

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)



A N N U A L 2 0 0 4 R E P O R T

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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.

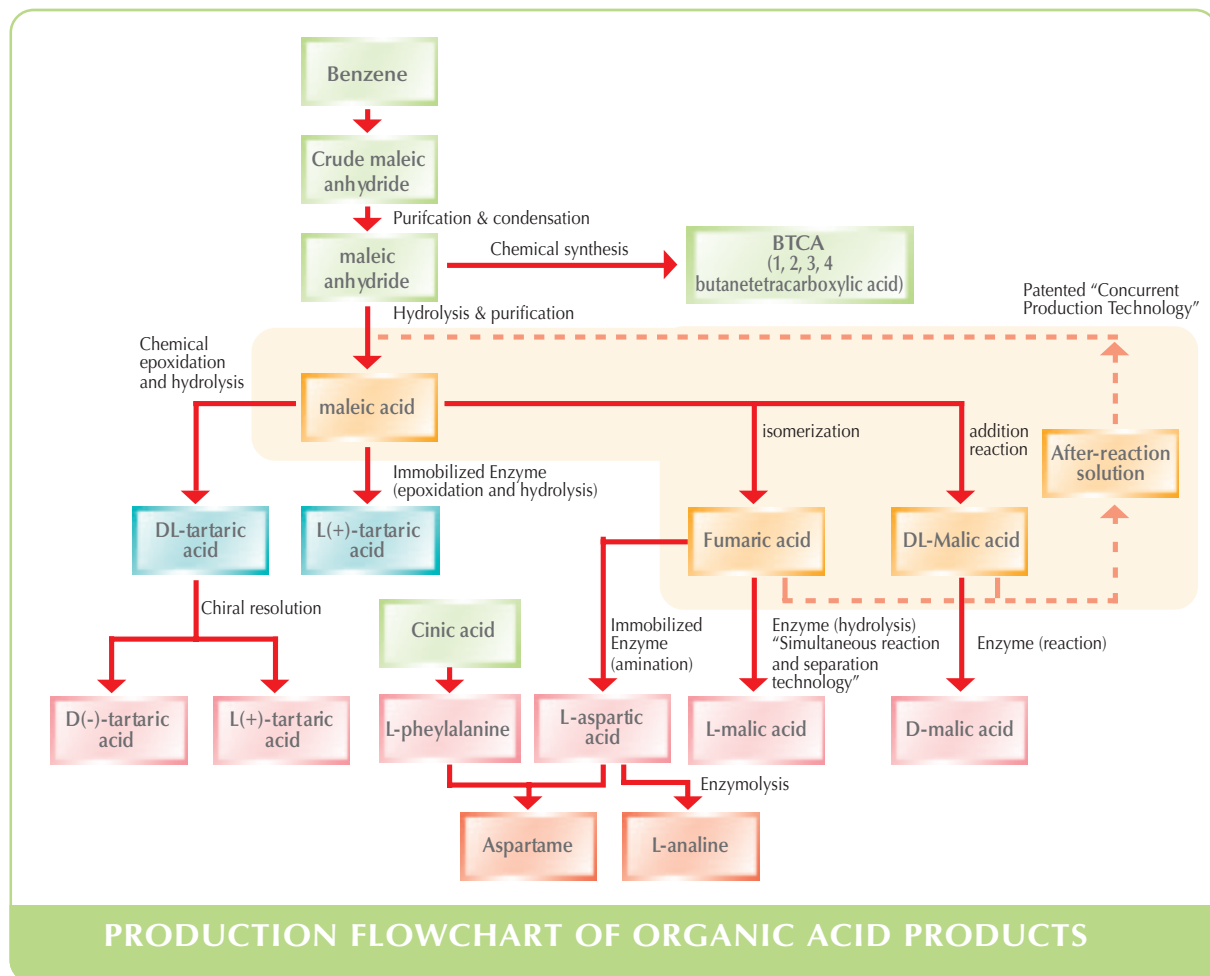
CONTENTS

• Corporate Profile	2
• Corporate Information	4
• Chairman's Statement	5
• Management Discussion and Analysis	8
• Profiles of Directors, Supervisors and Senior Management	12
• Comparison of Business Objectives with Actual Business Progress	17
• Report of the Directors	26
• Report of the Supervisory Committee	43
• Auditors' Report	44
• Profit and Loss Account	45
• Balance Sheet	46
• Statement of Changes in Equity	47
• Cash Flow Statement	48
• Notes to the Accounts	49
• Five Year Summary	70
• Notice of Annual General Meeting	71

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 United States (the “US”), Australia and Japan account for approximately 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 Company’s major products are produced along verticle production chains. The major advantage of the production chains is that each of the products in the production chains is also an end product for sale to customers.



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
Ms. Wei Xin

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. Jiang Yao Zhong

COMPANY SECRETARY

Ms. Wan, Pui Ling Alice (CPA)

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

Mr. Rui Xin Sheng

QUALIFIED ACCOUNTANT

Ms. Wan, Pui Ling Alice (CPA)

AUDIT COMMITTEE

Prof. Ouyang Ping Kai
Prof. Yang Sheng Li
Ms. Wei Xin

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
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

COMPANY'S WEBSITE ADDRESS

www.cmbec.com

GEM STOCK CODE

8208



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 2004.

RESULTS OF THE YEAR

The Company has obtained satisfactory results in 2004 by actively exploring overseas markets, satisfying the market demand and adopting new strategies. The Company's turnover reached approximately Rmb200,984,000 for the year ended 31 December 2004, representing an increase of 39% as compared to that of last year. The Company's net profit reached approximately Rmb37,181,000 for the year ended 31 December 2004, representing an increase of 78% as compared to that of last year. Basic earnings per share is approximately Rmb0.054. The Board recommends the payment of a final dividend of Rmb0.022 per share for the year ended 31 December 2004, which is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting.

SALES

The Company has allocated a lot of resources in marketing and promotion. The Company has tried to find large customers and end-users for its products, especially for those products that have their production capacity increased in 2004. The Company is able to obtain customers' trust by enhancing its service and product quality. The Company has actively participated in trade fairs overseas and in the PRC to strengthen its connections with the existing customers and to meet new customers for exploring new business opportunities for the Company. In addition, the Company has placed advertisements in internationally renowned specialized magazines to promote its chiral medicinal intermediaries, products originated from chiral substances and products of high and new technologies. The success of the Company's selling strategy is proven by the increase in sales in 2004 by approximately 39% as compared to that of last year.



Fumaric acid production line

PRODUCTION

The Company continues to plan its production based on the market demand for its products. The Company has reduced the production of those products that have a low selling price and volume, while expanding the production capacity of those products that have a stable or increasing price. With this market demand based production strategy,

CHAIRMAN'S STATEMENT

the Company has better positioned itself in the overseas and the PRC markets. Although the cost of raw materials continuously rose in the past year, in particular the price of the major raw material, benzene, that had increased by over 50%, the Company was able to control its costs at a satisfactory level by increasing its production capacity; improving its existing production technologies and developing its new production technologies. The Company's fumaric acid production line with annual capacity of 10,000 tonnes was vital to the growth of the Company in 2004. It produces fumaric acid that can be sold to customers as an end product and can also be used as a raw material for other products of the Company.



This production line has enhanced the Company's production efficiency by enabling the Company to better control the quality of its downstream products and reduced the production costs. The side product of this production line, steam, has been fully utilised by the Company to reduce production cost. The increase in production capacity in 2004 created an economy of scale, enhanced the Company's competitiveness and better positioned the Company in the international market. Besides, electricity supply is essential in the production process. The Company has established a specialised electricity cable exclusively for Changmao's use and a new 5750KVA/10KV electricity adaptor house in the second phase of the Company's production premises in 2004. With the support of the electricity supplier, the new electricity supply facility has been in operation since the end of 2004. The completion of this facility provides a good support to the Company for the new expansion of production lines in 2005 amid the tight supply of electricity in the PRC.

PROSPECTS

We endeavor to complete the new production line establishment plan to bring more return to the Company. The second fumaric acid production line with an annual capacity of 10,000 tonnes has substantially completed and will be in operation in the second quarter of 2005. Accordingly, the Company's production capacity for fumaric acid (including maleic anhydride) will be increased to 20,000 tonnes per year. Upon the operation of this production line, the Company will become one of the largest producer of fumaric acid in Asia. The growth in sales of fumaric acid and its downstream products will bring handsome return to the Company in 2005.

One of the Company's important objectives in 2005 is the establishment of an aspartame (a sweetener) production line which will be completed in the third quarter. The Company will use self-produced L-aspartic acid and L-phenylalanine as raw materials to produce aspartame. This will benefit the Company in terms of product quality and lower production costs and make aspartame more competitive.



The Company will continue to enhance its new production and sales plan, as well as looking for new elements that will facilitate the Company's growth. The Company will continue to explore opportunities through the co-operation with large overseas companies; to gain synergy effects in terms of human resources, financial resources, production technologies and management techniques; and to explore new markets for its new products. The Company will consider identifying business partners or investing in medical or related business with an aim to extend its production chains into the biochemistry medical field and explore more business opportunities. In addition, the Company will allocate more resources for research and development and at the same time, the Company will strive to promote awareness of the Company's chiral production technologies by building up global distribution channels for chiral medicinal intermediaries and products originated from chiral substances, with an aim to bring more profits to the Company.



Plan for second phase product premises

On behalf of the Board, I would like to express our sincere gratitude to the staff of the Company for their efforts, and to all the shareholders, customers and bankers of the Company for their support.

Rui Xin Sheng

Chairman

The PRC, 16 March 2005



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Company recorded a turnover of Rmb200,984,000 for the year ended 31 December 2004, representing a 39% increase compared to that of the year ended 31 December 2003. This increase was mainly contributed by the increase in sale volume of L(+)-tartaric acid, L-malic acid, DL-malic acid and fumaric acid. Having driven by the increase in the raw material costs of these products, the selling price of these products has gone up in 2004.



Gross profit margin

The gross profit margin for the year ended 31 December 2004 was approximately 31%, representing a 3% increase as compared to 28% recorded for 2003. The Company has streamlined its production process by improving its production technologies in order to increase conversion rate and increasing its operating scale in order to achieve economy of scale.

Expenses

Due to the continuous growth of business and production volume, the Company has recruited new staff, increased scale of the Company's research and development, and devoted more effort into marketing and promotion this year. As a result, the selling and administrative expenses for the year ended 31 December 2004 increased as compared to that of last year.



SEGMENTAL INFORMATION

Most of the Company's products are exported to Western Europe, Australia and Japan. As expressed as a percentage of turnover, direct export sales (including sales through import-export agents in the PRC) accounted for approximately 68% (2003: 69%) of the Company's turnover while domestic sales in the PRC accounted for approximately 32% (2003: 31%) of turnover.



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 or Euros. The Company has entered into forward foreign currency agreements to limit the Company's exposure to the fluctuations in Euros. The Company does not conclude any forward foreign currency agreements to limit exposure to adverse fluctuations in the US dollars. Changmao will constantly review the situation and, if appropriate, carry out prudent and appropriate hedging to offset the negative financial impact of such exchange rates fluctuations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Company had total outstanding bank borrowings of Rmb32 million (2003: Rmb20 million), all of which were unsecured short-term bank borrowings. The interest rate of the outstanding bank loans is approximately 5% per annum.

Save for the bank borrowings disclosed above, as at 31 December 2004 and 2003, the Company did not have any committed borrowing facilities.

As at 31 December 2004, the Company had capital commitments for property, plant and equipment amounting to approximately Rmb12,356,000. 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 in 2005. The Company intends to finance its capital commitments by cash flows generated from the Company's operations and/or bank financings.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company did not have any charge on its assets during the year ended 31 December 2004 and 2003. The gearing ratio (calculated based on total liabilities divided by total assets) was 19% and 18% as at 31 December 2004 and 2003 respectively. As at 31 December 2004, the Company's cash and cash equivalent amounted to approximately Rmb52,971,000 (2003: Rmb43,360,000). 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 the 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.



EMPLOYEES

Including the Directors, as at 31 December 2004, the Company employed a total of 305 employees (2003: 307 employees). Total amount of staff costs for the year ended 31 December 2004 was approximately Rmb13,258,000 (2003: Rmb11,533,000). The increase in staff cost was mainly due

to salary increment. Employees are remunerated in accordance with the nature of the job and also on individual merit. The Company also formulated a staff incentive scheme under which for each of the four years ending 31 December 2007, 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 Rmb80 million, Rmb40 million, Rmb40 million and Rmb40 million respectively (each a "Target Profit"):



MANAGEMENT DISCUSSION AND ANALYSIS

- (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 2004 is lower than the Target Profit, no incentive bonus has been paid for the year ended 31 December 2004.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Company as at 31 December 2004 and 2003.

The Company has no plans for material investments or capital assets.

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 2004 and 2003.

CONTINGENT LIABILITIES

As at 31 December 2004 and 2003, 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 48, 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. He is currently a director and a board committee member of 常州曙光化工廠 (Changzhou Shuguang Chemical Factory or “Shuguang Factory”).

Mr. Jiang Jun Jie (蔣俊杰), aged 38, 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 18 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 62, 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 54, 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 49, 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 62, 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)

Ms. Leng Yi Xin (冷一欣), aged 43, 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 59, is an independent non-executive Director. He graduated from Tsinghua University with a bachelor degree in chemistry in 1968 and subsequently obtained a master degree in Chemistry Research from the same university in 1981. From 1985 to 1987, he was a visiting scholar of the University of Waterloo, Ontario, Canada. Prof. Ouyang is an academician of the Chinese Academy of Engineering and the President of Nanjing University of Technology. He also holds memberships and positions in various science and academic institution. Prof. Ouyang obtained various awards including 國家科技進步一等獎 (The First Prize of the State Technological Achievement) in 2001, Dupont Innovation Award and several other awards of national level. Prof. Ouyang published more than 180 theses and two publications. Prof. Ouyang was appointed as an independent non-executive Director in June 2001.

Prof. Yang Sheng Li (楊勝利), aged 64, is an independent non-executive Director. Prof. Yang is a professor of Shanghai Research Center of Biotechnology Chinese Academy of Science. In 1997, he became the academician of the Chinese Academy of Engineering. He is also a member of the Biotechnology Professional Committee of the 863 Project. Prof. Yang has long been engaging in research relating to genetic function and structure and genetic engineering. He instructed dozens of master students and doctorate students and published more than 80 theses. Prof. Yang received 科技進步一等獎 (The First Class Award of Technological Achievement) from the Science Institute of the PRC in 1988, 第二屆億利達科技獎 (The Second Prize of Yilide Technology) from the Science Institute of the PRC in 1989, and 先進工作者一等獎 (The First Prize of Innovative Worker) from the Committee of the State Defense Department. Prof. Yang was appointed as an independent non-executive Director in June 2001.

Ms. Wei Xin (衛新), aged 37, is an independent non-executive Director. Ms. Wei is a Certified Public Accountant in the PRC. She graduated from 蘇州大學 (the Suzhou University) with a bachelor degree in accountancy in 1989. She has fifteen years of experience in auditing and accounting. Ms. Wei is currently the partner of a Certified Public Accounting firm in the PRC. Ms. Wei was appointed as an independent non-executive Director in September 2004.



PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Supervisors Nominated by Shareholders

Ms. Zhou Rui Juan (周瑞娟), aged 50, 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 60, 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 35, 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 47, graduated from JSIPT with a bachelor degree in 1982 and subsequently obtained a doctorate degree from Nagoya University, Japan in 1989. Prof. Gu continued his post-doctorate research at Osaka University in Japan. He has been a professor and tutor of doctorate students in Shanghai Medical University. Prof. Gu currently presides several local and foreign research projects mainly for the control of the glycosyltransferase gene expression and the functions of new type neural growth factor. Prof. Gu published over a dozen of thesis and was awarded 上海市科技進步三等獎 (The Third Prize of Shanghai Scientific Technology Progress) in 1995 and 上海市曙光學者 (Shanghai Shuguang Scholar) in 1996. He was recognized as 上海市優秀科學帶頭人 (Shanghai Excellent Scientific Leader) in 1999 and obtained a special allowance from the government of Shanghai for his research in β -1, 4-galactosyl-transferase in 1998. Prof. Gu was appointed as an independent Supervisor in June 2001.



PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS (Continued)

Independent Supervisors Nominated by Shareholders (Continued)

Professor Jiang Yao Zhong (蔣耀忠), aged 68, graduated from the Chemistry department of Peking University in 1957. He has been the vice president of the 中國科學院成都分院 (Chengdu branch of the Chinese Academy of Sciences) during 1990 to 1994. He was also the president of 中國科學院成都有機化學研究所 (Chengdu Institute of Organic Chemistry, the Chinese Academy of Sciences) during 1992 to 1997 and the scientific consultant of the Government of Sichuan from 1988 to 1998. He is a researcher and an instructor of doctorate students. He is a committee member of 中國化學會 (Chemistry Society of China), a deputy director of 有機化學委員會 (Committee of the Organic Chemistry), and a foreign member of the American Chemical Society. Prof. Jiang was recognized as the 四川省學術和技術帶頭人 (Leader of Academy and Technology in Sichuan) in 1998 and awarded with 中國化學會有機合成創造獎 (Prize of Creation in Organic Synthesis by the Chemistry Society of China) in 2000. Prof. Jiang was appointed as an independent supervisor in June 2004.

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 33, is the financial controller, qualified accountant and company secretary of the Company. She has over ten years of experience in auditing, accounting and financial management in Hong Kong and the PRC. Ms. Wan holds a bachelor degree and a master of science degree from the Chinese University of Hong Kong, and is an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Wan joined the Company in June 2001.

Mr. Xie Jie (謝杰), aged 36, 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 36, 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 31, 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 issued by the Company
dated 20 June 2002 (“Prospectus”)**

**Actual business progress for the year
ended 31 December 2004**

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 researching 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 immobilized enzyme technology in the manufacture of new chiral products | <ul style="list-style-type: none"> – Successfully applied immobilized enzyme technology in the production of certain new products, the production of which will be commercialised soon |
|--|---|

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 |
|---|--|



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus

Actual business progress for the year ended 31 December 2004

1. Research and development *(continued)*

- | | |
|---|--|
| <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 researching on integrated technology of simultaneous reaction and separation technology and biotechnology thereby enhancing its existing biotechnology |

Enzyme technology

- | | |
|---|---|
| <ul style="list-style-type: none"> – Research to enhance enzyme technology so as to better support immobilised enzyme technology and simultaneous reaction and separation technology | <ul style="list-style-type: none"> – Continued researching on the enhancement of enzyme technology so as to better support immobilised enzyme technology and simultaneous reaction and separation technology |
|---|---|

Chiral synthesis

- | | |
|--|--|
| <ul style="list-style-type: none"> – Research on application of existing chiral products in development of new chiral derivative products | <ul style="list-style-type: none"> – The Company has completed research on certain derivative products based on the Company's existing chiral products, such as D(+)-malic acid, D(-) – phenylalanine and malate, some of these products have been launched into the market |
|--|--|



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus

Actual business progress for the year ended 31 December 2004

1. Research and development (continued)

Chiral resolution

- | | |
|--|---|
| <ul style="list-style-type: none"> - Research on racemization after the process of chemical resolution thereby increasing resolution rate | <ul style="list-style-type: none"> - Continued researching on racemization after the process of chemical resolution which helped to increase the product yield |
|--|---|

Joint research program

- | | |
|--|--|
| <ul style="list-style-type: none"> - Research on nutritional healthy products: Aweto with上海星獅生物工程 有限公司 (Shanghai Since Biotechnology Co., Ltd.) | <ul style="list-style-type: none"> - As the research institute underwent a corporate restructuring, the project was suspended |
| <ul style="list-style-type: none"> - Research on D(-)-phydroxy-phenylglycine with 南京工業大學 (Nanjing University of Technology) | <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 2004

1. Research and development *(continued)*

Chirotechnology Centre

- | | |
|---|---|
| <ul style="list-style-type: none"> - Purchase software and hardware thereby enhancing its research capability and continue to invest to upgrade its facilities | <ul style="list-style-type: none"> - Purchased some advanced foreign experiment and testing equipment for the laboratories |
|---|---|

2. Production expansion

- | | |
|--|---|
| <ul style="list-style-type: none"> - Increase annual production capacity of D(-)-tartaric acid to 200 tonnes | <ul style="list-style-type: none"> - Equipment installation has been completed in December 2004 |
| <ul style="list-style-type: none"> - Increase annual production capacity of L-homo-phenylalanine to 50 tonnes | <ul style="list-style-type: none"> - Production capacity of L-homo-phenylalanine is 10 tonnes/year. As the production line has not been fully utilized, the capacity expansion plan of L-homo-phenylalanine is therefore suspended |
| <ul style="list-style-type: none"> - Increase annual production capacity of L-carnitine to 500 tonnes | <ul style="list-style-type: none"> - Production capacity of L-carnitine is 50 tonnes/year. As the production line has not been fully utilized, the capacity expansion plan of L-carnitine is therefore 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 2004

2. Production expansion (continued)

- | | |
|--|--|
| <ul style="list-style-type: none"> - Increase annual production capacity of D(-)-p-hydroxy-phenylglycine to 1,000 tonnes | <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”科技攻關項目). The laboratory scale research of D-series amino acid has been completed and is under medium scale research |
| <ul style="list-style-type: none"> - Establish a 10 tonnes/year production line for D-alanine | <ul style="list-style-type: none"> - Laboratory research has been completed and the establishment of product line is underway |
| <ul style="list-style-type: none"> - Establish a 100 tonnes/year production line for D-amino acid (D-phenylalanine) | <ul style="list-style-type: none"> - Laboratory research has been completed and the medium scale research is underway |
| <ul style="list-style-type: none"> - Establish an additional 10,000 tonnes/year production line on the existing 10,000 tonnes/year production line of fumaric acid (including production line for crude maleic anhydride) | <ul style="list-style-type: none"> - The construction this production line is substantially completed and expected to be in operation in the second quarter of 2005 |
| <ul style="list-style-type: none"> - Increase annual production capacity of L-malic acid to 5,000 tonnes | <ul style="list-style-type: none"> - Increased annual production capacity of L-malic acid to 5,000 tonnes |



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus

Actual business progress for the year ended 31 December 2004

3. 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 Nanjing, Beijing and Xiamen |
| <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 2004 |
| <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), 醫藥快訊 (Medicine Express) and Chemical Engineering News of the United States |
| <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"> - Participated in various international product shows in United States and Japan |



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus

Actual business progress for the year ended 31 December 2004

3. Marketing (continued)

- | | |
|--|--|
| <ul style="list-style-type: none"> – Visit major foreign customers and explore new international markets
 – Establish a representative office in either US, Europe or Australia | <ul style="list-style-type: none"> – Visited major foreign customers and explore new international markets and successfully gained some new customers
 – This plan would be delayed as the Company considered that it is not necessary to establish another overseas representative office in view of the current status of the Company |
|--|--|

4. Deployment of human resources

- | | |
|---|--|
| <ul style="list-style-type: none"> – Carrying out the following plan for human resources | <ul style="list-style-type: none"> – As at 31 December 2004, number of staff is as follows: |
|---|--|

	Number of staff		Number of staff
Research and development	50	Research and development	28
Production	310	Production (<i>Note 1</i>)	216
Quality control	17	Quality control	13
Sales and marketing	25	Sales and marketing	19
Management and general administration	40	Management and general administration	29
	442		305
	442		305



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objective as stated in the Prospectus

Actual business progress for the year ended 31 December 2004

5. International production quality standard

- | | |
|---|---|
| <ul style="list-style-type: none"> – Obtain British Pharmacopeia for Aspartame (<i>Note 2</i>)
 – 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 (<i>Note 3</i>) for D-alanine and D-phenylglycine | <ul style="list-style-type: none"> – Application for British Pharmacopoeia for Aspartame will be made when production volume is up to a commercial scale
 – Corporate standard will be submitted for CSBTS review for D-alanine and D-phenylglycine when production volume is up to a commercial scale |
|---|---|

6. 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
 – Obtain衛生許可証(Hygiene Permits) for Aspartame
 – Renew衛生許可証(Hygiene Permits) for L-carnitine, aweto and calcium propionate | <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 July 2004
 – Hygiene permit will be obtained when production volume is up to a commercial scale
 – Hygiene permit will be obtained when production volume is up to a commercial scale |
|--|--|



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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 that being 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 have pleasure in submitting their report together with the audited accounts for the year ended 31 December 2004.

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 page 45.

The Directors recommend the payment of a final dividend of Rmb0.022 per share, totalling approximately Rmb15,041,000.

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 2004, the distributable reserves of the Company were approximately Rmb50,449,000 (2003: Rmb27,054,000) as reported in the statutory accounts prepared in accordance with the PRC Generally Accepted Accounting Principles.

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

A summary of the published results and assets and liabilities of the Company for the last five years is set out on page 70 of the annual report.

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 2004.

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 2004, 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

Ms. Wei Xin (Appointed on 30 September 2004)

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. Jiang Yao Zhong (Appointed on 18 June 2004)

Prof. Qian Shu Fa (Resigned on 17 June 2004)

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.



REPORT OF THE DIRECTORS

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 expired on 17 June 2004. Except for Prof. Qian Shu Fa, each service contract of the existing Directors and Supervisors have been entered into or renewed from their respective date of appointment or reappointment and will be expired on 17 June 2007.

Save as above, no Director or Supervisor 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.

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 SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2004, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) 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 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

		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%



REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(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>					
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))
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))
Prof. Jiang Yao Zhong	(Note (m))	–	–	(Note (m))	(Note (m))



INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(Continued)

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 常州新生生化科技開發有限公司 ("Changzhou Xinsheng"). The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK\$1 each and 100,000 Class "B" shares of HK\$1 each. Mr. Rui is the registered holder and beneficial owner of 96,500 Class "A" shares. He is also the registered holder of 53,000 Class "B" shares and holds such shares as trustee in respect of a discretionary trust for the group of persons who made contribution to the Company or who from time to time make contribution to the Company. Mr. Rui is the registered holder and beneficial owner of 70% of the registered capital of Changzhou Xinsheng. Ms. Leng, a Director and the spouse of Mr. Rui, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (b) below.
- (b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 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.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS OR CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(Continued)

- (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.
- (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 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.
- (m) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 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 SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(Continued)

Save as disclosed above, as at 31 December 2004, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) 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 5.48 to 5.67 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.

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 2004, the following, not being a Director, Supervisor or chief executive of the Company, 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	Number of H Shares	Percentage shareholding in the H 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%	-	-

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	Number of H Shares	Percentage shareholding in the H Shares
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	62,500,000	28.54%	-	-	-	-
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (b))	28.54%	-	-	-	-
Chervon Investment Limited	Beneficial owner	-	-	-	-	22,392,000	12.19%
Chervon Holdings Limited	Interest of controlled corporation	-	-	-	-	22,392,000 (Note (c))	12.19%
PS Holdings Limited	Interest of controlled corporation	-	-	-	-	22,392,000 (Note (d))	12.19%

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.

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)

- (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 62,500,000 Domestic Shares.
- (c) Chervon Holdings Limited is the beneficial owner of 100% of the issued share capital of Chervon Investment Limited, which is the beneficial owner of 22,392,000 H Shares.
- (d) PS Holdings Limited is the beneficial owner of 66% of the issued share capital of Chervon Holdings Limited, which is the beneficial owner of 100% of the issued share capital of Chervon Investment Limited. Chervon Investment Limited is the beneficial owner of 22,392,000 H Shares.

Save as disclosed above, as at 31 December 2004, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, 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 the 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

	2004	2003
– the largest supplier	4%	18%
– five largest suppliers combined	18%	44%

Sales

	2004	2003
– the largest customer	9%	14%
– five largest customers combined	33%	43%

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 Shuguang Factory:

	2004	2003
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	1,455	15,799
Electricity charged by Shuguang Factory (note (b))	2,038	1,845
Water supply charged by Shuguang Factory (note (c))	315	268
Rental expenses to Shuguang Factory (note (d))	186	186
Transportation expense charged by Shuguang Factory (note (e))	327	–

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.
- (e) Shuguang Factory provides transportation service to the Company. Shuguang Factory charges the Company transportation fee at mutually agreed price.

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 agreements governing the transactions; and
- (iii) have not exceeded the relevant upper limits applicable to such transactions under the waiver granted by the Stock Exchange.



SHARE CAPITAL STRUCTURE

As at 31 December 2004, the category of the issued shares of the Company is as follows:

	No. 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

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 Rmb and are traded in Hong Kong dollars and listed on GEM.
- (b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in Rmb and issued to the promoters of the Company.
- (c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

Although the 到境外上市公司章程必備條款 (the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of “domestic shares”, “foreign shares” and “overseas listed foreign shares” (which definitions have been adopted in the Articles of Association of the Company), the rights attached to 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 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 5.34 to 5.45 of the GEM Listing Rules at any time during the year ended 31 December 2004.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2004, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to GEM Listing Rule 5.09 and the Company considers the independent non-executive Directors remained independent.

SPONSOR'S INTEREST

As at 31 December 2004, Prosper Ideal Limited, an associate of the Company's sponsor, Tai Fook Capital Limited ("Tai Fook"), held 12,500,000 Promoters Foreign Shares of the Company.

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

Save as disclosed above, Tai Fook (including its directors and employees) and its associates, do not have any interest in the Company as at 31 December 2004.

USE OF PROCEEDS FROM THE PLACING

The net proceeds from the placing of H shares (the "Placing"), after deducting 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 for achieving the business objectives as set out in the Prospectus, of which an amount of approximately HK\$12.2 million was planned to be applied for the year ended 31 December 2004, as follows:

	Proposed HK\$ million	Actual HK\$ million
Product development (Note 1)	2.6	0.6
Upgrading research equipment of the Chirotechnology Centre (Note 1)	3.4	0.1
Technology research and development (Note 1)	2.0	1.7
Marketing and promotion activities and setting up of representative offices (Note 1)	2.1	1.1
Recruitment of additional technical and management staff and staff training (Note 1)	2.1	1.4
Comparison of business objective with actual business progress	12.2	4.9

Notes:

- 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 2004 amounted to HK\$15.6 million and will be applied by the Company as working capital.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Details of the retirement schemes are set out in Notes 2(m) and 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 Institute of Certified Public Accountants. The audit committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

The primary duties of the audit committee are to review 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 2004, 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 2004 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, 16 March 2005



REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2004, 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 included the attendance of the Board meetings; reviewing the report of the Directors and reserve appropriation proposal prepared to be submitted by the Board for the shareholders' approval at the forthcoming 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 that 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 for the shareholders' approval at the forthcoming 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 principles 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 contravened 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 2004, which are audited by PricewaterhouseCoopers, has truly and fairly reflected the operating results and asset 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, 16 March 2005.

AUDITORS' REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
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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 69 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 Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

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

OPINION

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31 December 2004 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, 16 March 2005



PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	2004 Rmb'000	2003 Rmb'000
Turnover	3	200,984	144,632
Cost of sales		(138,083)	(103,735)
Gross profit		62,901	40,897
Other revenues	3	179	285
Selling expenses		(6,175)	(4,705)
Administrative expenses		(15,259)	(13,639)
Other operating income		736	542
Operating profit	4	42,382	23,380
Finance costs	5	(1,073)	(589)
Profit before taxation		41,309	22,791
Taxation	6	(4,128)	(1,861)
Profit attributable to shareholders		37,181	20,930
Dividends	7	15,041	8,204
Basic earnings per share	8	Rmb0.054	Rmb0.031

BALANCE SHEET

As at 31 December 2004

	Note	2004 Rmb'000	2003 Rmb'000
Non-current assets			
Acid patent	11	7,611	8,278
Fixed assets	12	103,063	97,961
Construction in progress	13	33,646	24,963
		144,320	131,202
Current assets			
Inventories	14	35,031	21,416
Accounts and bills receivable	15	30,433	27,992
Other receivables and prepayments		10,611	10,879
Bank balances and cash	16	52,971	43,360
		129,046	103,647
Current liabilities			
Amounts due to shareholders	17	2,579	10,118
Accounts payable	18	3,450	3,475
Other payables and accrued charges		13,488	8,973
Taxation payable		1,395	806
Unsecured short-term bank loans		32,000	20,000
		52,912	43,372
Net current assets		76,134	60,275
Total assets less current liabilities		220,454	191,477
Financed by:			
Share capital	19	68,370	68,370
Reserves	20	137,043	114,903
Proposed final dividend	20	15,041	8,204
Shareholders' funds		220,454	191,477

Rui Xin Sheng
Director

Jiang Jun Jie
Director



STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Note	2004 Rmb'000	2003 Rmb'000
Total equity as at 1 January		191,477	178,751
Profit for the year	20	37,181	20,930
Dividends	20	(8,204)	(8,204)
Total equity as at 31 December		220,454	191,477

CASH FLOW STATEMENT

For the year ended 31 December 2004

	Note	2004 Rmb'000	2003 Rmb'000
Net cash inflow from operating activities	21(a)	35,778	12,398
Investing activities			
Interest received		173	219
Purchases of fixed assets		(812)	(848)
Additions of construction in progress		(22,249)	(27,497)
Net cash outflow from investing activities		(22,888)	(28,126)
Net cash inflow/(outflow) before financing activities		12,890	(15,728)
Financing activities			
New bank loans	21(b)	42,000	20,000
Repayment of bank loans	21(b)	(30,000)	(20,000)
Dividends paid	21(b)	(8,204)	(8,204)
Repayments of amounts due to shareholders		(7,075)	(9,516)
Net cash outflow from financing activities		(3,279)	(17,720)
Increase/(decrease) in cash and cash equivalents		9,611	(33,448)
Cash and cash equivalents at 1 January		43,360	76,808
Cash and cash equivalents at 31 December		52,971	43,360
Analysis of balance of cash and cash equivalents			
Bank balances and cash		52,971	43,360

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 Rmb1.00 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 Rmb1.00 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

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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) **Acid patent**

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

(c) **Fixed assets**

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

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.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

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

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

(d) Construction in progress

Construction in progress is stated at cost which comprises construction costs, purchase costs and other direct 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.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Inventories

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

(h) Accounts receivable

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

(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 in Mainland China for its PRC employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC employees of the Company. Contributions to these plans are expensed as incurred.



2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Employees benefits (Continued)

The Company's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Company and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK\$1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Company and managed by independent professional fund managers.

(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.

(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 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

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:

	2004 Rmb'000	2003 Rmb'000
Turnover		
Sales of goods	200,984	144,632
<hr/>		
Other revenues		
Interest income	173	219
Others	6	66
	179	285
<hr/>		
Total revenues	201,163	144,917

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

Turnover

	2004 Rmb'000	2003 Rmb'000
Mainland China	106,114	70,845
Europe	50,926	42,050
Asia Pacific	33,292	28,438
Others	10,652	3,299
	200,984	144,632

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. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China.

NOTES TO THE ACCOUNTS

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 Rmb'000	2003 Rmb'000
Crediting		
Government grants	338	470
Write-back of provision for doubtful debts	–	5
Net exchange gain	107	57
<hr/>		
Charging		
Amortisation of acid patent (Note 11)	667	666
Auditors' remuneration	551	533
Depreciation	8,505	6,144
Operating leases in respect of land and buildings	337	598
Provision for doubtful debts	63	–
Research and development costs	1,812	1,426
Staff costs (including emoluments of Directors and Supervisors) (Note 9)	13,258	11,533

5 FINANCE COSTS

	2004 Rmb'000	2003 Rmb'000
Interest on bank loans – wholly repayable within five years	1,073	589

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 ended 31 December 2004.

NOTES TO THE ACCOUNTS

6 TAXATION (Continued)

In 2003, 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 ended 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 Company, as explained above, as follows:

	2004 Rmb'000	2003 Rmb'000
Profit before taxation	41,309	22,791
Calculated at the approved taxation rate of 10% (2003: 10%)	4,131	2,279
Adjustment in taxation rate for 2002	–	(446)
Others	(3)	28
Taxation charge	4,128	1,861

As at 31 December 2004 and 2003, there was no significant unprovided deferred taxation.

7 DIVIDENDS

	2004 Rmb'000	2003 Rmb'000
Final, proposed, of Rmb0.022 (2003: Rmb0.012) per share	15,041	8,204

At a board meeting held on 16 March 2005, the Directors proposed a final dividend of Rmb0.022 per share, totalling approximately Rmb15,041,000 for the year ended 31 December 2004. 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 2005.

8 EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") for the year ended 31 December 2004 is based on the Company's profit attributable to shareholders of approximately Rmb37,181,000 (2003: Rmb20,930,000) and the 683,700,000 (2003: 683,700,000) shares in issue during the year.

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

9 STAFF COSTS

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

	2004 Rmb'000	2003 Rmb'000
Salaries, wages and welfare	10,924	9,523
Social security costs	1,017	652
Contribution to defined contribution retirement schemes (note (b))	1,317	1,358
	13,258	11,533

(b) Retirement benefit costs

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

NOTES TO THE ACCOUNTS

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:

	2004 Rmb'000	2003 Rmb'000
Fees:		
Executive Directors	420	420
Non-executive Directors	250	250
Independent non-executive Directors	113	100
	783	770
Other emoluments for Executive Directors:		
Basic salaries, allowances and benefits in kind	612	615
Retirement benefit contributions	18	15
	630	630
	1,413	1,400

One Director received emoluments of approximately Rmb800,000 for the year ended 31 December 2004 (2003: Rmb800,000). One Director received emoluments of approximately Rmb250,000 for the year ended 31 December 2004 (2003: Rmb250,000). Seven Directors received emolument of approximately Rmb50,000 each for the year ended 31 December 2004 (2003: Rmb50,000 each). One Director received emoluments of approximately Rmb13,000 for the year ended 31 December 2004 (2003: Nil).

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.

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

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

	2004 Rmb'000	2003 Rmb'000
Fees	57	57
Basic salaries, allowances and benefits in kind	73	90
Discretionary bonus	23	24
Retirement benefit contributions	15	13
	168	184

One Supervisor received emoluments of approximately Rmb71,000 for the year ended 31 December 2004 (2003: Rmb79,000). One Supervisor received emoluments of approximately Rmb61,000 for the year ended 31 December 2004 (2003: Rmb69,000). One Supervisor received emoluments of approximately Rmb6,000 for the year ended 31 December 2004 (2003: Rmb6,000). One Supervisor received emoluments of approximately Rmb15,000 for the year ended 31 December 2004 (2003: Rmb15,000). One Supervisor received emoluments of approximately Rmb8,000 for the year ended 31 December 2004 (2003: Rmb15,000). One Supervisor received emoluments of approximately Rmb7,000 for the year ended 31 December 2004 (2003: Nil).

None of the Supervisors waived any emoluments during the year.

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

NOTES TO THE ACCOUNTS

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

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

	2004	2003
Directors	2	2
Supervisors	1	1
Employees	2	2
	5	5

Details of the emoluments paid and payable to the two employees (2003: two employees) mentioned above, each of whose emoluments were less than HK\$1,000,000, are as follows:

	2004 Rmb'000	2003 Rmb'000
Basic salaries, allowances and benefits in kind	771	809
Discretionary bonus	37	12
Retirement benefit contributions	18	19
	826	840

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

NOTES TO THE ACCOUNTS

11 ACID PATENT

	2004 Rmb'000	2003 Rmb'000
Opening net book amount	8,278	8,944
Amortisation charge (Note 4)	(667)	(666)
Closing net book amount	7,611	8,278
	2004 Rmb'000	2003 Rmb'000
At cost	10,000	10,000
Accumulated amortisation	(2,389)	(1,722)
Net book amount	7,611	8,278

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 2004	12,040	34,953	61,363	5,145	113,501
Additions	–	–	802	10	812
Transfer from construction in progress (Note 13)	–	5,480	6,608	707	12,795
At 31 December 2004	12,040	40,433	68,773	5,862	127,108
Accumulated depreciation					
At 1 January 2004	496	3,137	9,534	2,373	15,540
Charge for the year	241	1,803	5,738	723	8,505
At 31 December 2004	737	4,940	15,272	3,096	24,045
Net book value					
At 31 December 2004	11,303	35,493	53,501	2,766	103,063
At 31 December 2003	11,544	31,816	51,829	2,772	97,961

The land use rights relate to two pieces of land situated in Mainland China under lease term of 50 years up to 17 May 2050 and 14 December 2052 respectively. The Company is in the process of obtaining the land use right title for one of the two pieces of land with a net book value of approximately Rmb7,026,000 (2003: Rmb7,172,000).

NOTES TO THE ACCOUNTS

13 CONSTRUCTION IN PROGRESS

	2004 Rmb'000	2003 Rmb'000
At 1 January	24,963	29,898
Additions	21,478	27,797
Transfer to fixed assets (Note 12)	(12,795)	(32,732)
At 31 December	33,646	24,963

14 INVENTORIES

	2004 Rmb'000	2003 Rmb'000
Raw materials	8,741	4,598
Work-in-progress	4,236	2,128
Finished goods	22,054	14,690
	35,031	21,416

As at 31 December 2004 and 2003, all inventories were stated at cost.

15 ACCOUNTS AND BILLS RECEIVABLE

	2004 Rmb'000	2003 Rmb'000
Accounts receivable (note (a))	27,977	26,661
Bills receivable (note (b))	2,456	1,331
	30,433	27,992

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

	2004 Rmb'000	2003 Rmb'000
0 to 3 months	26,238	25,790
4 to 6 months	1,150	728
Over 6 months	589	143
	27,977	26,661

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

NOTES TO THE ACCOUNTS

16 BANK BALANCES AND CASH

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

17 AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured and interest free.

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 2004, the balance of the distributions of the Excess payable to Shuguang Factory and Jomo amounted to approximately Rmb1,011,000 and Nil respectively (2003: Rmb6,327,000 and Rmb1,759,000 respectively). The outstanding amount due to Shuguang Factory was originally repayable in 2004 and has been mutually agreed to be deferred as repayable on demand.

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:

	2004 Rmb'000	2003 Rmb'000
0 to 6 months	3,113	3,469
7 to 12 months	270	4
Over 12 months	67	2
	3,450	3,475

19 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2004 and 2003	683,700,000	68,370

NOTES TO THE ACCOUNTS

19 SHARE CAPITAL (Continued)

(a) As at 31 December 2004 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.

(b) 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

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 2004	87,159	3,714	1,857	30,377	123,107
Transfer from profit and loss account	–	2,094	1,047	(3,141)	–
Final dividend for the year ended 31 December 2003	–	–	–	(8,204)	(8,204)
Profit for the year	–	–	–	37,181	37,181
At 31 December 2004	87,159	5,808	2,904	56,213	152,084

Representing:

2004 Proposed final dividend
Retained earnings as at
31 December 2004

15,041

41,172

56,213

	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

20 RESERVES (Continued)

(a) Statutory common reserve

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

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

For the year ended 31 December 2004, the Board of Directors proposed the transfer of approximately Rmb3,718,000 (2003: approximately Rmb2,094,000) 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. The proposed transfer will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

(b) Statutory public welfare fund

According to the Company's Articles of Association, the Company is required to transfer 5% of its profit 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 2004, the Board of Directors proposed the transfer of approximately Rmb1,859,000 (2003: Rmb1,047,000) 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 forthcoming annual general meeting. The proposed transfer will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

NOTES TO THE ACCOUNTS

21 NOTES TO CASH FLOW STATEMENT

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

	2004 Rmb'000	2003 Rmb'000
Profit before taxation	41,309	22,791
Interest income	(173)	(219)
Interest expense	1,073	589
Depreciation	8,505	6,144
Amortisation of acid patent	667	666
Write-back of provision for doubtful debts	–	(5)
Provision for doubtful debts	63	–
Operating profit before working capital changes	51,444	29,966
(Increase)/decrease in inventories	(13,615)	243
Increase in accounts and bills receivable, other receivables and prepayments	(2,236)	(17,979)
Increase in accounts payable, other payables and accrued charges	5,261	1,539
(Decrease)/increase in amounts due to shareholders	(464)	776
Net cash inflow generated from operations	40,390	14,545
Interest paid	(1,073)	(589)
PRC income tax paid	(3,539)	(2,004)
PRC income tax refunded	–	446
Net cash inflow from operating activities	35,778	12,398

NOTES TO THE ACCOUNTS

21 NOTES TO CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank loans		Dividends payable	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Balance at 1 January	20,000	20,000	–	–
New bank loans	42,000	20,000	–	–
Repayment of bank loans	(30,000)	(20,000)	–	–
2003 final dividend	–	–	8,204	–
2002 final dividend	–	–	–	8,204
Dividends paid	–	–	(8,204)	(8,204)
Balance at 31 December	32,000	20,000	–	–

22 COMMITMENTS

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

	2004 Rmb'000	2003 Rmb'000
Contracted but not provided for	12,356	4,618
Authorised but not contracted for	–	32,000
	12,356	36,618

(b) Commitments under operating leases

At 31 December 2004, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2004 Rmb'000	2003 Rmb'000
Not later than one year	267	388
Later than one year and not later than five years	302	529
Later than five years	1,037	1,062
	1,606	1,979

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:

	2004 Rmb'000	2003 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	1,455	15,799
Electricity charged by Shuguang Factory (note (b))	2,038	1,845
Water supply charged by Shuguang Factory (note (b))	315	268
Rental expenses to Shuguang Factory (note (c))	186	186
Transportation expenses charged by Shuguang Factory (note (d))	327	–

- (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 water supply were charged by Shuguang Factory on a cost reimbursement basis.
- (c) Rental expenses to Shuguang Factory were based at fixed amounts determined in accordance with the terms of the lease agreements.
- (d) Transportation expenses were charged by Shuguang Factory based at mutually agreed prices.

24 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 16 March 2005.

FIVE YEAR SUMMARY

	2000 Rmb'000	2001 Rmb'000	2002 Rmb'000	2003 Rmb'000	2004 Rmb'000
Results					
Turnover	72,959	117,213	96,769	144,632	200,984
Operating profit	23,343	38,237	24,465	23,380	42,382
Finance costs	(845)	(579)	(879)	(589)	(1,073)
Profit before taxation	22,498	37,658	23,586	22,791	41,309
Taxation	(2,839)	(4,514)	(2,805)	(1,861)	(4,128)
Profit attributable to shareholders	19,659	33,144	20,781	20,930	37,181
Distributions to shareholders/ dividends	4,412	24,202	15,564	8,204	15,041
Assets and liabilities					
Acid patent	–	9,611	8,944	8,278	7,611
Fixed assets	21,653	33,091	70,525	97,961	103,063
Construction in progress	623	31,104	29,898	24,963	33,646
Net current assets	15,795	36,880	75,251	60,275	76,134
Total assets less current liabilities	38,071	110,686	184,618	191,477	220,454
Long-term portion of amount due to shareholders	–	11,735	5,867	–	–
Long-term bank loans	10,800	10,800	–	–	–
	27,271	88,151	178,751	191,477	220,454
Share capital	4,601	50,000	68,370	68,370	68,370
Reserves	22,670	38,151	110,381	123,107	152,084
Shareholders' funds	27,271	88,151	178,751	191,477	220,454
Basic earnings per share (Note 1)	N/A	Rmb0.089	Rmb0.035	Rmb0.031	Rmb0.054

Note 1: No earnings per share is presented for the year ended 31 December 2000 as its inclusion is not considered meaningful as the economic nature of the Company was a sino-foreign equity joint venture.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2004 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 11 May 2005, at 10:00 a.m. for the following purposes:

As ordinary resolution:

1. To consider and approve the Report of the Directors for the year 2004;
2. To consider and approve the Report of the Supervisory Committee for the year 2004;
3. To consider and approve the audited financial statements of the Company for the year ended 31 December 2004;
4. To consider and approve the final dividend distribution proposal for the year ended 31 December 2004;
5. To consider and approve the appropriation to statutory common reserve and statutory public welfare fund for the year 2004;
6. To consider the re-appointment of 江蘇公証會計師事務所有限公司(Jiangsu Gongzheng Certified Public Accountant Co., Ltd.) as the PRC auditors of the Company for the year 2005 and PricewaterhouseCoopers as the international auditors of the Company for the year 2005 and to authorise the Board to fix their remuneration;
7. 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 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

NOTICE OF ANNUAL GENERAL MEETING

- (c) to make such necessary amendments to the Articles of Association of the Company to reflect changes in the share capital of the Company arising out of such placement and/or issue of shares, subject to the approval of the examination and approval authority authorised by the State Council of the People's Republic of China;

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

By order of the Board

Rui Xin Sheng

Chairman

The PRC, 22 March 2005

Notes:

1. The H share register of shareholders of the Company will be closed from 9 April 2005 to 11 May 2005 (both days inclusive), during which time no transfer of H shares will be effected. The holders of Domestic Share(s), Promoter Foreign Share(s) or H share(s) whose name appears on the register of members of the Company at 4:00 p.m. on 8 April 2005 will be entitled to attend and vote at the AGM.
2. Any holder of Domestic Share(s), Promoter Foreign Share(s) or H share(s) 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 Domestic Share(s), Promoter Foreign Share(s) or H share(s) of the Company.
3. A voting proxy form for the AGM is enclosed. In order to be valid, the voting proxy form together with the power of attorney (if any) or other document of authority (if any), under which it is signed or a notarily certified copy of the power of attorney or other document of authority must be delivered, in the case of holders of Domestic Share(s) or Promoter Foreign Share(s), to the Company's principal place of business in Hong Kong at Room 54, 5/F, New Henry House, 10 Ice Street, Central, Hong Kong, in the case of holders of H share(s), to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.
4. Holders of Domestic Share(s), Promoter Foreign Share(s) or H share(s) who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it, in the case of holders of Domestic Share(s) or Promoter Foreign Share(s), to the Company's principal place of business in Hong Kong at Room 54, 5/F, New Henry House, 10 Ice Street, Central, Hong Kong, in the case of holders of H share(s), to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong on or before 20 April 2005. The reply slip may be delivered by hand, by post or by fax to the number (852) 2865 0990.

