US dollars. All of Changmao's direct export sales (excluding sales to the import-export agents established in the PRC) are denominated and settled in US dollars. The Company does not conclude any forward foreign currency agreements in order to limit exposure to adverse fluctuations in the US dollars. Changmao will constantly review the situation and, if appropriate, carry out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Company had total outstanding bank borrowings of Rmb20 million (as at 31 December 2001: Rmb15.8 million), all of which were unsecured short-term bank borrowings (as at 31 December 2001: unsecured short-term bank loan of Rmb5 million and unsecured long-term bank loans of Rmb10.8 million). The interest rates of the outstanding bank loan was approximately 5% per annum.

Except for the bank borrowings disclosed above, as at 31 December 2002 and 2001, the Company did not have any committed borrowing facilities.

As at 31 December 2002, the Company had capital commitments for land, property, plant and equipment amounting to approximately Rmb94 million, of which approximately Rmb6 million has been contracted for. The remaining balance of approximately Rmb88 million are authorised but not contracted for. These capital commitments are mainly relating to the expanding production lines or establishing new production lines from 1 January 2003 to 31 December 2004 for the Company's proposed new products as set out in the section headed "Statement of business objectives" in the prospectus issued by the Company on 20 June 2002 ("Prospectus"). The Company intends to finance the capital commitments by the net proceeds raised in June 2002, cash flows generated from the Company's operations and/or bank financings.

The Company did not have any charge on its assets during the year ended 31 December 2002 and 2001. The gearing ratio (calculation of which was based on total liabilities divided by total assets), was 23% and 36% as at 31 December 2002 and 31 December 2001 respectively. The improvement in the gearing ratio was attributed to the issuance of H shares of the Company in June 2002, which improved the capital structure of the Company. As at 31 December 2002, the Company's cash and cash equivalent amounted to Rmb76,808,000 (2001: Rmb23,838,000). The Directors believe that the Company is in a healthy financial position.



CAPITAL STRUCTURE OF THE COMPANY

The H shares of the Company were listed on GEM on 28 June 2002. There has been no change in the capital structure of the Company since that date.

Changmao generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Company is generally placed at banks to earn interest income.

EMPLOYEES

Including the Directors, as at 31 December 2002, the Company employed a total of 239 employees (2001: 214 employees). Total amount of staff costs for the year ended 31 December 2002 was approximately Rmb10,128,000 (2001: Rmb7,341,000). The increase in staff cost was mainly due to the increase in staff number and salary increment. Employees are remunerated in accordance with the nature of the job and also on individual merit. As set out in the paragraph headed "Incentive bonus scheme" under the section headed "Directors, supervisors, senior management and staff" in the Prospectus, the Company also formulated a staff incentive scheme under which for each of the three years ending 31 December 2004, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and minority interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb40 million, Rmb60 million and Rmb80 million respectively (each a "Target Profit"):

- (a) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;
- (b) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to all the directors (other than Mr. Rui Xin Sheng and the independent non-executive directors) for the time being of the Company as a bonus for the relevant year; and
- (c) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

As the net profit for the year ended 31 December 2002 is lower than the Target Profit, no incentive bonus has been paid for the year ended 31 December 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Company as at 31 December 2002 and 2001.

The Company has no plans for material investments or capital assets other than those set out in the Prospectus.

CHANGES IN THE COMPOSITION OF THE COMPANY DURING THE YEAR

There is no acquisitions and disposals of subsidiaries and affiliated companies by the Company during the year ended 31 December 2002 and 2001.

CONTINGENT LIABILITIES

As at 31 December 2002 and 2001, the Company did not have any material contingent liabilities.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Rui Xin Sheng (芮新生), aged 45, is the Chairman of the Board, the general manager and the compliance officer of the Company. He is a senior engineer of the Company and is responsible for the overall technology, product research and development of the Company and has long been engaging in research and development of enzyme immobilization technology. Mr. Rui graduated from 江蘇石油化工學院 (Jiangsu Institute of Petrochemical Technology) (“JSIPT”) with a bachelor degree in organic synthesis in 1982. Mr. Rui was the chairman of the board of directors and the secretary-general of the Party Committee of Shuguang Factory in 1999 and 2000 respectively. He is a part-time professor at Nanjing University of Technology. He is also the deputy managing director of Jiangsu Commission of Biotechnology. Mr. Rui was one of the founders and the president of the Company since December 1992 and has contributed significantly in the research and development of the Company’s products. In 1991, Mr. Rui participated in a project responsible for the administration of the largest immobile oxidized reactor for processing maleic anhydride in the PRC and the project was awarded 江蘇省優秀新產品技術開發應用項目金牛獎 (The Golden Award of Jiangsu Province Advanced Product and Technological Development and Application). Owing to his significant achievement in the field of biochemistry, Mr. Rui received numerous awards including DuPont Innovation Award in 2000, 國家科技進步一等獎 (The First Class Award of State Technological Achievement) in 2001, 常州市第四屆傑出科技人員 (The Fourth Annual Excellent Scientists of Changzhou City) in 1999, 常州市經委合理化建議及技術改造一等獎 (The First Class Award of Scientific Development and Technological Improvement by Changzhgou Economic Commission) and 常州市科技進步二等獎 (The Second Prize of Changzhou City Scientific and Technological Achievement) in 1997. In June 1998, Mr. Rui, Ms. Leng Yi Xin and Mr. Jiang Jun Jie successfully invented the concurrent production technology for the production of fumaric acid and malic acid (the “Concurrent Production Technology”), one of the important production technologies of the Company.

Mr. Jiang Jun Jie (蔣俊杰), aged 36, is an executive Director and deputy general manager of the Company. He is responsible for the overall technology, product research and development of the Company, Mr. Jiang graduated from JSIPT in 1987 with a bachelor degree. He possesses over 16 years of working experience in the research and development of technology in the field of chemistry. Mr. Jiang is one of the inventors of the Concurrent Production Technology. Mr. Jiang published various theses. Mr. Jiang is a 中青年專家 (recognised youth expert) in Changzhou City in 2000. He is currently a director and a board committee member of Shuguang Factory. Mr. Jiang joined the Company in January 1993.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Zeng Xiao Biao (曾憲彪), aged 60, is a non-executive Director. Mr. Zeng graduated from 南京石油工業學校 (Nanjing Petrochemistry School) in 1961. He has extensive experience engaging in research, development and production management in the field of chemistry. Mr. Zeng received various awards including 順酐 2000t/a 技改省金牛獎 (The Golden Prize of Technological Improvement-Maleic Anhydride 2000t/a) from the State Economic Commission, 市化工系統十佳科技人員 (the best ten chemists in Changzhou), 3000t/a 順酐重點技改先進個人 (Maleic Anhydride 3000t/a Technology Improvement), 市九五跨世紀奉獻獎 (Changzhou Contribution Award for the Ninth Five-year Period and the Millennium) and 省第二次合理化建議科技成果獎 (The Second Annual State and City Award for Technological Development). He is currently a director and a board committee member of Shuguang Factory. Mr. Zeng joined the Company in December 1992.

Mr. Zhu Lai Fa (朱來發), aged 52, is a non-executive Director. Mr. Zhu was recognized as a labour model, 市四職明星 (Star of the city) and a contributor to Changzhou. Mr. Zhu also participated in various courses in management. He is currently a director, the factory manager and a board committee member of Shuguang Factory. Mr. Zhu joined the Company in June 2001.

Mr. Yu Xiao Ping (虞小平), aged 47, is a non-executive Director. Mr. Yu graduated from 華東師範大學 (Eastern Normal University) with a bachelor degree in English in 1977. He holds director positions in various pharmaceutical and investment companies in the PRC. Besides his experience in trading of pharmaceutical products, he has experience in promoting and facilitating the inspection and approval from the FDA for various PRC pharmaceutical products, of which he became the executive agent for these pharmaceutical products and has established a trading business in the US. Mr. Yu joined the Company in December 1992.

Mr. Lu Chong Zhu (呂崇竹), aged 60, is a non-executive Director. He graduated with a bachelor degree in electronic system and communication from Southeast University. Mr. Lu is currently a director, a senior engineer of professor level and the general manager of Shanghai Technology Investment. Mr. Lu has over 22 years working experience in the electronic industrial department of the 14th Research Institute and has been an assistant supervisor of the research department of which he participated in the research and development of satellite. He has over 10 years working experience in the electronic industrial department of the 50th Research Institute, and was the director of the 50th Research Institute. Mr. Lu has received various awards of national and ministry level such as 國防科工委科技進步一等獎 (The First Class Award of Technological Improvement from the State Defense Department), 電子部科技成果一等獎 (The First Class Award of Electronic Technological Achievement) and several others awards of national and departmental level. He is currently a member of the State Academy of Electronics. In 1990 and 1992, he was recognized as 電子部優秀領導幹部 (The Excellent Leaders of the Electronics Department) and 電子部突出貢獻專家 (The Outstanding and Contributory Experts to the Electronic Department). Mr. Lu joined the Company in June 2001.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Leng Yi Xin (冷一欣), aged 41, is a non-executive Director. She graduated from the Organic Chemistry Department of JSIPT with a bachelor degree in 1982 and subsequently obtain a master degree in chemical engineering from Nanjing University of Chemistry in 1996. She is also a vice director of the Chemical Engineering Department and a vice professor of JSIPT. Ms. Leng has participated in various research projects and published more than 20 theses. As mentioned above, Ms. Leng was one of the inventors of the Concurrent Production Technology. Ms. Leng participated in a project relating to the synthesis of chlorinated rubber by solvent method in the PRC and such project was awarded 江蘇省科學技術三等獎 (The Third Class Award of Jiangsu Technological Achievement) and 常州市科學進步三等獎 (The Third Class Award of Changzhou City Technological Achievement) in 1999 and 1998 respectively. She is the wife of Mr. Rui. She joined the Company in June 2001.

Independent Non-executive Directors

Prof. Ouyang Ping Kai (歐陽平凱), aged 57, is an independent non-executive Director. He graduated from Tsinghua University with a bachelor degree in chemistry in 1968 and subsequently obtained a master degree in Chemistry Research from the same university in 1981. From 1985 to 1987, he was a visiting scholar of the University of Waterloo, Ontario, Canada. Prof. Ouyang is an academician of the Chinese Academy of Engineering and the President of Nanjing University of Technology. He also holds memberships and positions in various science and academic institution. Prof. Ouyang obtained various awards including 國家科技進步一等獎 (The First Prize of the State Technological Achievement) in 2001, Dupont Innovation Award and several other awards of national level. Prof. Ouyang published more than 180 theses and two publications. Prof. Ouyang was appointed as an independent non-executive Director in June 2001.

Prof. Yang Sheng Li (楊勝利), aged 62, in an independent non-executive Director. Prof. Yang is a professor of Shanghai Research Center of Biotechnology Chinese Academy of Science. In 1997, he became the academician of the Chinese Academy of Engineering. He is also a member of the Biotechnology Professional Committee of the 863 Project. Prof. Yang has long been engaging in research relating to genetic function and structure and genetic engineering. He instructed dozens of master students and doctorate students and published more than 80 theses. Prof. Yang received 科技進步一等獎 (The First Class Award of Technological Achievement) from the Science Institute of the PRC in 1988, 第二屆億利達科技獎 (The Second Prize of Yilide Technology) from the Science Institute of the PRC in 1989, and 先進工作者一等獎 (The First Prize of Innovative Worker) from the Committee of the State Defense Department. Prof. Yang was appointed as an independent non-executive Director in June 2001.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS**Supervisors Nominated by Shareholders of Employees**

Ms. Zhou Rui Juan (周瑞娟), aged 48, is the chairman of the Company's supervisory board and the director of the administration department of the Company. She graduated from Changzhou Light Industrial School specialising in corporate management in 1988. Ms. Zhou passed the State Examination for Assistant Accountant in 1997. She was a financial accountant and the vice chairman of the labour department of the Company. Ms. Zhou was recognized as an activist of the Labour Union and an advanced worker. Ms. Zhou currently is a supervisor of Shugang Factory. She joined the Company in January 1993.

Mr. Pan Chun (潘春), aged 33, is a supervisor of the Company ("Supervisor") and a vice director of the production and technology department of the Company. He obtained a bachelor degree in applied chemistry from Nanjing University of Technology in 1993. Mr. Pan is responsible for the management of the Chirotechnology Centre, the research and development of new products, and the management of product quality. Mr. Pan received 常州市技術改進一等獎 (The First Class Award of Changzhou Technological Achievement) in 1997. Mr. Pan joined the Company in August 1993.

Mr. Lu He Xing (陸和興), aged 58, is a Supervisor. Mr. Lu is recognized as an advanced manufacturer of the Bureau of Chemical Industry, a model worker of Changzhou and Jiangsu and one of the Ten Best Leaders from Changzhou City of Chemical Commission. Mr. Lu is currently the vice secretary of the Party Committee and the chairman of board of supervisors of Shuguang Factory. Mr. Lu joined the Company in December 1992.

Member of the Independent Supervisors

Professor Gu Jian Xin (顧建新), aged 45, graduated from JSIPT with a bachelor degree in 1982 and subsequently obtained a doctorate degree from Nagoya University, Japan in 1989. Prof. Gu continued his post-doctorate research at Osaka University in Japan. He has been a professor and tutor of doctorate students in Shanghai Medical University. Prof. Gu currently presides several local and foreign research projects mainly for the control of the glycosyltransferase gene expression and the functions of new type neural growth factor. Prof. Gu published over a dozen of thesis and was awarded 上海市科技進步三等獎 (The Third Prize of Shanghai Scientific Technology Progress) in 1995 and 上海市曙光學者 (Shanghai Shuguang Scholar) in 1996. He was recognized as 上海市優秀科學帶頭人 (Shanghai Excellent Scientific Leader) in 1999 and obtained a special allowance from the government of Shanghai for his research in β 1, 4-galactosyl-transferase in 1998. Prof. Gu was appointed as an independent Supervisor in June 2001.

Professor Qian Shu Fa (錢書法), aged 47, graduated from JSIPT with a bachelor degree in 1982 and subsequently obtained a master degree in law from Shanghai Jiao Tong University in 1988. In 2000, Prof. Qian graduated from the Economics College of Renmin University of China with a doctorate degree in Economics. Prof. Qian published over 40 thesis and 5 publications. He has been in charge of 3 research projects of provincial and ministerial level. Prof. Qian was recognized as 江蘇省普通高校優秀中青年骨幹教師 (Excellent Mature and Young Leading Teachers of Ordinary and Advanced Colleges in Jiangsu Province). He is currently a professor and director of the business administration department of JSIPT. Prof. Qian was appointed as an independent Supervisor in June 2001.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Zhou Rui Juan (周瑞娟), whose personal particulars are set out under the paragraph headed “Supervisors” in this section.

Mr. Pan Chun (潘春), whose personal particulars are set out under the paragraph headed “Supervisors” in this section.

Ms. Wan, Pui Ling Alice (溫珮玲), aged 31, is the financial controller, qualified accountant and company secretary of the Company. She has over eight years of experience in auditing, accounting and financial management in Hong Kong and the PRC. Ms. Wan holds a bachelor degree from the Chinese University of Hong Kong, and is an associate member of the Hong Kong Society of Accountants and a member of the Association of Chartered Certified Accountants. Ms. Wan joined the Company in June 2001.

Ms. Ge Qin Ying (葛琴英), aged 53, is the financial manager of the Company. She holds a financial accounting certificate from Changzhou Economic Management School. Ms. Ge obtained the Assistant Accountant Certificate by the Executive Committee for Reform of Titles of Changzhou City (常州市職稱改革付領導小組) in 1998. Ms. Ge has over 30 years’ experience in accounting. Ms. Ge joined the Company in January 1993.

Mr. Xie Jie (謝杰), aged 34, is the director of the production and technology department and assistant engineer of the Company. He graduated from 常州化工學校 (Changzhou Chemistry School) and JSIPT in 1998 and 2000 respectively, and he also obtained a certificate by completing the training programme in biotechnology from the Industrial Chemistry Department of Technology Training Centre. Mr. Xie contributed significantly to the development of the Company’s products and technologies including the development of production technology for the manufacture of fumaric acid as well as the improvement of production technology for the manufacture of fumaric acid and L-malc acid, which were awarded by the Government of Changzhou and the Economic Committee of Changzhou respectively. Mr. Xie joined the Company in January 1993.

Mr. Zhang Xing (張星), aged 29, is a vice director of the sales and marketing department of the Company. He graduated from power engineering department of Anhui Institute of Technology with a bachelor degree and a master degree in refrigerator and low temperature engineering from the research institute of Southeast University. Mr. Zhang joined the Company in April 2000.

Mr. Lu A Xing (陸阿興), aged 34, is an assistant manager of the sales and marketing department of the Company. He obtained a diploma from Changzhou Chemical Worker’s School in 1988 and continues his studies at Changzhou Party School. Mr. Lu has 15 years’ experience in sales and marketing. Mr. Lu joined the Company in January 1993.

Ms. Chang Yu Hong (常育紅), aged 29, is a vice director of the production and development department of the Company. She graduated from Beijing Institute of Clothing Technology with a bachelor degree in fine chemistry in 1997. Ms. Chang joined the Company in July 1997.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS UP TO 31 DECEMBER 2002

1. Research and development

Fine chemical technology

- Research on the function and selectivity of catalytic reaction solution during fine chemical reaction process
- Research on new methodology and technique in the area of fine chemical technology

- Through the research on the function and selectivity of catalytic reaction solution during fine chemical reaction process, satisfactory results have been obtained in the synthesis of intermediary of L(+)-tartaric acid. L(+)-tartaric has obtained the Certificate for Priority New Products of the State (國家重點新產品證書) in July 2002
- Through the research on new methodology and technique in the area of fine chemical technology, the Company has successfully applied asymmetrical synthesis in the production of L-carnitine. This technology is cost effective with a short process required. It has passed the examination by the Jiangsu Commission of Science and Technology (江蘇省科學技術廳).

Immobilised enzyme technology

- Research on function of immobilised enzyme carrier
- Selecting highly functional and efficient immobilised enzyme carrier to stabilise the function of immobilised enzyme thereby enhancing its catalytic function
- Research on advanced technologies of bacteria selection, development and fermentation

- The progress on research on function of immobilised enzyme carrier was satisfactory. The company will continue to work on this area in order to raise its technological level
- Continued to research on selecting highly functional and efficient immobilised enzyme carrier to stabilise the function of immobilised enzyme thereby enhancing its catalytic function
- Continued to research on advanced technologies of bacteria selection, development and fermentation, and successfully developed the enzyme production technology for the production of D-malic acid and successfully applying this technology for large scale production with an annual production capacity of 20 tonnes

Simultaneous reaction and separation technology

- Research on applying the simultaneous reaction and separation technology in production of L-malic acid by enzymatic production technology thereby enhancing the stability of enzyme

- Completed the research on applying the simultaneous reaction and separation technology in production of L-malic acid by enzymatic production technology thereby enhancing the stability of enzyme. L-malic acid has obtained the Product of High and New Technology Certificate (高新技術產品認定證書) from the Jiangsu Commission of Science and Technology (江蘇省科學技術廳) in August 2002

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

- Research on applying the simultaneous reaction and separation technology in the production of other chiral organic acid products
- Research on integrated technology of simultaneous reaction and separation technology and biotechnology thereby enhancing its existing biotechnology

Enzyme technology

- Research to enhance enzyme technology so as to better support immobilised enzyme technology and simultaneous reaction and separation technology

Chiral synthesis

- Research on application of existing chiral products in development of new chiral derivative products

Chiral resolution

- Development in safe and inexpensive chiral reagent and chiral resolution technology
- Research on chemical resolution technology for the manufacture of high optical and pure chiral product

Joint research program

- Research on nutritional healthy products: aweto with 上海星獅生物工程有限公司 (Shanghai Since Biotechnology Co., Ltd.)
- Research on D(-)-p-hydroxyphenylglycine with 南京工業大學 (Nanjing University of Technology)

ACTUAL BUSINESS PROGRESS UP TO 31 DECEMBER 2002

- Successfully applied the simultaneous reaction and separation technology in the laboratory scale production of L-analine
- Through the research on integrated technology of simultaneous reaction and separation technology and biotechnology, the Company has successfully reduced the production cost of L(+)-tartaric acid

- Through research in this area, the Company has improved the enzyme technology for the production of L-aspartic acid, which obtained Product of High and New Technology Certificate (高新技術產品認定證書) from the Jiangsu Commission of Science and Technology (江蘇省科學技術廳) in August 2002

- Through the research on application of existing chiral products in development of new chiral derivative products, the Company has successfully developed the production technologies for L-carnitine, S-3-hydro- γ -butyrolactone and L-homophenylalanine and salts of L-tartaric acid. These products has been put to industrial production in 2002

- The Company continued to develop safe and inexpensive chiral reagent and chiral resolution technology

- Through the research on chemical resolution technology for the manufacture of high optical and pure chiral product, the Company has successfully developed the resolution method of using organic enzyme to produce D(-)-tartaric acid

- Completed laboratory scale research of aweto

- The research subject has been changed to D-amino acid, which has better marketability and higher commercial value. The D-amino acid is a Major Breakthrough Project of the Ten Five-year Province Plan (省“十五”科技攻關項目). The laboratory scale research has been completed and the Company is preparing for medium scale production

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS**Chireotechnology Centre**

- Establishment of a trial production line including establishment of production facility and purchase of trial production equipment
- Purchase other advanced foreign experiment and testing equipment for the laboratories

Amount to be invested from the net proceeds of the placing of H shares of the Company (the "Placing"):
HK\$2.9 million

2. Product development

- Conduct trial production of pyruvic acid
- Conduct medium scale research of L-homo-phenylalanine
- Conduct trial production of L-carnitine
- Conduct trial production of D-malic acid
- Continue laboratory scale research and commence medium scale research of aspartame
- Conduct laboratory scale research, medium scale research and commence trial production of glyoxalic acid
- Conduct medium scale research of calcium propionate

ACTUAL BUSINESS PROGRESS UP TO 31 DECEMBER 2002

- Relocated the chireotechnology centre to the new factory of the Company and completed establishment of two trial production lines including establishment of production facility and purchase of trial production equipment for L-carnitine and S-3- hydro- γ -butyrolactone. The construction of the trial production line for aspartame is underway
- Purchased some advanced foreign experiment and testing equipment for the laboratories, including liquid chromatic graphic column and atomic absorption spectrophotometer

Amount utilized from the net proceeds of the Placing:
HK\$2.7 million

- The research subject has been changed to the environmental-friendly durable press finishing agent for clothings, BTCA, which has a better marketability. The research is completed and the production has been commercialised
- Completed research on production technology of L-homo-phenylalanine and established a production line with annual production capacity of 5 tonnes
- Completed trial production of L-carnitine and established a production line with annual production capacity of 10 tonnes
- Completed trial production of D-malic acid and established a production line with annual production capacity of 20 tonnes
- Completed laboratory scale research of aspartame and is in the progress of preparing the commencement of medium scale research
- Completed laboratory scale research of glyoxalic acid and is in the progress of preparing the commencement of medium scale research
- In order to cope with the market demand, the research subject has been changed from calcium propionate to other types of organic calcium

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

- Conduct laboratory scale research and medium scale research of S-3-hydroxy- γ -butyrolactone
- Conduct laboratory scale research of aweto
- Conduct laboratory scale research and medium scale research of D(-)-p-hydroxy-phenylglycine
- Conduct laboratory scale research of D-phenylalanine

Amount to be invested from the net proceeds of the Placing:
HK\$3.1 million

ACTUAL BUSINESS PROGRESS UP TO 31 DECEMBER 2002

- Completed laboratory scale research and medium scale research of S-3-hydroxy- γ -butyrolactone and established a production line with annual production capacity of 10 tonnes
- Completed laboratory scale research of aweto
- The research subject has been changed to D-amino acid, which has better marketability and higher commercial value. The D-amino acid is a Major Breakthrough Project of the Ten Five-year Province Plan (省“十五”科技攻關項目). The laboratory scale research has been completed and the Company is preparing for medium scale production
- Commenced laboratory scale research of D-phenylalanine and is in the progress of preparing the commencement of medium scale research

Amount utilized from the net proceeds of the Placing:
HK\$1 million

3. Production expansion

- | | |
|--|--|
| <ul style="list-style-type: none"> - Increase annual production capacity of L-aspartic acid to 5,000 tonnes - Establish a 10 tonnes/year production line of L-carnitine - Increase annual production capacity of maleic acid to 1,000 tonnes/year - Establish a 20 tonnes/year production line of D-malic acid - Establish a 5 tonnes/year production line for L-homo-phenylalanine - Establish a 10 tonnes/year production line for S-3-hydroxy-γ-butyrolactone - Establish a 10,000 tonnes/year production line for fumaric acid (including production line for crude maleic anhydride) | <ul style="list-style-type: none"> - Annual production capacity of L-aspartic acid increased to 5,000 tonnes - Established a 10 tonnes/year production line of L-carnitine - Annual production capacity of maleic acid increased to 1,000 tonnes/year - Established a 20 tonnes/year production line of D-malic acid - Established a 5 tonnes/year production line for L-homo-phenylalanine - Established a 10 tonnes/year production line for S-3-hydroxy-γ-butyrolactone - Due to the longer-than-expected time required to obtain approval for construction of the production premises, the completion of the fumaric acid production line will be delayed to April 2003 |
|--|--|

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

- Increase the annual production capacity of L(+)-tartaric acid to 2,500 tonnes per year
- Increase annual production capacity of DL-malic acid to 3,000 tonnes

Amount to be invested from the net proceeds of the Placing:
HK\$33 million

4. Marketing

- Participated in 中國國際化工展 (China International Chemical Fair)
- Participated in 中國出口商品交易會 (Chinese Export Commodities Fair) to be held every half year
- Advertise in specialised magazines such as 化工市場七日訊 (Chemical Industry Market Weekly), 中國化工報 (China Chemical Industry Post) and 醫藥快訊 (Medicine Express)
- Organise sales staff to visit specialised export companies and explore potential markets
- Continue to display products in virtual product display room in well-known websites and disseminate relevant supply and demand information and advertisement and participate in web trade fair
- Participate in international product show
- Visit major foreign customers and explore new international markets
- Establish a representative office in Hong Kong

Amount to be invested from the net proceeds of the Placing:
HK\$0.9 million

ACTUAL BUSINESS PROGRESS UP TO 31 DECEMBER 2002

- Annual production capacity of L(+)-tartaric acid increased to 2,500 tonnes per year
- Annual production capacity of DL-malic acid increased to 3,000 tonnes

Amount utilized from the net proceeds of the Placing:
HK\$19.9 million

- Participate in 中國國際化工展 (China International Chemical Fair) held in Beijing in September 2002
- Participate in 中國出口商品交易會 (Chinese Export Commodities Fair) held in Guangzhou in October 2002
- Advertised in specialised magazines such as 化工市場七日訊 (Chemical Industry Market Weekly), 中國化工報 (China Chemical Industry Post) and 醫藥快訊 (Medicine Express)
- Visited specialised export companies to explore potential markets
- Continued to display products in virtual product display room in well-known websites and disseminate relevant supply and demand information and advertisement and participate in web trade fair
- Participated in the Institute of Food Technologists Food Expo in the United States in June 2002 and Health Ingredients Europe in September 2002
- Visited major foreign customers in Europe, the United States and Australia and participated in international product shows to explore new international markets
- Established a representative office in Hong Kong in June 2002

Amount utilized from the net proceeds of the Placing:
HK\$0.7 million

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS**ACTUAL BUSINESS PROGRESS UP TO 31 DECEMBER 2002****5. Deployment of human resources**

- Carrying out the following plan for human resources:

	Number of staff
Research and development	30
Production	160
Quality control	15
Sales and marketing	14
Management and general administration	32
	<u>251</u>

**Amount to be invested from the net proceeds of the Placing:
HK\$0.9 million**

- As at 31 December 2002, number of staff is as follows:

	Number of staff
Research and development	23
Production	151
Quality control	12
Sales and marketing	19
Management and general administration	34
	<u>239</u>

**Amount utilized from the net proceeds of the Placing:
HK\$0.5 million**

6. International production quality standard

- Obtain FCC (IV) for L-aspartic acid (Note 1)
- Set corporate standard and submit for 國家質量技術監督局 (State Bureau of Quality and Technical Supervision)'s ("CSBTS") review (Note 2) for L-homo-phenylalanine
- Set corporate standard and submit for CSBTS's review (Note 2) for D-malic acid
- Obtained FCC (IV) for L-aspartic acid in December 2002
- Corporate standard will be submitted for CSBTS's review for L-homo-phenylalanine when production volume is up to a large scale
- Corporate standard will be submitted for CSBTS's review for D-malic acid when production volume is up to a large scale

Notes:

1. FCC(IV) refers to the Food Chemicals Codex (4th edition), an accepted standard for defining the quality and safety of food ingredients released by the Institute of Medicine of the US, which standard is frequently referred to by the US Food and Drug Administration and other international food regulatory authorities.
2. Given the products are new to the market and there is currently no adaptable product quality standard internationally and locally, the Company will help setting out product quality standard for CSBTS's review and approval.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31 December 2002.

REORGANISATION

The Company was first established as a Sino-foreign equity joint venture enterprise in the PRC on 3 December 1992. For the purpose of preparing for a listing of the Company's overseas foreign listed shares ("H shares") on GEM, the Company underwent a reorganisation in 2001 (the "Reorganisation"). The Reorganisation was completed and the economic nature of the Company was converted into a Sino-foreign joint stock limited company on 18 June 2001 pursuant to a business licence issued by the State Administration for Industry and Commerce of the PRC. Details of the Reorganisation are set out in Note 1 to the accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are the production and sale of organic acids.

An analysis of the Company's turnover for the year by geographic segments is set out in Note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the profit and loss accounts on pages 37.

The Directors have declared a special dividend of Rmb 0.01472 per share, totalling Rmb 7,360,000 which was paid in July 2002.

The Directors recommend the payment of a final dividend of Rmb 0.012 per share, totalling Rmb 8,204,400.

RESERVES

Movements in the reserves of the Company during the year are set out in Note 21 to the accounts.

FIXED ASSETS

Details of movements in fixed assets of the Company are set out in Note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 20 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the distributable reserves of the Company were Rmb9,257,000 as reported in the statutory accounts prepared in accordance with the PRC Generally Accepted Accounting Practice.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company or the laws of the PRC, being the jurisdiction in which the Company was established, which provide the existing shareholders with pre-emptive rights to purchase new shares in any new issue of the Company according to their respective proportion of shareholding.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results, assets and liabilities of the Company for the last three financial years as extracted from the audited financial statements. This summary does not form part of the audited financial statements.

	Year ended 31 December		
	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000
Turnover	96,769	117,213	72,959
Profit before taxation	23,586	37,658	22,498
Taxation	(2,805)	(4,514)	(2,839)
Profit attributable to shareholders	20,781	33,144	19,659
	As at 31 December		
	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000
Total assets	231,005	138,671	58,706
Total liabilities	52,254	50,520	31,435
Net assets	178,751	88,151	27,271

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The H shares of the Company commenced trading on GEM on 28 June 2002. Subsequent to the listing of the H shares on GEM, the Company has not purchased, sold or redeemed any of its listed securities for the year ended 31 December 2002.

SHARE OPTIONS

The Company conditionally approved a share option scheme on 18 June 2001 (the "Scheme"), pursuant to which the Board may, at its discretion, grant share options to any eligible persons, including any employees, directors and shareholders of the Company, to subscribe for shares in the Company, subject to a maximum of 10% of the Company's shares (the "Shares") in issue at the date of grant. The subscription price will be determined by the Directors, and will not be less than the higher of (i) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. The Scheme will remain in force for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of Rmb1 or HK\$1 is payable on acceptance of the grant of an option.

The total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted or to be granted under the Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company for the time being.

Employees who are PRC nationals shall not be entitled to exercise the option until the current restrictions on these persons for subscribing or dealing in H shares of the Company imposed by the laws and regulations in PRC have been amended or removed.

As at 31 December 2002, no options have been granted by the Company to any of its employees, Directors or supervisors of the Company ("Supervisors").

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

Executive directors

Mr. Rui Xin Sheng

Mr. Jiang Jun Jie

Non-executive directors

Mr. Zen Xiao Biao

Mr. Zhu Lai Fa

Mr. Yu Xiao Ping

Mr. Lu Chong Zhu

Ms. Leng Yi Xin

Independent non-executive directors

Prof. Ouyang Ping Kai

Prof. Yang Sheng Li

Supervisors

Ms. Zhou Rui Juan

Mr. Pan Chun

Mr. Lu He Xing

Independent supervisors

Prof. Gu Jian Xin

Prof. Qian Shu Fa

In accordance with Article 97 and 116 of the Company's Articles of Association, Directors and Supervisors shall be elected at the shareholders' general meeting for a term of three years. A director or supervisor may serve consecutive terms if re-elected upon the expiration of the terms.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service agreement with the Company on 9 June 2002. Each service contract is for a term of three years commencing from 18 June 2001.

Save as above, no Director or Supervisor who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which may not be terminated by the Company within one year without payment of compensation other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Apart from the Directors' and Supervisors' service contracts disclosed above, no contracts of significance in relation to the Company's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS OF THE DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2002, the interests of the Directors and the Supervisors (as if the requirements applicable to directors under the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") has applied to the supervisors) in the shares of the Company (the "Shares") and its associated corporations (within the meaning of the SDI Ordinance), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of Shares				Total interests
	Corporate interests	Personal interest	Family interests	Other interests	
<i>Director</i>					
Mr. Rui Xin Sheng	137,500,000 (Note (a))	–	–	(Note (a))	137,500,000
Ms. Leng Yi Xin	(Note (b))	–	–	–	(Note (b))
Mr. Jiang Jun Jie	67,500,000 (Note (c))	–	–	–	67,500,000
Mr. Zen Xian Biao	(Note (d))	–	–	–	(Note (d))
Mr. Yu Xiao Ping	66,000,000 (Note (e))	–	–	–	66,000,000
Mr. Zhu Lai Fa	(Note (f))	–	–	–	(Note (f))
Prof. Ouyang Ping Kai	(Note (g))	–	–	–	(Note (g))
Prof. Yang Sheng Li	(Note (h))	–	–	–	(Note (h))
<i>Supervisor</i>					
Ms. Zhou Rui Juan	(Note (i))	–	–	–	(Note (i))
Mr. Pan Chun	(Note (j))	–	–	–	(Note (j))
Mr. Lu He Xing	(Note (k))	–	–	–	(Note (k))
Prof. Gu Jian Xin	(Note (l))	–	–	–	(Note (l))

INTERESTS OF THE DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

Notes:

- (a) Among the 137,500,000 Shares, 135,000,000 Shares are held by Hong Kong Xinsheng Pioneer Investment Company Limited ("HK Xinsheng Ltd") and the remaining 2,500,000 Shares are held by 常州新生物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 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 Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (a) above.
- (c) Mr. Jiang is the registered holder and beneficial owner of 2,600,000 shares of HK\$0.01 each in Hong Kong Biochemical Advanced Technology Investment Company Limited ("HK Biochem Ltd"), which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Jiang is also the registered holder and beneficial owner of 15,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (d) Mr. Zeng is the registered holder and beneficial owner of 880,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 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 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 Shares.
- (f) Mr. Zhu is the registered holder and beneficial owner of 250,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (g) 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 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) 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 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.

REPORT OF THE DIRECTORS

INTERESTS OF THE DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

- (i) 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 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (j) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. He is also the registered holder and beneficial owner of 200,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (k) 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 Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (l) Prof. Gu Jian Xin is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 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.

Other than the Scheme described in the paragraph "Share Options" above, at no time during the year was the Company a party to any arrangement 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.

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Shareholder	Number of Shares	Percentage of shareholdings (Note (b))
Changzhou Shuguang Chemical Factory (常州曙光化工廠)	154,000,000	22.5%
Hong Kong Xinsheng Pioneer Investment Company Limited	135,000,000	19.7%
Mr. Rui Xin Sheng (Note (a))	137,500,000	20.1%

Notes:

- (a) Please refer to Note (a) under the paragraph headed "Interest of the Directors and Supervisors in the share capital of the Company and its associated corporations" for details of Mr. Rui Xin Sheng's interest in the share capital of the Company.
- (b) Based on a total of 683,700,000 shares of the Company in issue. Please also refer to the paragraph headed "Share capital structure" below.

Save as disclosed above, the Company had no notice of any interests to be recorded under section 16(1) of the SDI Ordinance as at 31 December 2002.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

COMPETING BUSINESS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Company’s major suppliers and customers are as follows:

Purchases

– the largest supplier	36%
– five largest suppliers combined	59%

Sales

– the largest customer	18%
– five largest customers combined	48%

Save as disclosed in the paragraph “Connected Transactions” below, at no time during the year have the Directors, Supervisors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

CONNECTED TRANSACTIONS

During the year, the Company entered into the following connected transactions with Changzhou Shuguang Chemical Factory (“Shuguang Factory”):

	2002 Rmb'000	2001 Rmb'000
Purchases of raw materials from Shuguang Factory (Note (a))	23,764	34,336
Electricity charged by Shuguang Factory (Note (b))	2,122	2,404
Raw water supply fee charged by Shuguang Factory (Note (c))	175	-
Rental paid to Shuguang Factory (Note (d))	156	60

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)**Notes:**

- (a) The Company purchased maleic anhydride and crude maleic anhydride from Shuguang Factory. In accordance with a master purchase agreement dated 9 June 2002, the prices were determined by the two parties subject to that the prices of maleic anhydride should not exceed the lower of (i) the lowest price paid by any independent third party to Shuguang Factory for the maleic anhydride in the immediately preceding month; and (ii) the then prevailing market prices of maleic anhydride as reported from time to time in “化工市場七日訊” (“Chemical Industry Market Weekly”), a journal edited by independent third party and which contains information on the prices of maleic anhydride and various types of chemicals and that the prices of crude maleic anhydride are set at prices which are no higher than 73% of the prices of maleic anhydride for the same period of time.
- (b) The Company leases certain land and building from Shuguang Factory. Electricity is supplied to the Company by Jiangsu Changzhou Electric Power Supply Bureau through the network connected to Shuguang Factory. The monthly charges for electricity consumed is paid by the Company to Shuguang Factory by reference to the (i) total units of electricity consumed by the Company as measured by separate tariff meters; and (ii) the average tariff charged by Shuguang Factory, which is equal to the total electricity fee payable to Jiangsu Changzhou Electric Power Supply Bureau by Shuguang Factory divided by total units of electricity consumed by Shuguang Factory in the corresponding period. Jiangsu Changzhou Electric Power Supply Bureau charges Shuguang Factory tariff based on total units of electricity consumed by Shuguang Factory as shown on tariff meters installed by Jiangsu Changzhou Electric Power Supply Bureau and three different rates of tariff which are applicable in accordance with different time periods in a day.
- (c) The Company leases certain land and building from Shuguang Factory. Water is supplied by Changzhou Water Supply Company (常州市自來水公司) through the network connected to Shuguang Factory based on the average water fee per tonne as paid by Shuguang Factory to the Changzhou Water Supply Company.
- (d) Rental expenses to Shuguang Factory includes the rental for leasing of a land use right and a building. The Company leases the land use right from Shuguang Factory for a term of 50 years at a rate of (i) in respect of the period between 20 June 2001 to 31 March 2002, Rmb 5,611 per annum; and (ii) in respect of the period from 1 April 2002 to 12 June 2050, Rmb 25,611 per annum. The Company leases a building from Shuguang Factory for a term of 5 years from 1 April 2002 to 31 March 2007 at an annual rental of Rmb 160,000.

A waiver has been granted by the Stock Exchange relating to the purchase of maleic anhydride and crude maleic anhydride from Shuguang Factory and the payment of electricity charge to Shuguang Factory, to exempt the Company from compliance with provisions related to connected transactions set out in Rule 20 of the GEM Listing Rules. In the opinion of the independent non-executive Directors, these connected transactions were entered into by the Company:

- (i) in the ordinary and usual course of business of the Company;
- (ii) either on normal commercial terms or; if there were not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than terms available to and from (as the case may be) for independent third parties; and
- (iii) in accordance with the relevant agreements governing the transactions; and
- (iv) on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

CONNECTED TRANSACTIONS *(Continued)*

The Company has received from the auditors a letter stating that the above connected transactions:

- (i) have been reviewed by and have received the approval of the Board;
- (ii) have been entered into in accordance with the terms of the relevant agreement governing the transactions; and
- (iii) have not exceeded the relevant upper limits applicable to such transactions under the waiver granted by the Stock Exchange.

SHARE CAPITAL STRUCTURE

As at 31 December 2002, the category of the issued shares of the Company is as follows:

	Number of Shares
H shares (note (a))	183,700,000
Domestic Shares (note (b))	219,000,000
Promoter Foreign Shares (note (c))	281,000,000
	<u>683,700,000</u>

Notes:

- (a) Overseas listed foreign shares in the capital of the Company, with a Renminbi-denominated par value of RMB0.10 each, which was credited as fully paid up in a currency other than Renminbi and are traded in Hong Kong dollars and listed on GEM.
- (b) Ordinary shares in the capital of the Company, with a Renminbi-denominated par value of RMB0.10 each, which was credited as fully paid up in Renminbi and issued to the promoters of the Company.
- (c) Ordinary shares in the capital of the Company, with a Renminbi-denominated par value of RMB0.10 each, which was credited as fully paid up in a currency other than Renminbi 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 the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (whose definitions have been adopted in the Articles of Association of the Company), the rights attached to Promoter 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 Promoter Foreign Shares do not contravene any PRC laws or regulations.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE (Continued)

At present, there are no applicable PRC laws and regulations governing the rights attached to the Promoter 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 Promoter 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 Promoter 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 the PRC, subject however to the applicable foreign exchange control regulations;
- (c) disputes between holders of Domestic Shares and Promoter 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 Promoter 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 Promoter 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.

COMPLIANCE WITH THE BOARD PRACTICES AND PROCEDURES OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules at any time during the year ended 31 December 2002.

SPONSOR'S INTEREST

As at 31 December 2002, Propser Ideal Limited, an associate of the Company's sponsor, Tai Fook Capital Limited ("Tai Fook"), held 12,500,000 Promoter Foreign Shares of the Company.

Pursuant to the sponsor's agreement dated 18 June 2002 entered into between the Company and Tai Fook, Tai Fook is entitled to receive a fee for acting as the retained sponsor of the Company for the period from 28 June 2002 to 31 December 2004.

Save as disclosed above, Tai Fook (including its directors and employees) and its associates, do not have any interest in the Company as at 31 December 2002.

REPORT OF THE DIRECTORS

USE OF PROCEEDS FORM THE PLACING

The net proceeds raised from the issue of the H shares of the Company, after deduction of related expenses, amounted to approximately HK\$ 79 million (equivalent to approximately Rmb 84 million). HK\$ 4 million of the net proceeds was planned to provide additional working capital of the Company. The remaining net proceeds of approximately HK\$ 75 million (equivalent to approximately Rmb 80 million) was planned and applied to achieve the business objectives as set out in the Prospectus, of which an amount of approximately HK\$24.8 million has been applied for the period from 28 June 2002 (date of the listing on GEM) to 31 December 2002, as follows:

	Proposed HK\$ million	Actual HK\$ million
Construction of the new production plants and establishment of new production lines (Note 1)	33.0	19.9
Product development (Note 2)	3.1	1.0
Upgrading research equipment of the Chirotechnology Centre	2.0	1.8
Technology research and development	0.9	0.9
Marketing and promotion activities and setting up of representation offices	0.9	0.7
Recruitment of additional technical and management staff and staff training	0.9	0.5
Comparison of business objective with actual business progress	<u>40.8</u>	<u>24.8</u>

Notes:

1. The completion of the construction of the fumaric production line and the relevant payment for this project have been postponed to 2003 due to the longer-than-expected time required to obtain approval for construction of the production premises. As a result, the payment of construction cost for the period from 28 June 2002 to 31 December 2002 was lower than the budgeted amount.
2. The amount utilized is less than the anticipated amount because the progress on the development is satisfactory which required less funding. In addition, the development of pyruvic acid has been replaced by BTCA, of which the development cost is lower but having a higher commercial potential.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Details of the retirement schemes are set out in Note 9 to the accounts.

AUDIT COMMITTEE

The Company has established an audit committee in June 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive Directors, namely Prof. Ouyang Ping Kai and Prof. Yang Sheng Li.

The primary duties of the audit committee are to review the Company's annual report and accounts, half year reports and quarterly reports and to provide advice and comments thereon to the Board.

Since its establishment, the audit committee has met three times, reviewing with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the audited annual results for the year ended 31 December 2002 with the Directors.

AUDITORS

The accounts as at and for the year ended 31 December 2001 were jointly audited by PricewaterhouseCoopers and Henny Wee & Co., the joint reporting accountants of the Company. The accounts as at and for the year ended 31 December 2002 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 14 March 2003

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2002, the supervisory committee of Changmao Biochemical Engineering Company Limited (the "Supervisory Committee"), exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of trustworthiness, honestly carried out the duties of supervisors and worked cautiously and diligently, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company for their accountability to the shareholders.

During the year, the major work performed by the Supervisory Committee includes the attendance of the Board meetings, reviewed the report of the Directors and reserve appropriation proposal prepared to be submitted by the Board to the annual general meeting, reviewed the use of proceeds from the Placing in strict compliance with the plan of use of proceeds disclosed in the Prospectus, strictly and effectively monitored whether the policies and decisions made by the management of the Company had conformed with the state laws and regulations and the Articles of Association of the Company or safeguarded the interest of the shareholders. The Supervisory Committee has also reviewed the performance of the Directors, general manager and senior management in the daily operation by various means, seriously examined the Company's financial affairs and its connected transactions.

After the examination, the Supervisory Committee conclude that:

1. the report of the Directors and the reserve appropriation proposal prepared to be submitted by the Board to the annual general meeting are in accordance with the relevant laws and regulations and the Articles of Association of the Company;
2. the use of proceeds from the Placing was in strict compliance with the plan of use of proceeds disclosed in the Prospectus;
3. the Directors, general manager and other senior management of the Company have strictly followed the principle of trustworthiness, work diligently and responsibly, and discharged their duties for the best interest of the Company. The Supervisory Committee has not discovered that any Directors, general manager and other senior management of the Company have abused their powers, damaged the interest of the Company or the benefits of the shareholders and employees nor contravene any laws and regulations or the Articles of Association of the Company;
4. the financial statements of the Company for the year ended 31 December 2002, which are audited by PricewaterhouseCoopers, has truly and fairly reflected the operating results and assets position of the Company. The connected transactions were in compliance with the GEM Listing Rules and were fair and reasonable and had not infringed upon the interest of the Company and the shareholders.

The Supervisory Committee takes this opportunity to thank the shareholders, Directors and all the employees of the Company for their supports in the past year.

By order of the Supervisory Committee
Zhou Rui Juan
Chairman of the Supervisory Committee

The PRC, 14 March 2003

AUDITORS' REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 37 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of the Company's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 March 2003

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002

	Note	2002 Rmb'000	2001 Rmb'000
Turnover	3	96,769	117,213
Cost of sales		(60,654)	(72,021)
Gross profit		36,115	45,192
Other revenues	3	388	536
Selling expenses		(3,952)	(3,041)
Administrative expenses		(9,520)	(4,486)
Other operating income		1,434	36
Operating profit	4	24,465	38,237
Finance costs	5	(879)	(579)
Profit before taxation		23,586	37,658
Taxation	6	(2,805)	(4,514)
Profit attributable to shareholders		20,781	33,144
Dividends/Distributions to shareholders	7	15,564	24,202
Basic earnings per share	8	Rmb 0.035	Rmb 0.089

BALANCE SHEET

As at 31 December 2002

	Note	2002 Rmb'000	2001 Rmb'000
Non-current assets			
Acid patent	11	8,944	9,611
Fixed assets	12	70,525	33,091
Construction in progress	13	29,898	31,104
		109,367	73,806
Current assets			
Inventories	14	21,659	11,961
Accounts receivable	15	10,422	10,712
Other receivables and prepayments		12,749	18,354
Bank balances and cash	16	76,808	23,838
		121,638	64,865
Current liabilities			
Amounts due to shareholders	17	12,991	6,244
Accounts payable	18	1,678	2,954
Other payables and accrued charges		11,215	10,733
Dividend payable		–	2,133
Taxation payable		503	921
Unsecured short-term bank loan		20,000	5,000
		46,387	27,985
Net current assets		75,251	36,880
Total assets less current liabilities		184,618	110,686
Non-current liabilities			
Long-term portion of amounts due to shareholders	17	5,867	11,735
Long-term bank loans	19	–	10,800
		5,867	22,535
Financed by:		178,751	88,151
Share capital			
Share capital	20	68,370	50,000
Reserves	21	102,177	31,551
Proposed final dividend	21	8,204	6,600
Shareholders' funds		178,751	88,151

Rui Xin Sheng
Director

Jiang Jun Jie
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2002

	Note	2002 Rmb'000	2001 Rmb'000
Total equity as at 1 January		88,151	27,271
Issue of shares	20 & 21	107,177	49,750
Profit for the year	21	20,781	33,144
Share issue expenses	21	(23,398)	–
Distributions to shareholders	21	–	(17,602)
Dividends	21	(13,960)	(4,412)
Total equity as at 31 December		178,751	88,151

CASH FLOW STATEMENT

For the year ended 31 December 2002

	Note	2002 Rmb'000	As restated 2001 Rmb'000
Net cash inflow from operating activities	22(a)	19,715	14,419
Investing activities			
Interest received		310	241
Purchases of fixed assets		(7,622)	(4,288)
Additions of construction in progress		(31,319)	(36,812)
Net cash outflow from investing activities		(38,631)	(40,859)
Net cash outflow before financing activities		(18,916)	(26,440)
Financing activities			
Proceeds from issue of Promoter shares	22(b)	–	39,750
Proceeds from issue of H shares	22(b)	107,177	–
Share issue expenses	22(b)	(23,398)	–
New bank loans	22(b)	30,000	15,000
Repayment of bank loans	22(b)	(25,800)	(15,000)
Dividends paid	22(b)	(16,093)	(2,279)
Net cash inflow from financing activities		71,886	37,471
Increase in cash and cash equivalents		52,970	11,031
Cash and cash equivalents at 1 January		23,838	12,807
Cash and cash equivalents at 31 December		76,808	23,838
Analysis of balance of cash and cash equivalents			
Bank balances and cash		44,975	23,838
Bank deposits with maturity less than 3 months		31,833	–
		76,808	23,838

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

1 REORGANISATION AND PRINCIPAL ACTIVITIES

The Company was first established as a Sino-foreign equity joint venture enterprise in the People's Republic of China (the "PRC") on 3 December 1992. For the purpose of preparing for a listing of the Company's overseas listed foreign shares (the "H shares") on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company underwent a reorganisation in 2001 (the "Reorganisation") under which the Promoters' agreement dated 15 April 2001 (the "Promoters' Agreement") was entered into by 常州曙光化工廠 ("Changzhou Shuguang Chemical Factory" or "Shuguang Factory") and Jomo Limited ("Jomo") (both were the then shareholders of the Company), and Hong Kong Xinsheng Pioneer Investment Company Limited ("HK Xinsheng Ltd"), Hong Kong Bio-chemical Advanced Technology Investment Company Limited ("HK Biochem Ltd"), 上海科技投資股份有限公司 ("Shanghai Technology Investment"), 上海博聯科技投資有限公司 ("Shanghai Bolian Investment"), Propser Ideal Limited and 常州新生生化科技開發有限公司 ("Changzhou Xinsheng") (collectively the "Promoters").

Immediately before the Reorganisation, the Company was owned as to 70% by Shuguang Factory and as to 30% by Jomo. Pursuant to the Promoters' Agreement, the Promoters subscribed for 50,000,000 shares of Rmb 1.00 each in the Company (collectively the "Promoter Shares" or individually a "Promoter Share"), being the initial registered capital of the Company as a Sino-foreign joint stock limited company, on 18 June 2001 satisfied either by the contribution of net tangible or intangible assets or by way of payment in cash (See note 20 (a)).

Pursuant to a business licence issued by the State Administration for Industry and Commerce of the PRC dated 18 June 2001, the economic nature of the Company was approved to be converted into a Sino-foreign joint stock limited company and the Reorganisation was completed.

On 18 July 2001, approval was obtained from 中華人民共和國對外貿易經濟合作部 (the "Ministry of Foreign Trade and Economic Cooperation of the PRC" or "MOFTEC") to increase the Company's registered capital from Rmb 50 million to not more than Rmb 68.37 million by the creation of not more than 18,370,000 H shares having a then nominal value of Rmb 1.00 each. On 18 July 2001, approval was also obtained from MOFTEC to sub-divide each share in the registered and issued share capital for every one share having a nominal value of Rmb 1.00 each to ten shares having a nominal value of Rmb 0.10 each (the "Share Sub-division").

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

1 REORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

On 26 February 2002, China Securities Regulatory Commission (“CSRC”) approved the Share Sub-division and the listing of the H shares of the Company on the GEM and the Company was listed on the GEM on 28 June 2002 by placing of 183,700,000 H shares at a price of HK\$0.55 per share.

The principal activities of the Company are the production and sale of organic acids.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention.

In the current year, the Company adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002.

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 34:	Employee benefits

The Company has also adopted SSAP 35 “Government grants and disclosure of government assistance”, which is effective for periods commencing on or after 1 July 2002, in advance of their effective dates.

The adoption of the above new/revised SSAPs did not have significant effect on the financial statements of the Company except that certain presentational changes have been made to the comparative figures upon the adoption of SSAP 1 (revised) “Presentation of financial statements” and SSAP 15 (revised) “Cash flow statements”.

NOTES TO THE ACCOUNTS

*For the year ended 31 December 2002***2 PRINCIPAL ACCOUNTING POLICIES (Continued)****(b) Acid patent**

Acid patent is stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acid patent is amortised using the straight-line method over its estimated useful life of 15 years. Where an indication of impairments exists, the carrying amount of the acid patent is assessed and written down immediately to its recoverable amount.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated at rates sufficient to write off their costs less accumulated impairment losses to their estimated residual values over their estimated useful lives on a straight-line basis:

Land use rights	50 years
Leasehold buildings	20 years
Plant and machinery	10 years
Equipment and motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Company.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

2 PRINCIPAL ACCOUNTING POLICIES (Continued)**(d) Construction in progress**

Construction in progress is stated at cost which comprises construction costs, purchase costs and other related expenses incurred in connection with the construction of buildings, plant and machinery for own use, less provision for impairment losses, if any.

No depreciation is provided for construction in progress until they are completed and put into production.

(e) Government grants

Government grants relating to income are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate.

(f) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditures. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held with banks at call or with a maturity of three months or less from the date of deposit.

(k) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

(m) Employees benefits

The Company contributes to various employee retirement benefit plans organised by municipal and provincial governments. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Company. Contributions to these plans are expensed as incurred.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

2 PRINCIPAL ACCOUNTING POLICIES (Continued)**(n) Research and development costs**

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

All research and development costs have been charged to the profit and loss account during the year.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

3 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Company is principally engaged in the production and sale of organic acids. Revenues recognised during the year are as follows:

	2002 Rmb'000	2001 Rmb'000
Turnover		
Sales of goods	96,769	117,213
Other revenues		
Interest income	310	241
Others	78	295
	388	536
Total revenues	97,157	117,749

An analysis of the Company's turnover for the year by geographical segment is as follows:

Turnover

	2002 Rmb'000	2001 Rmb'000
The PRC	45,635	52,668
Europe	27,465	35,395
Asia Pacific	18,356	21,804
Others	5,313	7,346
	96,769	117,213

The Asia Pacific region includes Australia, Hong Kong, India, Japan, Korea and Malaysia.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

The analysis of turnover by geographic segment is based on the country in which the customer is located. No analysis of contribution by geographic segment has been presented as the ratio of profit to turnover achieved for individual segment is not substantially out of line with the Company's overall ratio of profit to turnover.

No analysis of the segment information by business segment has been presented as the Company has been engaged in the production and sale of organic acids only. All of its assets, liabilities and capital expenditure for the year were located or utilised in the PRC.

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 Rmb'000	2001 Rmb'000
Crediting		
Government grants	1,380	229
Write-back of provision for doubtful debts	29	–
Charging		
Amortisation of acid patent (Note 11)	667	389
Auditors' remuneration	604	50
Depreciation (Note 12)	3,369	2,145
Net exchange loss	77	100
Operating leases in respect of land and buildings	373	118
Provision for doubtful debts	–	9
Research and development costs	1,690	328
Staff costs (including emoluments of Directors and Supervisors) (Note 9)	10,128	7,341

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

5 FINANCE COSTS

	2002 Rmb'000	2001 Rmb'000
Interest on bank loans – wholly repayable within five years	879	871
Less: interest capitalised	–	(292)
	<u>879</u>	<u>579</u>

6 TAXATION

The amount of taxation charged to the profit and loss account represents PRC Enterprise Income Tax (“EIT”).

EIT is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being located in the New Technology Industrial Development Experimental Zone in Changzhou and registered as a New and High Technology Enterprise, is entitled to a reduced EIT rate of 24%. In addition, the Company is also entitled to a tax holiday of two years for full exemption from EIT starting from 1997, followed by a 50% reduction from the third to fifth year. The preferential tax treatment referred to above was expired by the end of 2001. However, in May 2001, the Company obtained 外商投資先進技術企業確認證書 (The Certificate for Foreign Investment and Advanced Technology Enterprise) from 江蘇省對外貿易經濟合作廳 (Jiangsu Foreign Trade Economic Co-operation Office), under which the Company is entitled to a reduced EIT rate of 12% until the financial year ending 31 December 2004.

Hong Kong profits tax has not been provided for as the Company has no estimated assessable profit subject to Hong Kong profits tax.

As at 31 December 2002, there was no significant unprovided deferred taxation.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

7 DIVIDENDS/DISTRIBUTIONS TO SHAREHOLDERS

	2002 Rmb'000	2001 Rmb'000
Special dividend declared on 9 June 2002, paid, of Rmb 0.01472 per share	7,360	–
Final, proposed, of Rmb 0.012 (2001: Rmb 0.0132) per share (note (a))	8,204	6,600
Other distributions (note (b))	–	17,602
	15,564	24,202

- (a) At a Board meeting held on 14 March 2003, the Directors declared a final dividend of Rmb 0.012 per share, totalling approximately Rmb 8,204,000 for the year ended 31 December 2002. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

At a Board meeting held on 10 March 2002, the Directors declared a final dividend of Rmb 0.0132 per share, totalling approximately Rmb 6,600,000 for the year ended 31 December 2001. This proposed dividend is not reflected as a dividend payable in the accounts for the year ended 31 December 2001, but reflected as an appropriation of retained earnings for the year ended 31 December 2002.

- (b) Pursuant to the Promoters' Agreement and a reorganisation agreement dated 9 June 2002 entered into between the Company and its then shareholders, Shuguang Factory and Jomo, provided that the net assets of the Company as at the close of business on 17 June 2001, determined in accordance with the accounting principles and financial regulations applicable to PRC foreign investment enterprises, exceed the net asset value of the Company as at the close of business on 31 October 2000, the excess amount (the "Excess") shall be payable by the Company to its then shareholders. Accordingly, the Excess at 17 June 2001 amounting to approximately Rmb 17,602,000 was accounted for as distributions to shareholders payable to Shuguang Factory and Jomo (Note 17).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

8 EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") for the year ended 31 December 2001 is based on the Company's profit attributable to shareholders of approximately Rmb 33,144,000 and the weighted average number of 371,123,288 shares deemed to be in issue for the year ended 31 December 2001 on the assumptions that the Reorganisation and the Share Sub-division (Note 20 (a) and (b)) had been completed on 1 January 2001.

The calculation of the EPS for the year ended 31 December 2002 is based on the Company's profit attributable to shareholders of approximately Rmb 20,781,000 and the weighted average number of 594,114,795 shares in issue as if the Share Sub-division (Note 20 (b)) had taken place at the beginning of the year.

No diluted EPS is presented as the Company has no dilutive potential shares in issue during the year.

9 STAFF COSTS

(a) Staff costs including Directors' and Supervisors' remunerations are as follows:

	2002 Rmb'000	2001 Rmb'000
Salaries, wages and related welfare	8,746	6,507
Social security costs	410	93
Contribution to defined contribution retirement schemes (Note 9(b))	972	741
	10,128	7,341

(b) Retirement benefit costs

The Company is required to participate in defined contribution retirement schemes organised by the relevant local government authorities. Contributions to the retirement schemes are payable at a rate of 21% of the basic salary of the employees and the Company has no further retirement benefit obligations to all its existing and future retired employees.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (a) The aggregate amounts of emoluments paid and payable to the Directors of the Company during the year are as follows:

	2002 Rmb'000	2001 Rmb'000
Executive/non-executive Directors:		
Fees	670	140
Basic salaries, allowances and benefits in kind	618	521
Discretionary bonus	–	50
Retirement benefit contributions	12	4
Independent non-executive Directors		
Fees	100	50
	<u>1,400</u>	<u>765</u>

One Director received emoluments of approximately Rmb 800,000 and Rmb 400,000 for the years ended 31 December 2002 and 2001 respectively. One Director received emoluments of approximately Rmb 250,000 and Rmb 175,000 for the years ended 31 December 2002 and 2001 respectively. One Director received emoluments of approximately Rmb 50,000 and Rmb 32,000 for the years ended 31 December 2002 and 2001 respectively. Six Directors received emoluments of approximately Rmb 50,000 and Rmb 25,000 each for the years ended 31 December 2002 and 2001 respectively. Two former Directors received emoluments of approximately Rmb 4,000 each for the year ended 31 December 2001.

None of the Directors waived any emoluments during the year.

During the year, the emoluments of each of the Directors were less than HK\$1,000,000.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

- (b) The aggregate amounts of emoluments paid and payable to the Supervisors of the Company during the year are as follows:

	2002 Rmb'000	2001 Rmb'000
Fees	57	15
Basic salaries, allowances and benefits in kind	74	66
Discretionary bonus	-	-
Retirement benefit contributions	14	7
	145	88

One Supervisor received emoluments of approximately Rmb 59,000 and Rmb 36,000 for the years ended 31 December 2002 and 2001 respectively. One Supervisor received emoluments of approximately Rmb 50,000 and Rmb 28,000 for the years ended 31 December 2002 and 2001 respectively. One Supervisor received emoluments of approximately Rmb 6,000 and Rmb 8,000 for the year ended 31 December 2002 and 2001 respectively. Two Supervisors received emoluments of approximately Rmb 15,000 and Rmb 8,000 each for the years ended 31 December 2002 and 2001 respectively.

None of the Supervisors waived any emoluments during the year.

During the year, the emoluments of each of the Supervisors were less than HK\$1,000,000.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

(c) The five individuals whose emoluments were the highest during the year are as follows:

	2002 Rmb'000	2001 Rmb'000
Directors	2	2
Supervisors	2	–
Employee	1	3
	<u>5</u>	<u>5</u>

Details of the emoluments paid and payable to the above employee and whose emoluments were less than HK\$1,000,000, are as follows:

	2002 Rmb'000	2001 Rmb'000
Basic salaries, allowances and benefits in kind	286	95
Discretionary bonus	–	31
Retirement benefit contributions	5	6
	<u>291</u>	<u>132</u>

(d) During the year, no emoluments have been paid to the Directors and Supervisors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

11 ACID PATENT

	2002	2001
	Rmb'000	Rmb'000
Beginning of the year	9,611	10,000
Amortisation charge (Note 4)	(667)	(389)
End of the year	8,944	9,611
	2002	2001
	Rmb'000	Rmb'000
At cost	10,000	10,000
Accumulated amortisation	(1,056)	(389)
Net book amount	8,944	9,611

As detailed in Note 20 (a) (iii), 10,000,000 shares of the Company of Rmb 1.00 each were issued to HK Xinsheng Ltd as a consideration for the transfer of the acid patent to the Company pursuant to the Promoters' Agreement.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

12 FIXED ASSETS

	Land use rights	Leasehold buildings	Plant and machinery	Equipment and motor vehicles	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cost					
At 1 January 2002	4,709	12,248	18,893	3,268	39,118
Additions	7,331	–	–	291	7,622
Transfer from construction in progress (Note 13)	–	22,655	10,320	206	33,181
At 31 December 2002	12,040	34,903	29,213	3,765	79,921
Accumulated depreciation					
At 1 January 2002	149	589	4,052	1,237	6,027
Charge for the year	106	977	1,779	507	3,369
At 31 December 2002	255	1,566	5,831	1,744	9,396
Net book value					
At 31 December 2002	11,785	33,337	23,382	2,021	70,525
At 31 December 2001	4,560	11,659	14,841	2,031	33,091

The land use rights relate to two pieces of land situated in the PRC under lease term of 50 years up to 17 May 2050 and 2052 respectively. The Company is in the process of obtaining the land use right title for a parcel of land with a net book value of approximately Rmb 7,319,000.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

13 CONSTRUCTION IN PROGRESS

	2002 Rmb'000	2001 Rmb'000
At 1 January	31,104	623
Additions	31,975	39,484
Interest capitalised (Note 5)	-	292
Transfer to fixed assets (Note 12)	(33,181)	(9,295)
At 31 December	<u>29,898</u>	<u>31,104</u>

14 INVENTORIES

	2002 Rmb'000	2001 Rmb'000
Raw materials	2,795	4,223
Work-in-progress	407	-
Finished goods	18,457	7,738
	<u>21,659</u>	<u>11,961</u>

As at 31 December 2002 and 2001, all inventories were stated at cost.

15 ACCOUNTS RECEIVABLE

The credit terms of accounts receivable range from 30 to 90 days and the aging analysis of the accounts receivable is as follows:

	2002 Rmb'000	2001 Rmb'000
0 to 3 months	10,037	10,401
4 to 6 months	368	301
Over 6 months	17	10
	<u>10,422</u>	<u>10,712</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

16 BANK BALANCES AND CASH

All bank balances, which are denominated in Renminbi and other currencies, are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

17 AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured and interest free.

Included in the amounts due to shareholders as at 31 December 2002 were the distributions of the Excess to Shuguang Factory and Jomo (Note 7 (b)) amounting to approximately Rmb 12,321,000 and Rmb 5,281,000 respectively (2001: Rmb 12,321,000 and Rmb 5,281,000 respectively). The amounts were originally repayable by three equal instalments in 2002, 2003 and 2004. During the year, it has been mutually agreed amongst the shareholders and the Company that the first payment shall be deferred to 2003 while other repayment terms remain unchanged.

The remaining balance has no fixed terms of repayment.

18 ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	2002 Rmb'000	2001 Rmb'000
0 to 6 months	1,676	2,929
7 to 12 months	-	13
Over 12 months	2	12
	<u>1,678</u>	<u>2,954</u>

19 LONG-TERM BANK LOANS

The long-term bank loans as at 31 December 2001 were unsecured and repayable in 2004.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

20 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital		
	Paid-up capital Rmb'000	Number of shares at Rmb 0.10 each (Before the Share Sub-division: Rmb 1.00 each)	Nominal value Rmb'000
At 1 January 2001	4,601	–	–
Capitalisation as share capital under the Promoters' Agreement (note a(i))	(4,601)	4,601,000	–
	–	4,601,000	4,601
Issue of Promoter Shares under the Promoters' Agreement (note a)	–	45,399,000	45,399
At 31 December 2001 and 1 January 2002 before the Share Sub-division	–	50,000,000	50,000
Share Sub-division (note b)	–	450,000,000	–
	–	500,000,000	50,000
Issue of H shares upon listing (note c)	–	183,700,000	18,370
As at 31 December 2002	–	683,700,000	68,370

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

20 SHARE CAPITAL (Continued)

- (a) Under the Promoters' Agreement, the Company issued 50,000,000 shares of Rmb 1.00 each, being the initial registered capital of the Company as a Sino-foreign joint stock limited company, on 18 June 2001 as follows:
- (i) 22,000,000 shares of the Company to Shuguang Factory and Jomo in respect of their equity interests in the Company in return for the net tangible assets of the Company totalling approximately Rmb 22,000,000 which was calculated with reference to the net tangible assets of the Company as at 31 October 2000 and is represented by capital reserve of Rmb 234,000, general reserve of Rmb 566,000, enterprise development reserve of Rmb 1,132,000, retained earnings of Rmb 15,467,000 and paid up registered capital of Rmb 4,601,000.
 - (ii) 18,000,000 shares of the Company in consideration for cash totalling Rmb 39,750,000 paid by HK Xinsheng Ltd, HK Biochem Ltd, Shanghai Technology Investment, Shanghai Bolian Investment, Propser Ideal Limited and Changzhou Xinsheng; and
 - (iii) 10,000,000 shares of the Company in consideration for propriety technology valued at Rmb 10,000,000, which was determined with reference to a valuation report prepared by an independent appraiser, being transferred to the Company from HK Xinsheng Ltd.
- (b) Pursuant to the approvals granted by MOFTEC and CSRC on 18 July 2001 and 26 February 2002 respectively, the registered and issued shares of the Company were sub-divided from 50,000,000 shares of Rmb 1.00 each into 500,000,000 shares of Rmb 0.10 each.
- (c) Pursuant to a resolution passed at the shareholders' meeting on 8 June 2001 and approvals from relevant government authorities, the Company was authorised to increase its registered share capital to a maximum of Rmb 68,370,000 immediately after the listing of the Company's H shares on the GEM.

On 28 June 2002, 183,700,000 H shares with a par value of Rmb 0.10 each were issued by way of placing at a price of HK\$0.55 per share upon the listing of the Company's shares on the GEM for cash consideration of HK\$101,035,000 (equivalent to approximately Rmb 107,177,000).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

20 SHARE CAPITAL (Continued)

- (d) As at 31 December 2002, the share capital of the Company composed of 219 million domestic shares, 281 million Promoter foreign shares and 183.7 million H shares. The H shares rank pari passu with the domestic shares and Promoter foreign shares in all aspects and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.
- (e) Share options scheme
- At a shareholders' meeting held on 18 June 2001, a share option scheme (the "Scheme") was conditionally approved pursuant to which the Company may grant options to any eligible person (including employees, Directors and shareholders of the Company) to subscribe for H Shares in the Company subject to a maximum of 10% of the issued share capital of the Company from time to time. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of (i) the closing price of the H Shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the H Shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a H share. However, employees who are PRC nationals in Mainland China shall not be entitled to exercise the option until the current restrictions on these persons for subscribing or dealing in H Shares imposed by the laws and regulations in Mainland China have been amended or removed. The Scheme will remain in force for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of Rmb 1.00 or HK\$1.00 is payable on acceptance of the grant of an option. The share options granted under the Scheme may be exercised during the option period of ten years from the date of grant subject to such conditions as the Directors may determine.

The total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted or to be granted under the Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company for the time being.

No options have been granted under the Scheme since its adoption.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

21 RESERVES

	Capital reserve	General reserve	Enterprise develop- ment reserve	Share premium	Statutory common reserve	Statutory public welfare fund	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1st January 2001	234	251	502	-	-	-	21,683	22,670
Dividend declared for the year ended 31 December 2000	-	-	-	-	-	-	(4,412)	(4,412)
Transfer from profit and loss account	-	315	630	-	-	-	(945)	-
Capitalisation as share capital pursuant to the Promoters' Agreement (Note 20(a)(i) and note (c))	(234)	(566)	(1,132)	-	-	-	(15,467)	(17,399)
Issue of shares (Note 20(a)(ii))	-	-	-	21,750	-	-	-	21,750
Distribution of the Excess (Note 7(b))	-	-	-	-	-	-	(17,602)	(17,602)
Profit for the year	-	-	-	-	-	-	33,144	33,144
At 31 December 2001	-	-	-	21,750	-	-	16,401	38,151
Representing:								
2001 Proposed final dividend (Note 7(a))							6,600	
Retained earnings as at 31 December 2001							9,801	
							<u>16,401</u>	

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

21 RESERVES(Continued)

	Capital reserve	General reserve	Enterprise develop- ment reserve	Share premium	Statutory common reserve	Statutory public welfare fund	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2002	-	-	-	21,750	-	-	16,401	38,151
Transfer from profit and loss account (notes (a) and (b))	-	-	-	-	1,637	818	(2,455)	-
Issue of H shares (Note 20(c))	-	-	-	88,807	-	-	-	88,807
Share issue expenses	-	-	-	(23,398)	-	-	-	(23,398)
Final dividend for the year ended 31 December 2001 (Note 7(a))	-	-	-	-	-	-	(6,600)	(6,600)
Special dividend declared on 9 June 2002 (Note 7)	-	-	-	-	-	-	(7,360)	(7,360)
Profit for the year	-	-	-	-	-	-	20,781	20,781
At 31 December 2002	-	-	-	87,159	1,637	818	20,767	110,381

Representing:

2002 Proposed final dividend
(Note 7(a))

8,204

Retained earnings

as at 31 December 2002

12,563

20,767

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

21 RESERVES (Continued)**(a) Statutory common reserve**

According to the Company's Articles of Association, the Company is required to transfer 10% of its profit after tax, as determined in accordance with the PRC accounting rules and regulations, to statutory common reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory common reserve can be used to make good previous years' losses, if any, to expand the business operations of the Company and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital of the Company.

For the year ended 31 December 2002, the Board of Directors proposed the transfer of approximately Rmb 2,077,000 (2001: approximately Rmb 1,637,000) to the statutory common reserve, being 10% of the current year's net profit determined in accordance with the PRC accounting rules and regulations, subject to the shareholder's approval at the coming annual general meeting.

(b) Statutory public welfare fund

According to the Company's Articles of Association, the Company is required to transfer 5% of its profits after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised for the collective benefits of the Company's employees. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

For the year ended 31 December 2002, the Board of Directors proposed the transfer of approximately Rmb 1,039,000 (2001: Rmb 818,000) to the statutory public welfare fund, being 5% of the current year's net profit determined in accordance with the PRC accounting rules and regulations, subject to the shareholders' approval at the coming annual general meeting.

(c) Other reserves

- (i) Capital reserve represents exchange difference arising from the initial capital contribution from the then shareholders upon first establishment of the Company.
- (ii) As set out in the Articles of Association of the Company before the Reorganisation, based on the Directors' discretion, 5-10% of the profit after taxation, as reported in the Company's statutory accounts prepared in accordance with PRC accounting standards, was required to be transferred to each of the general reserve and enterprise development reserve before 18 June 2001.

As detailed in Note 20 (a) (i), the capital reserve, general reserve and enterprise development reserve have been capitalised as the Company's share capital pursuant to the Promoters' Agreement.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

22 NOTES TO CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation to net cash inflow from operating activities**

	2002 Rmb'000	2001 Rmb'000
Profit before taxation	23,586	37,658
Interest income	(310)	(241)
Interest expense	879	579
Depreciation	3,369	2,145
Amortisation of acid patent	667	389
(Write-back of)/provision for doubtful debts	(29)	9
Operating profit before working capital changes	28,162	40,539
Increase in inventories	(9,698)	(7,335)
Decrease/(increase) in accounts receivable, other receivables and prepayments	6,347	(10,420)
(Decrease)/increase in accounts payable, other payables and accrued charges	(1,873)	686
Increase/(decrease) in amounts due to shareholders	879	(2,596)
Net cash inflow generated from operations	23,817	20,874
Interest paid	(879)	(871)
PRC taxation paid	(3,223)	(5,584)
Net cash inflow from operating activities	19,715	14,419

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

22 NOTES TO CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital		Bank loans		Dividends payable	
	including premium					
	2002	2001	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January	71,750	4,601	15,800	15,800	2,133	-
Proceeds from issue						
of Promoter Shares	-	39,750	-	-	-	-
Proceeds from issue of						
H shares	107,177	-	-	-	-	-
Share issue expenses	(23,398)	-	-	-	-	-
New bank loans	-	-	30,000	15,000	-	-
Repayment of						
bank loans	-	-	(25,800)	(15,000)	-	-
2000 final dividend	-	-	-	-	-	4,412
2001 final dividend	-	-	-	-	6,600	-
Special dividend declared						
on 9 June 2002	-	-	-	-	7,360	-
Dividends paid	-	-	-	-	(16,093)	(2,279)
Major non-cash transactions						
- Capitalisation from						
reserves pursuant to the						
Promoters' Agreement	-	17,399	-	-	-	-
- Shares issued for						
acquisition of acid patent	-	10,000	-	-	-	-
Balance at 31 December	155,529	71,750	20,000	15,800	-	2,133

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

23 COMMITMENTS**(a) Capital commitments for property, plant and equipment are as follows:**

	2002 Rmb'000	2001 Rmb'000
Contracted but not provided for	6,330	8,698
Authorised but not contracted for	87,371	5,858
	93,701	14,556

(b) Commitments under operating leases

At 31 December 2002, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2002 Rmb'000	2001 Rmb'000
Not later than one year	422	60
Later than one year and not later than five years	622	240
Later than five years	1,087	2,640
	2,131	2,940

NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

24 RELATED PARTY TRANSACTIONS

Apart from those disclosed under Notes 7, 11, and 17, the Company entered into the following significant transactions in the ordinary course of business with a shareholder, Shuguang Factory, during the year:

	2002 Rmb'000	2001 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	23,764	34,336
Electricity charged by Shuguang Factory (note (b))	2,122	2,404
Raw water supply charged by Shuguang Factory (note (b))	175	–
Rental expenses to Shuguang Factory (note (c))	156	60

- (a) In the opinion of the Directors, the purchases were determined with reference to the then prevailing market prices and the prices charged by Shuguang Factory to third parties.
- (b) The electricity and raw water supply were charged by Shuguang Factory on a cost reimbursement basis.
- (c) Rental expenses to Shuguang Factory were based at fixed fees in accordance with the terms of the lease agreements.

25 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 14 March 2003.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2002 annual general meeting (“AGM”) of Changmao Biochemical Engineering Company Limited (the “Company”) will be held at Marriott Ballroom – Salon 3, 3/F, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on 13 May 2003, at 3:00 p.m. for the following purposes:

As ordinary resolution:

1. To consider and approve the Report of the Directors for the year 2002;
2. To consider and approve the Report of the Supervisory Committee for the year 2002;
3. To consider and approve the audited financial statements of the Company for the year ended 31 December 2002;
4. To consider and approve the final dividend distribution proposal for the year ended 31 December 2002;
5. To consider and approve the appropriation to statutory common reserve and statutory public welfare fund for the year 2002;
6. To consider and approve the remuneration proposals for directors and supervisors of the Company for the year 2003;
7. To consider the re-appointment of PricewaterhouseCoopers as auditors of the Company for the year 2003 and to authorise the directors of the Company to fix their remuneration;
8. To transact any other business.

As special resolution:

1. To consider and approve, subject to and conditional upon approval of and permission to deal with the H shares in the share capital of the Company, which are intended to be issued by the Company, by the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and approval of the resolution by the China Securities Regulatory Committee, a mandate is to be given to the board (“Board”) of Directors:
 - (a) to place and/or issue Domestic Shares, Foreign Shares and/or H shares within a period of twelve months from the date of the resolution provided that the number of Domestic Share, Foreign Shares and/or H shares to be placed and/or issued shall not exceed 20 per cent. of the numbers of Domestic Shares, Foreign Shares and H shares separately then in issue (“20 per cent. limit”);

NOTICE OF ANNUAL GENERAL MEETING

- (b) to decide within the 20 per cent. limit the number of Domestic Shares, Foreign Shares and/or H shares to be placed and/or issued and to deal with matters arising out of and incidental to such placement and/or issue of new shares; and
- (c) to make such necessary amendments to the Articles of Association of the Company to reflect changes in the share capital of the Company arising out of such placement and/or issue of shares, subject to the approval of the examination and approval authority authorised by the State Council of the People's Republic of China;

such mandate to remain in effect for a period of twelve months from the date of passing of the resolution or until revocation or variation of the mandate by a special resolution of the holders of the shares.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 21 March 2003

Notes:

1. The H share register of shareholders of the Company will be closed from 12 April 2003 to 13 May 2003 (both days inclusive), during which time no transfer of H shares will be effected. The holder of Promoters' Shares or H shares whose name appears on the register of members of the Company at 4:00p.m. on 11 April 2003 will be entitled to attend and vote at the AGM.
2. Any holder of Promoters' Shares or H shares entitled to attend and vote at the AGM convened by the above notice is entitled to appoint one or more proxies to attend and vote at the AGM on his behalf. A proxy needs not be a holder of Promoters' Shares or H shares of the Company.
3. A voting proxy form for the AGM is enclosed. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarily certified copy of the power of attorney must be delivered and in the case of Promoters' Shares, to the Company at Room 2202, 22/F, Chekiang First Bank Centre, 1 Duddell Street, Central, Hong Kong, in the case of holders of H shares, to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.
4. Holders of Promoters' Shares and H shares who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it, in the case of Promoters' Shares, to the Company at Room 2202, 22/F, Chekiang First Bank Centre, 1 Duddell Street, Central, Hong Kong, in the case of holders of H shares, to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong on or before 22 April 2003. The reply slip may be delivered by hand, by post or by fax to the number (852) 2865 0990.