

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)



annual
report
2003



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This report, for which the directors of Changmao Biochemical Engineering Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“GEM Listing Rules”) for the purposes of giving information with regard to Changmao Biochemical Engineering Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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 acids 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 70% of the Company’s total turnover.

The core products of the Company are four-carbon series organic acids include fumaric acid, maleic acid, L-malic acid, D-malic acid, DL-malic acid, L(+)-tartaric acid, D(-)-tartaric acid, DL-tartaric acid and L-aspartic acid. The total production capacity of the Company reaches 25,000 tonnes per year. Changmao is a manufacturer specially featured with the four-carbon series organic acids.

The Company persists in pursuing advanced technologies as its production direction and focuses in investment in new technology research and development which combines the production process with theoretical concepts. The Company received numerous awards in relation to production technologies including 技術發明一等獎 (First Prize in Technological Achievement) and 進步二等獎 (Second Prize in Scientific Improvement) in 中國石油化學工業行業 (The Oil Chemical Industry in China). The Company’s major competitive edge is its delicate and advanced production system. Changmao successfully applied the theoretical concepts of enzyme technology and chiral technology in its highly efficient and cost effective production process. The Company has a research and development base, the Jiangsu Biochemical Chirotechnology Research Centre (the “Chirotechnology Centre”), to research on new products and new production technologies. The Company believes its strong ability in research and development would enable the Company continues to grow.



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Rui Xin Sheng
Mr. Jiang Jun Jie

NON-EXECUTIVE DIRECTORS

Mr. Zeng Xian 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

Ms. Zhou Rui Juan
Mr. Lu He Xing

SUPERVISOR NOMINATED BY EMPLOYEES

Mr. Pan Chun

INDEPENDENT SUPERVISORS NOMINATED BY SHAREHOLDERS

Prof. Gu Jian Xin
Prof. Qian Shu Fa

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

Mr. Rui Xin Sheng

QUALIFIED ACCOUNTANT

Ms. Wan, Pui Ling Alice (FCCA, 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 54, 5/F, New Henry House
10 Ice House 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 2003.

BUSINESS REVIEW

The Company's development in 2003 is remarkable as it was the first year after the Company's listing on GEM. The Company has utilised the proceeds from the listing to increase investment in production, operation, marketing and promotion as well as research and development, which enhances the Company's development in all dimensions and raised the overall competitiveness of the Company. The results of the Company in different dimensions were satisfactory in 2003.



Production and sales

The sales of the Company in 2003 recorded an encouraging growth. Total sales for the year ended 31 December 2003 reached Rmb144,632,000, representing a growth of 49% as compared to the previous year.

Through the hard work of Changmao's staff, the fumaric acid production line with an annual production capacity of 10,000 tonnes has been smoothly operated since June 2003. The fumaric acid produced by this new production line is an end-product for sale as well as a raw material for the Company's other products. This new production line reduced the manufacturing costs and enhanced the product quality. In addition, the heat energy produced during the production process can be reused and therefore reduced the Company's energy consumption cost, which enhances the Company's overall competitiveness. The Company has started the construction of another



CHAIRMAN'S STATEMENT

fumaric acid production line with an annual capacity of 10,000 tonnes in 2004 thereby expanding the total annual production capacity of the Company's fumaric acid production line to 20,000 tonnes. The new production line will further enhance the Company's competitiveness and enable the Company to become one of the largest fumaric acid producers in Asia.

L(+)-tartaric acid is an important product of the Company. The market of L(+)-tartaric acid has been stabilised since the fierce competition and decline in selling price in 2002. Through the work of its highly capable and efficient research and development team, the Company has continuously improved its production technology of L(+)-tartaric acid and successfully increased the production capacity of L(+)-tartaric acid from 2,500 tonnes to 5,000 tonnes per year. As a result of the increase in production volume, the sales volume of L(+)-tartaric acid has increased by approximately 130% as compared to the previous year. In addition, according to the information of the Custom Office of the PRC, the L(+)-tartaric acid exported by Changmao accounted for approximately 70% of the L(+)-tartaric acid exported by the PRC in 2003. Changmao became the largest producer and exporter of L(+)-tartaric acid in the PRC.



The Company's new product, DL-tartaric acid, was put into commercialised production in 2003 and contributed a satisfactory return to the Company. With the increase in the Company's production capacity, the sales volume of the Company's other major products, including L-malic acid, DL-malic acid and L-aspartic acid, has increased over 30% on average as compared to last year.

Research and development

The Chirotechnology Centre is the research and development base of the Company. It endeavours to research on technologies to produce products that have high market potentials.

In 2003, the Company has successfully completed the medium scale research of aspartame and L-phenylalanine. There were breakthroughs in the research of these two products, for example, the concentration of fermentation has increased to 4.0% for L-phenylalanine and the raw material consumption on production of aspartame is at a leading standard in China. The product quality

CHAIRMAN'S STATEMENT

satisfies the international standards such as the United States Pharmacopoeia 24 and British Pharmacopoeia 98, indicating that such production technologies are at internationally recognised state-of-the-art standard. The Company is preparing for the construction of commercialised production lines for these two products.

For enzyme technology, the Company has completed the "Break-through Research Project" of the Jiangsu Province on D-series amino acid with satisfactory results.

For chiral synthesis, the Company has used its "four-carbon" series organic acids as chiral raw materials, developed technologies to produce some chiral resolution agents and chiral chemical agents. Some of the samples of these products have been sold to Germany, the United States and India, etc. The Company also started cooperation with large pharmaceutical manufacturers on technological research, to develop chiral pharmaceutical intermediaries which have high market potential.



In addition, the Company has developed production technologies on R-homo-phenylalanine and butanetetracarboxylic anhydride. The laboratory scale research has been completed and the Company is preparing for their medium scale research.

PROSPECTS

In the last year, through the integration of resources and improvement of operating efficiency, the Company's competitiveness was enhanced.

For production expansion, the Company started the construction of the second phase production premises on a parcel of land of approximately 70,000 square metres. The groundwork has been completed and the construction of factory buildings is underway. The Company planned to commercialise the production of L-phenylalanine and aspartame and construct production lines for these products on the second phase of the Company's production premises. L-phenylalanine is an important pharmaceutical, food and chemical intermediary. It is an essential raw material for the synthesis of aspartame. Aspartame is a highly effective and safe nutritious sweetener with low

CHAIRMAN'S STATEMENT

calories. It is 200 times sweeter than sugarcane. It is a major sweetener in the world and widely used in Europe and America. It has been approved to be used in over 100 countries and regions and in over 6,000 drinks, food and medical products. The Company started the research on production technology of aspartame and its raw material, L-phenylalanine, at the same time. A vertical production chain: "fumaric acid – L-aspartic acid – L-phenylalanine – aspartame" is formed, which enhances the Company's product mix. The Company has currently obtained satisfactory results on the medium scale research of the production technologies on L-phenylalanine and aspartame. The construction of production line is underway and expected to be completed and operate in 2004. These products will also be launched to the market in 2004. Changmao expected that these two products will bring sales growth and return to the Company.

In addition, the Company aims at expanding its production and keeping up its high product quality. The fumaric acid production line will be increased from its current annual capacity of 10,000 tonnes to 20,000 tonnes. The Company will also increase the production capacity of DL-tartartic acid and upgrade its quality. These plans would help the growth of the Company's four-carbon series organic acid in terms of production volume and sales volume.

For marketing and promotion, the Company will continue to participate in trade fairs in overseas and the PRC, actively negotiate with overseas customers to explore new marketing channels and promote the Company's brand name. The Company strives the establishment of an effective sales team. It has formulated a new remuneration scheme to motivate the sales staff and provide tailor-made training programmes to them with an aim to build up a highly professional sales team to achieve new heights of the Company's sales.

Changmao believes that through the continuous effort of its calibre staff, the Company is able to achieve its goals and continue to grow.

Rui Xin Sheng
Chairman

The PRC, 18 March 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Company recorded a turnover of Rmb144,632,000 for the year ended 31 December 2003, represented a 49% increase compared to the year ended 31 December 2002. This increase was mainly contributed by the increase in sales of L(+)-tartaric acid, L-malic acid, DL-malic acid and L-aspartic acid. The sales volume of L(+)-tartaric acid increased by approximately 130% as compared to last year while the sales volume of L-malic acid, DL-malic acid and L-aspartic acid has increased over 30% on average as compared to last year.

Gross profit margin

The gross profit margin for the year ended 31 December 2003 was 28%, as compared to the 37% recorded for 2002. The decrease was mainly caused by the increase in the cost of raw materials, which are sub-products derived from oil refining process and thus affected by the increase in oil price.

Expenses

Due to the continuous growth of business and production volume, this year the Company recruited new staff, increased scale of the Company's research and development, and devoted more effort to marketing and promotion. As a result, selling and administrative expenses for the year ended 31 December 2003 increased by approximately Rmb4,872,000 compared to last year.

SEGMENTAL INFORMATION

Most of the Company's products are exported to Western Europe, Australia and Japan. During the year ended 31 December 2003, export sales (excluding sales through import-export agents in the PRC) increased by approximately 44% as compared to last year. As expressed as a percentage of turnover, direct export sales (excluding sales through import-export agents in the PRC) accounted for approximately 51% (for the year ended 31 December 2002: 54%) of the Company's turnover while sales through import-export agents in the PRC accounted for approximately 17% (for the year ended 31 December 2002: 22%) of the Company's turnover. The percentage of sales through import-export agents to total turnover decreased as compared to 2002 mainly because domestic sales increased by a greater extent than that of the sales through import-export agents which is caused by the increase in domestic sales of L(+)-tartaric acid as certain L(+)-tartaric acid producers in the PRC ceased their production of L(+)-tartaric acid in late 2002 as well as the launch of a mainly domestically sold new product, DL-tartaric acid, by the Company in 2003.



MANAGEMENT DISCUSSION AND ANALYSIS

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. Over 95% 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 to limit exposure to adverse fluctuations in the US dollar. Changmao will constantly review the situation and, if appropriate, carry out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Company had total outstanding bank borrowings of Rmb20 million (as at 31 December 2002: Rmb20 million), all of which were unsecured short-term bank borrowings. The interest rate of the outstanding bank loans is approximately 5% per annum.

Except for the bank borrowings disclosed above, as at 31 December 2003 and 2002, the Company did not have any committed borrowing facilities.

As at 31 December 2003, the Company had capital commitments for property, plant and equipment amounting to approximately Rmb37 million, of which approximately Rmb5 million has been contracted for. The remaining balance of approximately Rmb32 million are authorised but not contracted for. These capital commitments are mainly related to the expansion of production lines or establishment of new production lines for the Company's proposed new products from 1 January 2004 to 31 December 2004 as set out in the section headed "Statement of business objectives" in the prospectus issued by the Company in June 2002 (the "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 2003 and 2002. The gearing ratio (calculated based on total liabilities divided by total assets) was 18% and 23% as at 31 December 2003 and 31 December 2002 respectively. As at 31 December 2003, the Company's cash and cash equivalent amounted to Rmb43,360,000 (2002: Rmb76,808,000). 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.

The Company 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

Including the Directors, as at 31 December 2003, the Company employed a total of 307 employees (2002: 239 employees). Total amount of staff costs for the year ended 31 December 2003 was approximately Rmb11,533,000 (2002: Rmb10,128,000). 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 2003 is lower than the Target Profit, no incentive bonus has been paid for the year ended 31 December 2003.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Company as at 31 December 2003 and 2002.

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 are no acquisitions and disposals of subsidiaries and affiliated companies by the Company during the year ended 31 December 2003 and 2002.

CONTINGENT LIABILITIES

As at 31 December 2003 and 2002, the Company did not have any material contingent liabilities.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Rui Xin Sheng (芮新生), aged 47, is the Chairman of the Board, the general manager and the compliance officer of the Company. He is a senior engineer of the Company. 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. He is the member of the Committee of Biochemical Engineering of the Chemical Industry and Engineering Society of China, the deputy managing director of 中國生物化工協會 (The Association of Biochemistry of China), the deputy managing director of Jiangsu Commission of Biotechnology and a part-time professor at NanJing University of Technology. Owing to his significant achievement in the field of biochemistry, Mr. Rui received numerous awards including 常州市技術改造一等獎 (The First Class Award of Scientific Development and Technology Improvement in Changzhou) and 常州市科技進步二等獎 (The Second Prize of Changzhou City Scientific and Technological Achievement) in 1997. The concurrent production technology for the production of fumaric acid and malic acid (the “Concurrent Production Technology”) invented by Mr. Rui, Ms Leng Yi Xin and Mr. Jiang Jun Jie obtained patent in 1998. Other awards obtained by Mr. Rui include 常州市第四屆傑出科技人員 (The Fourth Annual Excellent Scientists of Changzhou City) in 1999, DuPont Innovation Award and 江蘇省有突出貢獻的中青年專家 (Youth Expert with Excellent Contribution in Jiangsu Province) in 2000, 國家科技進步一等獎 (The First Class Award of State Technological Achievement) in 2001, 江蘇省創新創業人材獎 (Innovative Entrepreneur of Jiangsu Province) and 中國石油化學工業行業科技進步二等獎 (The Second Class Award of Oil Chemical Industry Technological Achievement in the PRC) in 2003.

Mr. Jiang Jun Jie (蔣俊杰), aged 37, is an executive Director and deputy general manager 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, 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Non-executive Directors

Mr. Zeng Xian Biao (曾憲彪), aged 61, 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 53, 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 48, 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 61, 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Non-executive Directors (Continued)

Mr. Leng Yi Xin (冷一欣), aged 42, 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, Mr. 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 58, 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 academican 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 63, 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 academican 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Supervisors Nominated by Shareholders

Ms. Zhou Rui Juan (周瑞娟), aged 49, 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. Lu He Xing (陸和興), aged 59, is a supervisor of the Company (the "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.

Supervisor Nominated by Employees

Mr. Pan Chun (潘春), aged 34, is a 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.

Independent Supervisors Nominated by Shareholders

Professor Gu Jian Xin (顧建新), aged 46, 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 , 4-galactosyl-transferase in 1998. Prof. Gu was appointed as an independent Supervisor in June 2001.

Professor Qian Shu Fa (錢書法), aged 48, 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.

PROFILE 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 32, is the financial controller, qualified accountant and company secretary of the Company. She has over nine 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 fellow member of the Association of Chartered Certified Accountants. Ms. Wan joined the Company in June 2001.

Ms. Ge Qin Ying (葛琴英), aged 54, 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 35, 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-malic 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. Lu A Xing (陸阿興), aged 35, 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 over 15 years' experience in sales and marketing. Mr. Lu joined the Company in January 1993.

Ms. Chang Yu Hong (常育紅), aged 30, is a manager of the business 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 FOR THE YEAR ENDED 31 DECEMBER 2003
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1. **Research and development**

Fine chemical technology

- | | |
|---|---|
| <ul style="list-style-type: none"> - Research on the function and selectivity of catalytic reaction solution during fine chemical reaction process | <ul style="list-style-type: none"> - Increased the conversion rate and selectivity in fine chemical reaction process of certain products. The Company will continue to research on this area |
| <ul style="list-style-type: none"> - Research on new methodology and technique in the area of fine chemical technology | <ul style="list-style-type: none"> - Continued to research on new methodology and technique in the area of fine chemical technology |

Immobilised enzyme technology

- | | |
|--|---|
| <ul style="list-style-type: none"> - Research on applying the immobilised enzyme technology in the manufacture of new chiral products | <ul style="list-style-type: none"> - Through the research in this area, the Company increase the activity of the enzyme by 10% |
|--|---|

Simultaneous reaction and separation technology

- | | |
|---|--|
| <ul style="list-style-type: none"> - 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 | <ul style="list-style-type: none"> - The research was completed in 2002 |
| <ul style="list-style-type: none"> - Research on applying the simultaneous reaction and separation technology in the production of other chiral organic acid products | <ul style="list-style-type: none"> - Successfully applied this technology in the production of other products |
| <ul style="list-style-type: none"> - Research on integrated technology of simultaneous reaction and separation technology and biotechnology thereby enhancing its existing biotechnology | <ul style="list-style-type: none"> - Continued to research on integrated technology of simultaneous reaction and separation technology and biotechnology thereby enhancing its existing biotechnology |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003

Enzyme technology

- Research to enhance enzyme technology so as to better support immobilised enzyme technology and simultaneous reaction and separation technology
- The Company has successfully applied new enzyme technology in the production of L(+)-tartaric acid and smoothly increased its annual production capacity from 2,500 tonnes to 5,000 tonnes. The Company will continue to 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
- The Company has commenced research on certain chiral derivative products, including bio-calcium, aspartame, dimethyl maleate and butanetetracarboxylic anhydride

Chiral resolution

- Research on racemization after the process of chemical resolution thereby increasing resolution rate
- Successfully applied this technology in the chiral resolution of D(-)-tartaric acid, D-aspartic acid and D-malic acid with satisfactory results

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.)
- As the research institute underwent a corporate restructuring, the project was suspended
- Research on D(-)-p-hydroxyphenylglycine with 南京工業大學 (Nanjing University of Technology)
- The research subject has been changed to D-series amino acid, which is expected to have better marketability and higher commercial value. The D-series 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 of D-series amino acid has been completed and is currently under medium scale research

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003

Chirotechnology Centre

- | | |
|--|---|
| <ul style="list-style-type: none"> - Establishment of a trial production line including establishment of production facility and purchase of trial production equipment | <ul style="list-style-type: none"> - Established a trail production line for aspartame |
| <ul style="list-style-type: none"> - Continue to purchase advanced foreign equipment and testing equipment for laboratories to accelerate the progress of research | <ul style="list-style-type: none"> - Purchased some advanced foreign experiment and testing equipment for the laboratories such as fermentation equipment for research on enzyme technology, gas chromatic graphic column, liquid chromatic graphic column, digital titrator and computer control system for medium scale research |
| <ul style="list-style-type: none"> - Establishment of post-doctorate programme station | <ul style="list-style-type: none"> - Approval of the programme from the relevant government department was obtained at the end of 2003, the programme is therefore postponed to commence in 2004 |

2. Product development

- | | |
|--|---|
| <ul style="list-style-type: none"> - Continue laboratory scale research, medium scale research and commence trail production of aspartame | <ul style="list-style-type: none"> - Completed laboratory scale research and medium scale research of aspartame in first half of 2003 and commenced trail production in second half of 2003 with satisfactory product quality. Production will be commercialised in 2004 |
| <ul style="list-style-type: none"> - Commence medium scale research and trial production of aweto | <ul style="list-style-type: none"> - The research was planned to be jointly done by the Company and another research institute. As the research institute underwent a corporate restructuring, the project was suspended |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003
<ul style="list-style-type: none"> - Complete medium scale research of D(-)-p-hydroxy-phenylglycine 	<ul style="list-style-type: none"> - The research subject has been changed to D-series amino acid which is expected to have better marketability and higher commercial value. The D-series amino acid is a Major Breakthrough Project of the Ten Five-year Province Plan (省“十五”科技攻关项目). The laboratory scale research of which has been completed and is currently under medium scale research
<ul style="list-style-type: none"> - Complete medium scale research on D-ananine and D-phenylalanine 	<ul style="list-style-type: none"> - Medium scale research on D-ananine and D-phenylalanine is underway and the Company will conduct trial production of these two products in 2004
3. Production expansion	
<ul style="list-style-type: none"> - Establish a 50 tonnes/year production line for pyruvic acid 	<ul style="list-style-type: none"> - The research subject has been changed to the environmental-friendly durable press finishing agent for clothings, BTCA (butanetetracarboxylic acid), which is expected to have a better marketability. A production line with production capacity of 500 tonnes/year has been established in 2002
<ul style="list-style-type: none"> - Increase production capacity of L-carnitine to 250 tonnes/year 	<ul style="list-style-type: none"> - Production capacity of L-carnitine is increased to 50 tonnes/year in the first half of 2003. As the production line has not been fully utilised, the capacity expansion plan of L-carnitine is therefore suspended
<ul style="list-style-type: none"> - Increase annual production capacity of D(-)-tartaric acid to 120 tonnes 	<ul style="list-style-type: none"> - Increased annual production capacity of D(-)-tartaric acid to 120 tonnes
<ul style="list-style-type: none"> - Establish a 500 tonnes/year production line for glyoxalic acid 	<ul style="list-style-type: none"> - The establishment of production line for glyoxalic acid has been suspended until there is further progress on the research on the production technology

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003
– Increase annual production capacity of L-homo-phenylalanine to 10 tonnes	– Increased annual production capacity of L-homo-phenylalanine to 10 tonnes
– Increase annual production capacity of maleic acid to 2,000 tonnes	– Increased annual production capacity of maleic acid to 2,000 tonnes
– Establish a 10 tonnes/year production line for D(-)-p-hydroxy-phenylglycine	– The research subject has been changed to D-series amino acid, which is expected to have better marketability and higher commercial value. The D-series amino acid is a Major Breakthrough Project of the Ten Five-year Province Plan (省“十五”科技攻关项目). The laboratory scale research of D-series amino acid has been completed and is under medium scale research
– Increase annual production capacity of L-aspartic acid to 10,000 tonnes	– The increase in annual production capacity of L-aspartic acid (an end product for sale as well as a raw material of aspartame) to 10,000 tonnes will be postponed to cope with the launch of aspartame in 2004
– Increase annual production capacity of D-malic acid to 50 tonnes	– Increased annual production capacity of D-malic acid to 50 tonnes
– Establish a 50 tonnes/year production line for calcium propionate	– Due to the change in market demand and calcium propionate is no longer a commercially justified product to produce in the view of the Directors, the research subject has been changed from calcium propionate to other types of bio-calcium and its laboratory scale research has been completed
– Establish a 10,000 tonnes/year production line for fumaric acid (including production line for crude maleic anhydride)	– The construction of the 10,000 tonnes/ year production line for fumaric acid was completed in April 2003

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003

(Note: The construction of the fumaric production line was scheduled to be completed in 2002. Due to the longer-than-expected time required to obtain approval for construction of the production premises, part of the payment of construction cost which was planned to be paid for this production line in 2002 was postponed to the year 2003.)

- | | |
|--|---|
| <ul style="list-style-type: none"> - Establish a 250 tonnes/year production line for aspartame | <ul style="list-style-type: none"> - The establishment of production line for aspartame is underway and expected to be completed in 2004 |
| <ul style="list-style-type: none"> - Establish a 10 tonnes/year production line for aweto | <ul style="list-style-type: none"> - The research was planned to be jointly done by the Company and another research institute. As the research institute underwent a corporate restructuring, the project was suspended |
| <ul style="list-style-type: none"> - Increase annual production capacity of L(+)-tartaric acid to 5,000 tonnes/year | <ul style="list-style-type: none"> - Increased the annual production capacity of L(+)-tartaric acid to 5,000 tonnes/year |
| <ul style="list-style-type: none"> - Increase annual production capacity of DL-malic acid to 5,000 tonnes/year | <ul style="list-style-type: none"> - The expansion of the DL-malic acid production line is underway and expected to be completed in 2004 |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003

4. Marketing

- | | |
|--|--|
| <ul style="list-style-type: none"> - Participate in 中國國際化工展 (China International Chemical Fair) | <ul style="list-style-type: none"> - Participated in various food additive trade fairs and chemical fairs in 2003 |
| <ul style="list-style-type: none"> - Participate in 中國出口商品交易會 (Chinese Export Commodities Fair) to be held every half year | <ul style="list-style-type: none"> - Participated in 中國出口商品交易會 (Chinese Export Commodities Fair) in April 2003 |
| <ul style="list-style-type: none"> - 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) | <ul style="list-style-type: none"> - 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) |
| <ul style="list-style-type: none"> - Organise sales staff to visit specialised export companies and explore potential markets | <ul style="list-style-type: none"> - Visited various specialised export companies and explore potential markets |
| <ul style="list-style-type: none"> - 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 | <ul style="list-style-type: none"> - 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 |
| <ul style="list-style-type: none"> - Participate in international product show | <ul style="list-style-type: none"> - Due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), the Company has not participated in any international product shows in the first half of 2003. In the second half of 2003, the Company participated in a food additive show in France |
| <ul style="list-style-type: none"> - Visit major foreign customers and explore new international markets | <ul style="list-style-type: none"> - Due to the outbreak SARS, the Company has not visited its foreign customers in the first half of 2003. In the second half of 2003, the Company visited its customers in Germany and Holland |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003

5. Deployment of human resources

- Carrying out the following plan for human resources:

	Number of staff
Research and development	40
Production	241
Quality control	15
Sales and marketing	15
Management and general administration	35
	346
	346

- As at 31 December 2003, number of staff is as follows:

	Number of staff
Research and development	34
Production (Note 1)	201
Quality control	20
Sales and marketing	23
Management and general administration	29
	307
	307

6. International production quality standard

- | | |
|--|--|
| <ul style="list-style-type: none"> – Obtain British Pharmacopoeia for L-carnitine (Note 2) | <ul style="list-style-type: none"> – Application for British Pharmacopoeia for L-carnitine will be made when production volume is up to a commercial scale |
| <ul style="list-style-type: none"> – 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 3) for glyoxalic acid | <ul style="list-style-type: none"> – Corporate standard will be submitted for CSBTS' review for glyoxalic acid when production volume is up to a commercial scale |
| <ul style="list-style-type: none"> – Set corporate standard and submit for CSBTS' review (Note 3) for S-3-hydroxy-γ-butyrolactone | <ul style="list-style-type: none"> – Corporate standard will be submitted for CSBTS' review for S-3-hydroxy-γ-butyrolactone when production volume is up to a commercial scale |
| <ul style="list-style-type: none"> – Set corporate standard and submit for CSBTS' review (Note 3) for D(-)-p-hydroxy-phenylglycine, aweto and calcium propionate | <ul style="list-style-type: none"> – As the research on these subjects has been suspended, the Company has not submitted the corporate standard of D(-)-p-hydroxy-phenylglycine, aweto and calcium propionate for CSBTS' review |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVE AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2003

7. Permits

- | | |
|---|---|
| <ul style="list-style-type: none"> – Renew 衛生許可証 (Hygiene Permits) for L(+)-tartaric acid, fumaric acid, L-malic acid, DL-malic acid and L-aspartic acid | <ul style="list-style-type: none"> – Renewed 衛生許可証 (Hygiene Permits) for L(+)-tartaric acid, fumaric acid, L-malic acid, DL-malic acid and L-aspartic acid in June 2003 |
| <ul style="list-style-type: none"> – Obtain 衛生許可証 (Hygiene Permits) for L-carnitine | <ul style="list-style-type: none"> – Hygiene permit will be obtained when production volume is up to a commercial scale |
| <ul style="list-style-type: none"> – Obtain 衛生許可証 (Hygiene Permits) for aweto and calcium propionate | <ul style="list-style-type: none"> – The research on these products has been suspended, therefore the Company has not obtained hygiene permits for them |
| <ul style="list-style-type: none"> – Renew 食品產品衛生審查批件(Food Product Hygiene Inspection Certificates) for L(+)-tartaric acid, fumaric acid, L-malic acid and DL-malic acid | <ul style="list-style-type: none"> – The 食品產品衛生審查批件 (Food Product Hygiene Inspection Certificates) for L(+)-tartaric acid, fumaric acid, L-malic acid and DL-malic acid have not been expired. The Company will renew these certificates in April 2004 |

Notes:

1. Due to the highly automated production process of the Company and the improvement in the production technologies, the production staff actually required was less than budgeted.
2. British Pharmacopoeia refers to a book prepared and updated from time to time by the British Pharmacopoeia Commission that was established under Section 4 of the Medicines Act 1968 of England, which sets out the objective, public standards of quality for medicines and their components, which standards are legally enforceable in the United Kingdom.
3. Given the products are new to the market and there is currently no adaptable product quality standard internationally and locally, the Company will help set 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 2003.

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 45.

The Directors recommend the payment of a final dividend of Rmb0.012 per share, totalling Rmb 8,204,400.

RESERVES

Movements in the reserves of the Company during the year are set out in Note 20 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 19 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the distributable reserves of the Company were approximately Rmb27,054,000 (2002: 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 four financial years as extracted from the audited financial statements. This summary does not form part of the audited financial statements.

	Year ended 31 December			
	2003 Rmb'000	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000
Turnover	144,632	96,769	117,213	72,959
Profit before taxation	22,791	23,586	37,658	22,498
Taxation	(1,861)	(2,805)	(4,514)	(2,839)
Profit attributable to shareholders	20,930	20,781	33,144	19,659
	As at 31 December			
	2003 Rmb'000	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000
Total assets	234,849	231,005	138,671	58,706
Total liabilities	43,372	52,254	50,520	31,435
Net assets	191,477	178,751	88,151	27,271

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not purchased, sold or redeemed any of its listed securities for the year ended 31 December 2003.

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 option 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 the PRC have been amended or removed.

As at 31 December 2003, no options have been granted by the Company to any of its employees, Directors or Supervisors.

REPORT OF THE DIRECTORS

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. Zeng Xian 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

Ms. Zhou Rui Juan

Mr. Lu He Xing

Supervisor nominated by employees

Mr. Pan Chun

Independent supervisors nominated by shareholders

Prof. Gu Jian Xin

Prof. Qian Shu Fa

In accordance with Article 97, 116 and 117 of the Company's Articles of Association, Directors and Supervisors nominated by shareholders shall be elected at the shareholders' general meeting for a term of three years. Supervisor who is a representative of employees shall be elected by the employees of the Company 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 which will be expired on 17 June 2004. The service contracts will be renewed for a period of three years subject to the approval of the forth coming annual general meeting of the Company.

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 AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2003, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

		Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
<i>Director</i>					
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian (Note (a))	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	1.14%	135,000,000	48.04%
Mr. Jiang Jun Jie	Interest of controlled corporation (Note (c))	–	–	67,500,000	24.02%
Mr. Zeng Xian Biao	(Note (d))	–	–	(Note (d))	(Note (d))

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

Long positions in shares:

	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
<i>Director</i>					
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	-	-	66,000,000	23.49%
Mr. Zhu Lai Fa	(Note (f))	-	-	(Note (f))	(Note (f))
Prof. Ouyang Ping Kai	(Note (g))	-	-	(Note (g))	(Note (g))
Prof. Yang Sheng Li	(Note (h))	-	-	(Note (h))	(Note (h))
<i>Supervisor</i>					
Ms. Zhou Rui Juan	(Note (i))	-	-	(Note (i))	(Note (i))
Mr. Pan Chun	(Note (j))	-	-	(Note (j))	(Note (j))
Mr. Lu He Xing	(Note (k))	-	-	(Note (k))	(Note (k))
Prof. Gu Jian Xin	(Note (l))	-	-	(Note (l))	(Note (l))

Notes:

- (a) The 135,000,000 promoter foreign shares of the Company ("Promoter Foreign Shares") are held by Hong Kong Xinsheng Pioneer Investment Company Limited ("HK Xinsheng Ltd") and the 2,500,000 domestic shares of the Company ("Domestic Shares") are held by 常州新生化科技開發有限公司 ("Changzhou Xinsheng"). The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

- (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 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (a) above.
- (c) Mr. Jiang is the registered holder and beneficial owner of 2,600,000 shares of HK\$0.01 each in Hong Kong Bio-chemical Advanced Technology Investment Company Limited ("HK Biochem Ltd"), which is the registered holder and beneficial owner of 67,500,000 Promoter Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Jiang is also the registered holder and beneficial owner of 15,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (d) Mr. Zeng is the registered holder and beneficial owner of 880,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Promoter Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.
- (h) 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 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES 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 Promoter Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK\$0.01 each.
- (j) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. He is also the registered holder and beneficial owner of 200,000 shares of HK\$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Promoter Foreign 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 Promoter Foreign 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 Promoter Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each.

Save as disclosed above, as at 31 December 2003, none of the Directors, Supervisors or chief executives have interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

Other than the Scheme described 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.

REPORT OF THE DIRECTORS

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31 December 2003, the following, not being a Director or Supervisor, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
常州曙光化工廠 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	–	–
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	–	–	135,000,000	48.04%
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	–	–	67,500,000	24.02%
Jomo Limited	Beneficial owner	–	–	66,000,000	23.49%
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	–	–	66,000,000 (Note (a))	23.49%
上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited)	Beneficial owner	50,000,000	22.83%	–	–
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	50,000,000 (Note (b))	22.83%	–	–

REPORT OF THE DIRECTORS

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS (Continued)

Long positions in shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
上海博聯科技投資有限公司 (Shanghai Bolian Technology Investment Company Limited)	Beneficial owner	12,500,000	5.71%	–	–
福州飛越集團有限公司 (Fuzhou Fei Yue Group Company Limited)	Interest of controlled corporation	12,500,000 (Note (c))	5.71%	–	–
Mr. Zhang Pei Guang	Interest of controlled corporation	12,500,000 (Note (d))	5.71%	–	–
Mr. Zhang Ming	Interest of controlled corporation	12,500,000 (Note (e))	5.71%	–	–

Notes:

- (a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign Shares.
- (b) Shanghai Technology Investment Company is the beneficial owner of 49% of the issued share capital of Shanghai Technology Investment Company Limited, which is the registered holder and beneficial owner of 50,000,000 Domestic Shares.
- (c) Fuzhou Fei Yue Group Company Limited is the beneficial owner of 67% of the registered capital of Shanghai Bolian Technology Investment Company Limited, which is the registered holder and beneficial owner of 12,500,000 Domestic Shares.

REPORT OF THE DIRECTORS

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS (Continued)

- (d) Mr. Zhang Pei Guang is the beneficial owner of 60% of the registered capital of Fuzhou Fei Yue Group Company Limited, which is the beneficial owner of 67% of the registered capital of Shanghai Bolian Technology Investment Company Limited. Shanghai Bolian Technology Investment Company Limited is the registered holder and beneficial owner of 12,500,000 Domestic Shares.
- (e) Mr. Zhang Ming is the beneficial owner of 40% of the registered capital of Fuzhou Fei Yue Group Company Limited, which is the beneficial owner of 67% of the registered capital of Shanghai Bolian Technology Investment Company Limited. Shanghai Bolian Technology Investment Company Limited is the registered holder and beneficial owner of 12,500,000 Domestic Shares.

Save as disclosed above, as at 31 December 2003, the Directors are not aware of any person, not being a Director or Supervisor, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

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 GEM Listing Rules) has an interest in a business which competes with the business of the Company.

REPORT OF THE DIRECTORS

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

	2003	2002
– the largest supplier	18%	36%
– five largest suppliers combined	44%	59%

Sales

– the largest customer	14%	18%
– five largest customers combined	43%	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"):

	2003 Rmb'000	2002 Rmb'000
Purchases of raw materials from Shuguang Factory (Note (a))	15,799	23,764
Electricity charged by Shuguang Factory (Note (b))	1,845	2,122
Raw water supply fee charged by Shuguang Factory (Note (c))	268	175
Rental paid to Shuguang Factory (Note (d))	186	156

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, Rmb5,611 per annum; and (ii) in respect of the period from 1 April 2002 to 12 June 2050, Rmb25,611 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 Rmb160,000.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

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, the Company should continue with the agreements for these connected transactions and 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;
- (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.

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.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2003, 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
	<hr/>
	683,700,000
	<hr/>

Notes:

- (a) Overseas listed foreign shares in the capital of the Company, with a Rmb-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 Rmb-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 Rmb-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 2003.

SPONSOR'S INTEREST

As at 31 December 2003, Prosper 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.

REPORT OF THE DIRECTORS

SPONSOR'S INTEREST (Continued)

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 2003.

USE OF PROCEEDS FROM THE PLACING

The net proceeds from the issue of H shares, after deduction of related expenses, amounted to approximately HK\$79 million (equivalent to approximately Rmb84 million). HK\$4 million of the net proceeds was planned to be used as working capital of the Company. The remaining net proceeds of approximately HK\$75 million (equivalent to approximately Rmb80 million) was planned to be applied to achieve the business objectives as set out in the Prospectus, of which an amount of approximately HK\$33.7 million has been applied for the year ended 31 December 2003, as follows:

	Proposed HK\$ million	Actual HK\$ million
Construction of the new production plants and establishment of new production lines (Note 1)	5.0	26.5
Product development (Note 2)	2.3	1.1
Upgrading research equipment of the Chirotechnology Centre (Note 2)	5.2	2.0
Technology research and development	1.5	1.3
Marketing and promotion activities and setting up of representative offices (Note 2)	2.0	1.0
Recruitment of additional technical and management staff and staff training	2.0	1.8
Comparison of business objective with actual business progress	18.0	33.7

Notes:

- As stated in the Prospectus, the additional net proceeds from the exercise of the over-allotment option in relation to the placing of H shares of the Company (the "Placing"), amounting to approximately HK\$5.0 million, was intended to be used to finance the establishment of new production lines. The Board had decided to utilise this amount in 2003 to finance the establishment of new production lines.

The construction of the fumaric acid production line was scheduled to be completed in 2002. Due to the longer-than-expected time required to obtain approval for construction of the production premises, the completion of this production line was postponed to April 2003. As a result, the utilisation of the net proceeds amounting to HK\$13.1 million from the Placing for the construction of this production line was also postponed to 2003. In addition, the Board has approved, for the best interest of the Company, to reallocate part of the net proceeds originally planned for using in other areas to finance the construction of new production plants and establishment of new production lines in order to meet the increasing demand of the Company's products. The Board considered that the actual utilisation level on other areas including product development, research and development as well as marketing and promotion was at a optimal level and it was not necessary to increase investment in these areas to the budgeted amounts as stated in the Prospectus.

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM THE PLACING (Continued)

2. The Company has implemented cost control measures which have resulted in the actual costs incurred to implement the Company's business objectives being lower than that stated in the Prospectus. Furthermore, the schedules to carry out certain business as stated in the business objective have been postponed. As a result, the Company has utilised less proceeds from the Placing as planned.

The proceeds from the Placing which has not been utilised as at 31 December 2003 amounted to HK\$20.5 million and is currently placed in the PRC's banks. The amount will be continue to be used in establishment of new production lines, product development, upgrading research equipment of the Chirotechnology Centre, technology research and development, marketing and promotion activities and setting up of representative offices, recruitment of additional technical and management staff and staff training.

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.

The audit committee has met four times in 2003, reviewing with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the audited annual results for the year ended 31 December 2003 with the Directors.

AUDITORS

The accounts 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, 18 March 2004

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2003, 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 2003, 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, 18 March 2004.

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 45 to 71 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 Company's state of affairs as at 31 December 2003 and of its 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, 18 March 2004

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	Note	2003 Rmb'000	2002 Rmb'000
Turnover	3	144,632	96,769
Cost of sales		(103,735)	(60,654)
Gross profit		40,897	36,115
Other revenues	3	285	388
Selling expenses		(4,705)	(3,952)
Administrative expenses		(13,639)	(9,520)
Other operating income		542	1,434
Operating profit	4	23,380	24,465
Finance costs	5	(589)	(879)
Profit before taxation		22,791	23,586
Taxation	6	(1,861)	(2,805)
Profit attributable to shareholders		20,930	20,781
Dividends	7	8,204	15,564
Basic earnings per share	8	Rmb0.031	Rmb0.035

BALANCE SHEET

As at 31 December 2003

	Note	2003 Rmb'000	2002 Rmb'000
Non-current assets			
Acid patent	11	8,278	8,944
Fixed assets	12	97,961	70,525
Construction in progress	13	24,963	29,898
		131,202	109,367
Current assets			
Inventories	14	21,416	21,659
Accounts and bills receivable	15	27,992	10,422
Other receivables and prepayments		10,879	12,749
Bank balances and cash	16	43,360	76,808
		103,647	121,638
Current liabilities			
Amounts due to shareholders	17	10,118	12,991
Accounts payable	18	3,475	1,678
Other payables and accrued charges		8,973	11,215
Taxation payable		806	503
Unsecured short-term bank loans		20,000	20,000
		43,372	46,387
Net current assets		60,275	75,251
Total assets less current liabilities		191,477	184,618
Non-current liabilities			
Long-term portion of amounts due to shareholders	17	–	5,867
		191,477	178,751
Financed by:			
Share capital	19	68,370	68,370
Reserves	20	114,903	102,177
Proposed final dividend	20	8,204	8,204
Shareholders' funds		191,477	178,751

Rui Xin Sheng
Director

Jiang Jun Jie
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Note	2003 Rmb'000	2002 Rmb'000
Total equity as at 1 January		178,751	88,151
Issue of shares	19 & 20	–	107,177
Share issue expenses	20	–	(23,398)
Profit for the year	20	20,930	20,781
Dividends	20	(8,204)	(13,960)
Total equity as at 31 December		191,477	178,751

CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 Rmb'000	2002 Rmb'000
Net cash inflow from operating activities	21(a)	12,398	19,715
Investing activities			
Interest received		219	310
Purchases of fixed assets		(848)	(7,622)
Additions of construction in progress		(27,497)	(31,319)
Net cash outflow from investing activities		(28,126)	(38,631)
Net cash outflow before financing activities		(15,728)	(18,916)
Financing activities			
Proceeds from issue of H shares	21(b)	–	107,177
Share issue expenses	21(b)	–	(23,398)
New bank loans	21(b)	20,000	30,000
Repayment of bank loans	21(b)	(20,000)	(25,800)
Dividends paid	21(b)	(8,204)	(16,093)
Repayments of amounts due to shareholders		(9,516)	–
Net cash (outflow)/inflow from financing activities		(17,720)	71,886
(Decrease)/increase in cash and cash equivalents		(33,448)	52,970
Cash and cash equivalents at 1 January		76,808	23,838
Cash and cash equivalents at 31 December		43,360	76,808
Analysis of balance of cash and cash equivalents			
Bank balances and cash		43,360	44,975
Bank deposits with maturity less than 3 months		–	31,833
		43,360	76,808

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

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, Hong Kong Bio-chemical Advanced Technology Investment Company Limited, 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"), Prosper 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.

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 Rmb50 million to not more than Rmb68.37 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 Rmb1.00 each to ten shares having a nominal value of Rmb0.10 each (the "Share Sub-division").

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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

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 revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The adoption of the revised SSAP 12 did not have a significant effect on the financial statements of the Company.

(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 carry 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) **Fixed assets** (Continued)

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.

(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**

A government grant is recognised, when there is reasonable assurance that the Company will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the related costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(f) **Operating leases**

Leases where substantially all the risks and rewards 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(i) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(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 2003

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 that 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 2003

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:

	2003 Rmb'000	2002 Rmb'000
Turnover		
Sales of goods	144,632	96,769
Other revenues		
Interest income	219	310
Others	66	78
	285	388
Total revenues	144,917	97,157

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

Turnover

	2003 Rmb'000	2002 Rmb'000
The PRC	70,845	45,635
Europe	42,050	27,465
Asia Pacific	28,438	18,356
Others	3,299	5,313
	144,632	96,769

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

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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 Rmb'000	2002 Rmb'000
Crediting		
Government grants	470	1,380
Write-back of provision for doubtful debts	5	29
Net exchange gain	57	–
Charging		
Amortisation of acid patent (Note 11)	666	667
Auditors' remuneration	533	604
Depreciation	6,144	3,369
Net exchange loss	–	77
Operating leases in respect of land and buildings	598	373
Research and development costs	1,426	1,690
Staff costs (including emoluments of Directors and Supervisors) (Note 9)	11,533	10,128

5 FINANCE COSTS

	2003 Rmb'000	2002 Rmb'000
Interest on bank loans – wholly repayable within five years	589	879

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 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

6 TAXATION (Continued)

During the year, the relevant tax authority approved to further reduce the Company's EIT rate payable from 12% to 10% with retrospective effect from 1 January 2002 for a period of three years up to the financial year ending 31 December 2004 with reference to the 技術密集型知識密集型企業證書 (The Certificate of Technology-intensive and Knowledge-intensive Enterprise) obtained by the Company in June 2001. Consequently, the taxation charged to the profit and loss account for the year ended 31 December 2003 includes an adjustment of taxation payable for the year ended 31 December 2002 amounting to approximately Rmb446,000.

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

The taxation on the company's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the company as follows:

	2003 Rmb'000	2002 Rmb'000
Profit before taxation	22,791	23,586
Calculated at the approved taxation rate of 10% (2002:12%)	2,279	2,830
Adjustment in taxation rate for 2002	(446)	–
Others	28	(25)
Taxation charge	1,861	2,805

As at 31 December 2003 and 2002, there was no significant unprovided deferred taxation.

7 DIVIDENDS

	2003 Rmb'000	2002 Rmb'000
Special dividend declared on 9 June 2002, paid, of Rmb 0.01472 per share	–	7,360
Final, proposed, of Rmb 0.012 (2002: Rmb 0.012) per share	8,204	8,204
	8,204	15,564

At a board meeting held on 18 March 2004, the Directors proposed a final dividend of Rmb0.012 per share, totalling approximately Rmb8,204,000 for the year ended 31 December 2003. 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 2004.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

8 EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") for the year ended 31 December 2003 is based on the Company's profit attributable to shareholders of approximately Rmb20,930,000 and the 683,700,000 shares in issue during the year.

The calculation of EPS for the year ended 31 December 2002 is based on the Company's profit attributable to shareholders of approximately Rmb20,781,000 and the weighted average number of 594,114,795 shares in issue as if the Share Sub-division (Note 19(a)) had taken place on 1 January 2002.

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:

	2003 Rmb'000	2002 Rmb'000
Salaries, wages and related welfare	9,523	8,746
Social security costs	652	410
Contribution to defined contribution retirement schemes (note (b))	1,358	972
	<hr/>	<hr/>
	11,533	10,128

(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 2003

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:

	2003 Rmb'000	2002 Rmb'000
Executive/non-executive Directors:		
Fees	670	670
Basic salaries, allowances and benefits in kind	615	618
Retirement benefit contributions	15	12
Independent non-executive Directors		
Fees	100	100
	1,400	1,400

One Director received emoluments of approximately Rmb800,000 for the year ended 31 December 2003 (2002: Rmb800,000). One Director received emoluments of approximately Rmb250,000 for the year ended 31 December 2003 (2002: Rmb250,000). Seven Directors received emolument of approximately Rmb50,000 each for the year ended 31 December 2003 (2002: Rmb50,000 each).

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.

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

	2003 Rmb'000	2002 Rmb'000
Fees	57	57
Basic salaries, allowances and benefits in kind	90	74
Discretionary bonus	24	–
Retirement benefit contributions	13	14
	184	145

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

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

One Supervisor received emoluments of approximately Rmb79,000 for the year ended 31 December 2003 (2002: Rmb59,000). One Supervisor received emoluments of approximately Rmb69,000 for the year ended 31 December 2003 (2002: Rmb50,000). One Supervisor received emoluments of approximately Rmb6,000 for the year ended 31 December 2003 (2002: Rmb6,000). Two Supervisors received emoluments of approximately Rmb15,000 each for the year ended 31 December 2003 (2002: Rmb15,000 each).

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.

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

	2003	2002
Directors	2	2
Supervisors	1	2
Employees	2	1
	5	5

Details of the emoluments paid and payable to the two employees (2002: one employee) mentioned above, each of whose emoluments were less than HK\$1,000,000, are as follows:

	2003 Rmb'000	2002 Rmb'000
Basic salaries, allowances and benefits in kind	809	286
Discretionary bonus	12	–
Retirement benefit contributions	19	5
	840	291

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

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

- (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.

11 ACID PATENT

	2003 Rmb'000	2002 Rmb'000
Beginning of the year	8,944	9,611
Amortisation charge (Note 4)	(666)	(667)
End of the year	8,278	8,944
	2003 Rmb'000	2002 Rmb'000
At cost	10,000	10,000
Accumulated amortisation	(1,722)	(1,056)
Net book amount	8,278	8,944

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

12 FIXED ASSETS

	Land use rights Rmb'000	Leasehold buildings Rmb'000	Plant and machinery Rmb'000	Equipment and motor vehicles Rmb'000	Total Rmb'000
Cost					
At 1 January 2003	12,040	34,903	29,213	3,765	79,921
Additions	–	–	681	167	848
Transfer from construction in progress (Note 13)	–	50	31,469	1,213	32,732
At 31 December 2003	12,040	34,953	61,363	5,145	113,501
Accumulated depreciation					
At 1 January 2003	255	1,566	5,831	1,744	9,396
Charge for the year	241	1,571	3,703	629	6,144
At 31 December 2003	496	3,137	9,534	2,373	15,540
Net book value					
At 31 December 2003	11,544	31,816	51,829	2,772	97,961
At 31 December 2002	11,785	33,337	23,382	2,021	70,525

The land use rights relate to two pieces of land situated in the Mainland China 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 Rmb7,172,000 (2002: Rmb7,319,000).

13 CONSTRUCTION IN PROGRESS

	2003 Rmb'000	2002 Rmb'000
At 1 January	29,898	31,104
Additions	27,797	31,975
Transfer to fixed assets (Note 12)	(32,732)	(33,181)
At 31 December	24,963	29,898

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

14 INVENTORIES

	2003 Rmb'000	2002 Rmb'000
Raw materials	4,598	2,795
Work-in-progress	2,128	407
Finished goods	14,690	18,457
	<u>21,416</u>	<u>21,659</u>

As at 31 December 2003 and 2002, all inventories were stated at cost.

15 ACCOUNTS AND BILLS RECEIVABLE

	2003 Rmb'000	2002 Rmb'000
Accounts receivable (note (a))	26,661	10,422
Bills receivable (note (b))	1,331	–
	<u>27,992</u>	<u>10,422</u>

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

	2003 Rmb'000	2002 Rmb'000
0 to 3 months	25,790	10,037
4 to 6 months	728	368
Over 6 months	143	17
	<u>26,661</u>	<u>10,422</u>

(b) The maturity dates of bills receivable are normally within 30 days.

16 BANK BALANCES AND CASH

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

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

17 AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured and interest free.

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 Rmb17,602,000 was accounted for as distributions to shareholders payable to Shuguang Factory and Jomo. As of 31 December 2003, the balance of the distributions of the Excess payable to Shuguang Factory and Jomo amounted to approximately Rmb6,327,000 and Rmb1,759,000 respectively (2002: Rmb12,321,000 and Rmb5,281,000 respectively). Except for an amount of Rmb2,220,000 originally repayable to Shuguang Factory in 2003 which has been mutually agreed to be deferred to 2004, the balance of the distributions of the Excess are wholly repayable in 2004.

The remaining balance of the amounts due to shareholders has no fixed repayment terms.

18 ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	2003 Rmb'000	2002 Rmb'000
0 to 6 months	3,469	1,676
7 to 12 months	4	–
Over 12 months	2	2
	<hr/>	<hr/>
	3,475	1,678

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

19 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb 0.10 each (Before the Share Sub-division: Rmb 1.00 each)	Nominal value Rmb'000
At 1 January 2002, before the Share Sub-division	50,000,000	50,000
Share Sub-division (note a)	450,000,000	–
	500,000,000	50,000
Issue of H shares upon listing (note b)	183,700,000	18,370
At 31 December 2002	683,700,000	68,370
At 31 December 2003	683,700,000	68,370

(a) 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 Rmb1.00 each into 500,000,000 shares of Rmb0.10 each.

(b) 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 Rmb68,370,000 immediately after the listing of the Company's H shares on the GEM of the Stock Exchange.

On 28 June 2002, 183,700,000 H shares with a par value of Rmb0.10 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 of the Stock Exchange for cash consideration of HK\$101,035,000 (equivalent to approximately Rmb107,177,000).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

19 SHARE CAPITAL (Continued)

(c) As at 31 December 2002 and 2003, 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 trade in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

(d) 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; (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 Rmb1.00 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 2003

20 RESERVES

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2003	87,159	1,637	818	20,767	110,381
Transfer from profit and loss account	–	2,077	1,039	(3,116)	–
Final dividend for the year ended 31 December 2002	–	–	–	(8,204)	(8,204)
Profit for the year	–	–	–	20,930	20,930
At 31 December 2003	87,159	3,714	1,857	30,377	123,107

Representing:

2003 Proposed final dividend
Retained earnings as at
31 December 2003

8,204

22,173

30,377

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

20 RESERVES (Continued)

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2002	21,750	–	–	16,401	38,151
Transfer from profit and loss account	–	1,637	818	(2,455)	–
Issue of H shares	88,807	–	–	–	88,807
Share issue expenses	(23,398)	–	–	–	(23,398)
Final dividend for the year ended 31 December 2001	–	–	–	(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				8,204	
Retained earnings as at 31 December 2002				<u>12,563</u>	
				<u>20,767</u>	

(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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

20 RESERVES (Continued)

(a) Statutory common reserve (Continued)

For the year ended 31 December 2003, the Board of Directors proposed the transfer of approximately Rmb2,094,000 (2002: approximately Rmb2,077,000) 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 shareholders' approval at the forthcoming 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 2003, the Board of Directors proposed the transfer of approximately Rmb1,047,000 (2002: Rmb1,039,000) 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

21 NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2003 Rmb'000	2002 Rmb'000
Profit before taxation	22,791	23,586
Interest income	(219)	(310)
Interest expense	589	879
Depreciation	6,144	3,369
Amortisation of acid patent	666	667
Write-back of provision for doubtful debts	(5)	(29)
Operating profit before working capital changes	29,966	28,162
Decrease/(increase) in inventories	243	(9,698)
(Increase)/decrease in accounts and bills receivable, other receivables and prepayments	(17,979)	6,347
Increase/(decrease) in accounts payable, other payables and accrued charges	1,539	(1,873)
Increase in amounts due to shareholders	776	879
Net cash inflow generated from operations	14,545	23,817
Interest paid	(589)	(879)
PRC tax paid	(2,004)	(3,223)
PRC tax refunded	446	–
Net cash inflow from operating activities	12,398	19,715

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

21 NOTES TO CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital including premium		Bank loans		Dividends payable	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Balance at 1 January	155,529	71,750	20,000	15,800	–	2,133
Proceeds from issue of H shares	–	107,177	–	–	–	–
Share issue expenses	–	(23,398)	–	–	–	–
New bank loans	–	–	20,000	30,000	–	–
Repayment of bank loans	–	–	(20,000)	(25,800)	–	–
2001 final dividend	–	–	–	–	–	6,600
2002 final dividend	–	–	–	–	8,204	–
Special dividend declared on 9 June 2002	–	–	–	–	–	7,360
Dividends paid	–	–	–	–	(8,204)	(16,093)
Balance at 31 December	155,529	155,529	20,000	20,000	–	–

22 COMMITMENTS

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

	2003 Rmb'000	2002 Rmb'000
Contracted but not provided for	4,618	6,330
Authorised but not contracted for	32,000	87,371
	36,618	93,701

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

22 COMMITMENTS (Continued)

(b) Commitments under operating leases

At 31 December 2003, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2003 Rmb'000	2002 Rmb'000
Not later than one year	388	422
Later than one year and not later than five years	529	622
Later than five years	1,062	1,087
	<u>1,979</u>	<u>2,131</u>

23 RELATED PARTY TRANSACTIONS

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

	2003 Rmb'000	2002 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	15,799	23,764
Electricity charged by Shuguang Factory (note (b))	1,845	2,122
Raw water supply charged by Shuguang Factory (note (b))	268	175
Rental expenses to Shuguang Factory (note (c))	186	156

- (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 are 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.

24 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 18 March 2004.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2003 annual general meeting (“AGM”) of Changmao Biochemical Engineering Company Limited (the “Company”) will be held at Lecture Room B, Joint Professional Centre, Unit 1, G/F, The Center, 99 Queen’s Road Central, Hong Kong on 13 May 2004, at 2:30 p.m. for the following purposes:

As ordinary resolution:

1. To consider and approve the Report of the Directors for the year 2003;
2. To consider and approve the Report of the Supervisory Committee for the year 2003;
3. To consider and approve the audited financial statements of the Company for the year ended 31 December 2003;
4. To consider and approve the final dividend distribution proposal for the year ended 31 December 2003;
5. To consider and approve the appropriation to statutory common reserve and statutory public welfare fund for the year 2003;
6. To elect the directors of the second session of the board (“Board”) of Directors, namely Mr. Rui Xin Sheng and Mr. Jiang Jue Jie as the executive Directors, Mr. Zeng Xian Biao, Mr. Zhu Lai Fa, Mr. Yu Xiao Ping, Mr. Lu Chong Zhu and Ms. Leng Yi Xin as the non-executive Directors, Prof. Ouyang Ping Kai and Prof. Yang Sheng Li as the independent non-executive Directors, for a term of three years from 18 June 2004 to 17 June 2007, and to authorise the Board to fix their remuneration;
7. To elect the supervisors who are representatives of the shareholders of the Company for the second session of the supervisory committee of the Company, namely Ms. Zhou Rui Juan and Mr. Lu He Xing as the Supervisors, Prof. Gu Jian Xin and Prof. Jiang Yao Zhong as the independent Supervisors, for a term of three years from 18 June 2004 to 17 June 2007, and to authorise the Board to fix their remuneration;
8. To consider the re-appointment of 江蘇公証會計師事務所 (Jiangsu Gongzheng Certified Public Accountants) as the PRC auditors of the Company for the year 2004 and PricewaterhouseCoopers as the international auditors of the Company for the year 2004 and to authorise the Board to fix their remuneration;

NOTICE OF ANNUAL GENERAL MEETING

9. To review and re-approve the ongoing connected transactions in respect of the master purchase agreement signed between the Company and 常州曙光化工廠 (Changzhou Shuguang Chemical Factory or “Shuguang Factory”) on 9 June 2002 within the following caps for the financial year ending 31 December 2004 (Note 1):
 - (a) the annual sum payable by the Company to Shuguang Factory for the supply of maleic anhydride will not exceed Rmb 54.6 million; and
 - (b) the annual sum payable by the Company to Shuguang Factory for the supply of crude maleic anhydride will not exceed Rmb30 million.
10. 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:
 - (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 Shares, 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”);
 - (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;

NOTICE OF ANNUAL GENERAL MEETING

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, 24 March 2004

Notes:

1. The connected persons of these transactions (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) shall abstain from voting in relation to this resolution.
2. The H share register of shareholders of the Company will be closed from 12 April 2004 to 13 May 2004 (both days inclusive), during which time no transfer of H shares will be effected. The holders of Promoters' Shares or H shares whose name appears on the register of members of the Company at 4:00p.m. on 11 April 2004 will be entitled to attend and vote at the AGM.
3. 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.
4. 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 54, 5/F, New Henry House, 10 Ice 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.
5. 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 54, 5/F, New Henry House, 10 Ice 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 2004. The reply slip may be delivered by hand, by post or by fax to the number (852) 2865 0990.