



■ 2005 ANNUAL REPORT ■

CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED

常茂生物化學工程股份有限公司

(A JOINT STOCK LIMITED COMPANY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

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This report, for which the directors of Changmao Biochemical Engineering Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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.



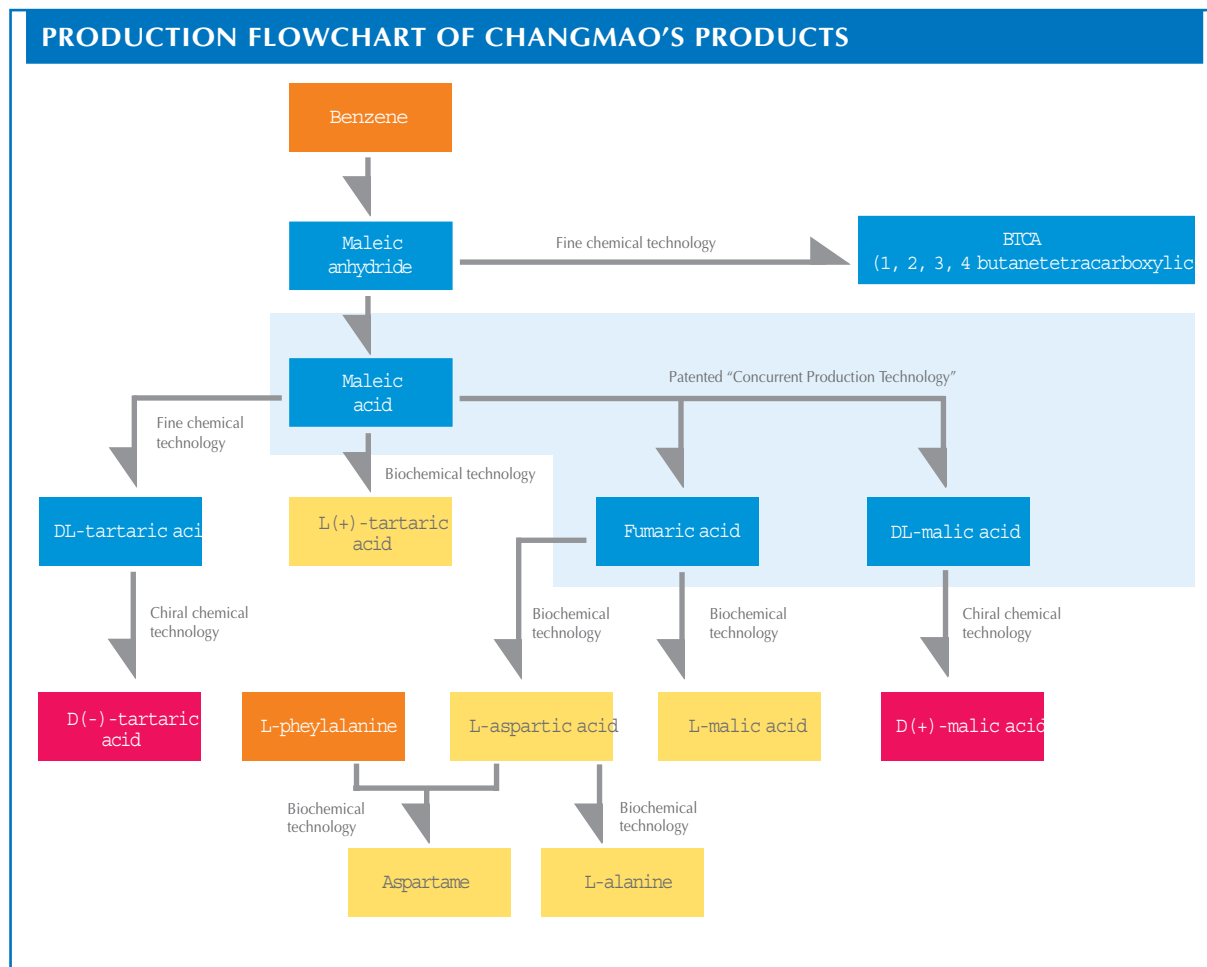
C O N T E N T

- Corporate Profile 2
- Corporate Information 4
- Chairman’s Statement 5
- Management Discussion and Analysis 12
- Profiles of Directors, Supervisors and Senior Management 17
- Corporate Governance 22
- Report of the Directors 27
- Report of the Supervisory Committee 43
- Auditors’ Report 44
- Profit and Loss Account 45
- Balance Sheet 46
- Statement of Changes in Equity 48
- Cash Flow Statement 49
- Notes to the Accounts 50
- Five Year Summary 86
- Notice of Annual General Meeting 87

CORPORATE PROFILE

Established in 1992, Changmao Biochemical Engineering Company Limited (the “Company” or “Changmao”) is a leading organic acid producer in the People’s Republic of China (the “PRC”), specializing in the manufacture and sale of high quality and high value organic acids. The Company’s products conform to the highest international standards and exports to Western Europe, the United States, Australia and Japan, which account for over 60% 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. In 2006, the Company will launch a new product, aspartame, into the market. 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.



CORPORATE PROFILE

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. 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

REMUNERATION COMMITTEE

Mr. Rui Xin Sheng
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

CHAIRMAN'S STATEMENT

To the Shareholders,

On behalf of the board of directors of the Company (the "Board"), I am pleased to present the annual report of the Company for the year ended 31 December 2005. In 2005, the Company has met its objectives in respect of production, sales, research, management and construction of new production lines. The Company has maintained its growth momentum with encouraging financial results.

RESULTS OF THE YEAR

The Company's turnover for the year ended 31 December 2005 was approximately Rmb 299,006,000, increased by 49% as compared to that of last year of approximately Rmb 200,984,000. Net profit was approximately Rmb 68,587,000, increased by 84% as compared to that of last year of approximately Rmb 37,181,000. The net profit of 2005 was the highest since the Company was listed in June 2002. The Company achieved satisfactory growth in its financial results and operational scale during the past four years since its listing. We are encouraged by the satisfactory results and endeavour to keep up our work. The Company is financially stable and has high potential in future development.

Results for the year ended 31 December 2005 (expressed in Rmb'000)

	2005	2004	Increment
Turnover	299,006	200,984	49%
Net profit	68,587	37,181	84%



CHAIRMAN'S STATEMENT

Dividend

The Board proposed to declare a final dividend of Rmb 0.033 per share (2004: Rmb 0.022 per share) for the year ended 31 December 2005. The proposed final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Overview

In 2005, the Company's performance is outstanding in different aspects and has enhanced its strengths. The Company has increased its production scale and explored new market. The development of new products and the project with an international enterprise was smooth. The Company has also started its plan to enter into the bio-medical industry. With the strong internal growth and the project with an international enterprise, the Company achieved a stable development.

Market development

With the fast development of food industry in recent years, the related food additive industry also grew very fast. The Company's core products, malic acid, tartartic acid and fumaric acid, have wide applications in the food industry. As a result, the market of these products also grows rapidly.

Apart from keeping the existing customers, the Company also devoted to gain new customers in order to increase its sales. The Company has developed an outstanding sales team. To further explore the international market, the Company's sales team went to Europe, America and Asia to visit the customers and participated in trade fairs in different parts of the world to promote the Company's products. Through these means, the Company has successfully gained a lot of new



CHAIRMAN'S STATEMENT

orders. At the same time, the Company has entered into distribution contracts with sales agents in the United States and Australia for exclusive distribution of some of the Company's products in the respective areas. This strategy resulted in the increase in the market share of the Company and also the financial growth of the Company in 2005. In addition, the Company has already placed advertisements in renowned magazines overseas for the last three years to increase the Company's brand recognition internationally, and the result is satisfactory.

The Company started to prepare for entering into the United States market since 2003. It is an important market in the world and has a very high potential. Through two years' effort, sales to the United States for the year ended 31 December 2005, have increased by approximately 8 times as compared to that for the year ended 31 December 2004. Sales to the United States accounted for approximately 14% of the turnover in 2005. The Company is in the progress of obtaining certificates issued by Food and Drug Administration (FDA) for some of its products in order to further explore the market in the United States and is expected to obtain such certificates in early 2006. With these certificates, the Company believes that sales in the United States will grow rapidly.

Production

The Company's strategy is to adjust its production in accordance with the customers' needs. The Company has improved its production technologies, saved energy cost and reduced production wastage to control the production cost. The sales of tartaric acid, malic acid and fumaric acid increased in 2005 as compared to that of last year and resulted in stable growth in net profit.



CHAIRMAN'S STATEMENT



Fumaric acid production line with annual production capacity of 20,000 tonnes

Benzene (raw material) warehouse

The Company's second fumaric acid (includes maleic anhydride) production line with annual production capacity of 10,000 tonnes was put into operation in May 2005 and increased the annual production capacity of fumaric acid (includes maleic anhydride) to 20,000 tonnes. It also enhances the vertical production chain of the Company and is significant to the growth in the Company's operational scale. With the launch of this production line, the Company became one of the largest fumaric acid producers in Asia. This production line uses steam, a by-product of the production, to replace a large centrifugal compressor that is driven by a ten thousand volts high pressures motor and is very effective in energy saving. In the second half of 2005, the demand of maleic anhydride was strong with high selling price and lucrative margin. The Company has grasped these opportunities and sales of maleic anhydride were encouraging. It is expected that this new production line will make more contributions to the Company's sales and cost saving in 2006.

New products

The Company continues on its investments in new products, mainly in food additives, chiral auxiliary materials and medicinal intermediaries. These products are inter-related and thus widen the Company's market.

Aspartame is a very popular sweetener in the international market. It has been used in over 6,000 drinks, food and medicinal products and has a great market potential. The Company has developed the production technologies of L-phenylalanine and aspartame at the same time to extend its vertical production line. Through years of research, the Company's production technology on aspartame has reached the international advanced technological level. It is very competitive in terms of product quality and production cost. The aspartame production line is in operation now and is expected to be the new area of growth for the Company in 2006.

CHAIRMAN'S STATEMENT



The Company owns the first provincial chirotechnology research centre with an outstanding research team in Mainland China. The research centre teamed up with a famous Japanese enterprise to perform research on new technologies to produce chiral medicinal intermediary, derivatives of organic acids and synthesis of amino acid. These products can be used as chiral medicinal intermediary, chiral resolution agent and chiral synthesis agent and have great market potential. The Japanese partner has recognized the progress of the project and the production environment. It is expected that the above products will start production in the first half of 2006 and will bring more profit to the Company.

With the foundation of the existing chirotechnology research centre, the Company is considering to acquire a research centre of an university in Shanghai to strengthen the Company's ability on research and development and as a basis for the Company to enter into the bio-medical industry.

Construction of production lines

The construction for phase two of the factory premises was the heaviest in 2005 and it is an important milestone to the development the Company. Construction of aspartame production line, warehouse and environmental protection unit has been completed. Certain production lines will be in operation in 2006.

Over 60% of the Company's products are exported to the overseas (including sales through import-export agents in the PRC). The new production lines in the phase two of the factory premises are all designed and built with Good Manufacturing Practice (GMP) standards so that the products manufactured are of internationally advanced level. The aspartame GMP production line has been completed and started operation. Some overseas companies has physically inspected the production line and signed purchase contracts with the Company.

CHAIRMAN'S STATEMENT

Management of the Company

The Company continues to improve the effectiveness of the Company's management in 2005, provide high quality services to customers and increase brand recognition.

The Company adopts high quality international management system. The Company's quality system has conformed to the ISO9001 Quality System Standard. The Company also obtained the Hazard Analysis Critical Control Point (HACCP) Certificate in 2006. By obtaining these internationally recognized certificates, the Company enhanced its management quality. It also helps the Company to provide high quality services to customers.

The Company has teamed up with different famous international enterprises in order to increase the Company's brand recognition. This strategy increased the Company strengths, helps our overseas partners to explore their business in China, and also helps the Company to enter into the international market.

The Company's employees are rewarded according to the Company's performance. It encourages its employees to work towards the goal of creating the greatest value to the shareholders. The Company provided on-the-job training and special training courses to the employees to uplift their quality and sense of belonging to the Company.

Outlook and prospects

In 2006, the Company will continue the construction of the second phase of the production premises, carry on the projects with international enterprises, integrate its resources, and seek more international business partners to further explore the markets.



Production line with Good Manufacturing Practice (GMP) standard



Aspartame production line

CHAIRMAN'S STATEMENT

Based on the food additives products, the Company will extend its production chain vertically downward. The Company will focus on the new downstream products and uses these new products to explore the domestic and overseas market further, especially North America.

From the prospective of macro economic, the global economy will keep the growth momentum. The increase in average disposal income per person will encourage the growth of the food industry which in turn also increases the growth of food additive industry. In addition, people are more health conscious which imply that the pharmaceutical industry is of high potential. The Company is well equipped with production technologies in commercial scale and chirotechnology. This will enable the Company to obtain prominent results and market recognition in the industries of food additives, chiral auxiliary materials, medicinal intermediaries.

The Company is financially healthy. The Board is confident on the future of the Company. The Company's success is attributable to the support of the shareholders and the efforts of the employees. I would like to express our sincere gratitude to the fellow members of the Board, the employees of the Company, our customers and suppliers as well as the shareholders. We shall continuous to put more efforts on the development of the Company and bring lucrative return to the shareholders.

Rui Xin Sheng
Chairman

The PRC, 8 March 2006

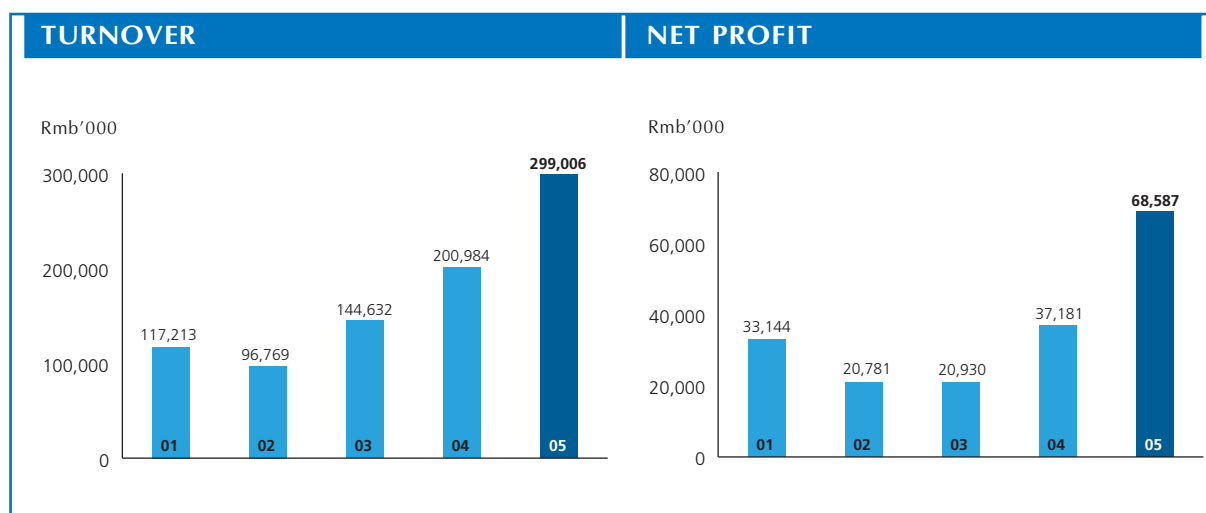


MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Company recorded a turnover of approximately Rmb299,006,000 for the year ended 31 December 2005, representing an approximately 49% increase compared to that of the year ended 31 December 2004. In 2005, the Company's overall sales volume reached its historical high, increased by approximately 33% as compared to 2004. The Company completed the construction of the second set of fumaric acid (includes maleic anhydride) production line with an annual production capacity of 10,000 tonnes in 2005. The maleic anhydride produced can be used as raw materials for the Company's downstream products such as tartaric acid and aspartic acid. The maleic anhydride produced by this production line was more than enough as raw materials for the downstream products. The surplus maleic anhydride was sold in the market. Sales of maleic anhydride reached Rmb36 million (2004: Nil) in 2005. The sales volume of the major products, L(+)- tartaric acid and malic acid, also surged with the sales revenue, increased by 48% and 21% respectively compared with that of last year. The selling prices of these products have gone up in 2005 driven by the increase in the raw material costs of these products. Over 60% of the Company's products (including sales through import-export agents in the PRC) are exported to the overseas. In the past, the Company's products were mainly exported to Western Europe, Japan and Australia. The Company has further explored the United States market in 2005 with its high quality products and the effective advertising and promotional strategy in the United States. The sales to the United States in 2005 increased by 8 times as compared to that of last year. Sales to the United States accounted for approximately 14% of the turnover in 2005.



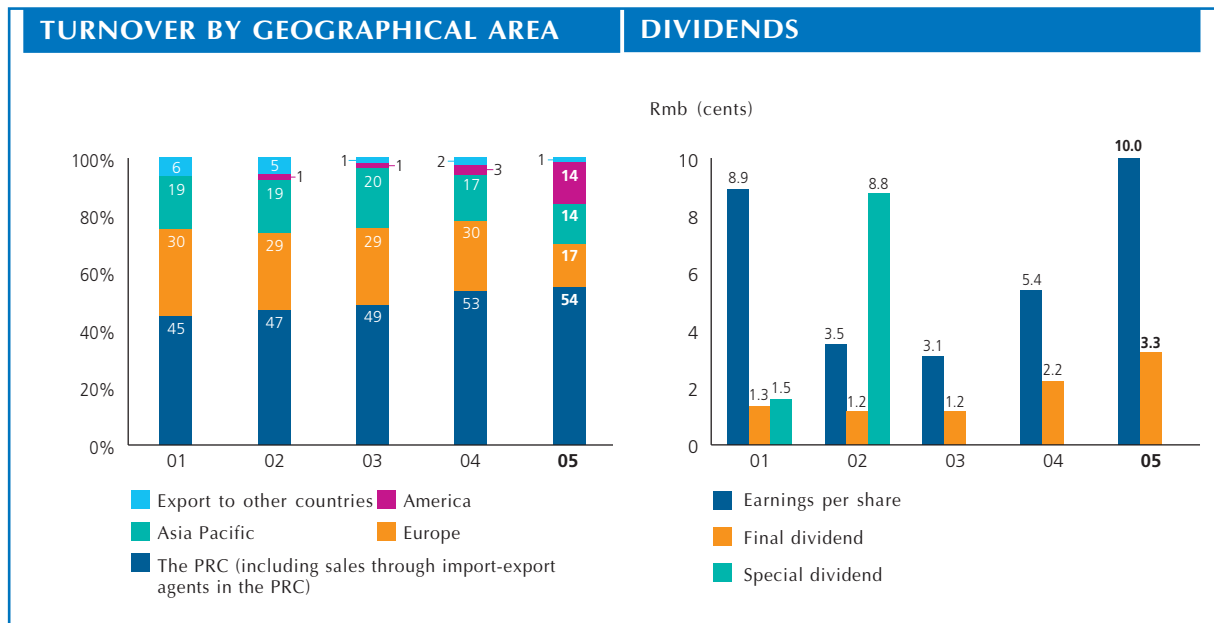
MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin

The gross profit margin for the year ended 31 December 2005 was approximately 36%, representing a 5% increase as compared to 31% recorded for 2004. The Company has constructed a fumaric acid (includes maleic anhydride) production line with annual production capacity of 10,000 tonnes each in 2004 and 2005 respectively for producing raw materials for the downstream products and end product for sale. These two production lines reduce the raw material costs of the Company. The heat energy produced can be recycled and thus reduces the energy cost of the Company. As a result, the Company's profit margin was raised. The Company has streamlined its production process by improving its production technologies in order to increase the conversion rate and increasing its operating scale in order to achieve economy of scale. In addition, the Company has adjusted its selling strategy by focusing more on the products with high margin in order to uplift the Company's earning ability.

Expenses

Due to the continuous growth of business and production volume, the Company has recruited new employees, 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 2005 increased as compared to last year. In addition, the Company performed well in the 2005 and for the first time triggered the incentive bonus scheme and paid approximately Rmb4,916,000 incentive bonus to the Directors and employees in aggregate. For details, please refer to the paragraph headed "Employees" below.



MANAGEMENT DISCUSSION AND ANALYSIS

Taxation

The effective tax rate of the Company increased from 10% for the year ended 31 December 2004 to 15% for the year ended 31 December 2005. For details of the change in tax rate, please refer to Note 9 to the accounts.

SEGMENTAL INFORMATION

Most of the Company's products are exported to Western Europe, Australia, the United States and Japan. The turnover in 2005 increased by approximately 49% as compared to that of 2004. The direct export sales (including sales through import-export agents in the PRC) increased by approximately 32% as compared to that of last year while domestic sales increased by approximately 85% as compared to that of last year.

As a percentage of turnover, direct export sales (including sales through import-export agents in the PRC) accounted for approximately 61% (2004: 68%) of the Company's turnover while domestic sales in the PRC accounted for approximately 39% (2004: 32%) of the turnover. The Company had increased its production capacity of fumaric acid (including maleic anhydride) to 20,000 tonnes per year in 2005. Maleic anhydride is produced and used as raw materials for the Company's downstream products. In 2005, there was excess maleic anhydride produced and sold to the domestic market, which increased the proportion of the Company's domestic sales.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Company is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("USD") and Euro ("EUR"). The Company has not used any significant forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The depreciation or appreciation of foreign currencies against Renminbi will affect the Company's results of operations.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Company had total outstanding bank borrowings of Rmb38 million (2004: Rmb32 million), of which Rmb29 million (2004: Rmb32 million) were unsecured short-term bank borrowings, Rmb9 million (2004: Nil) were unsecured long-term bank borrowings. The interest rate of the outstanding bank loans is approximately 5.6% (2004: 5.3%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2005 and 2004, the Company did not have any committed borrowing facilities.

As at 31 December 2005, the Company had capital commitments for property, plant and equipment amounting to approximately Rmb37 million. 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 2006. The Company intends to finance the capital commitments by cash flows generated from the Company's operations and/or bank financings.

The Company did not have any charge on its assets during the year ended 31 December 2005. The gearing ratio (calculated based on total liabilities divided by total assets) was both 19% as at 31 December 2005 and 2004 respectively. As at 31 December 2005, the Company's bank balances and cash amounted to Rmb29,526,000 (2004: Rmb52,971,000). The Directors believe that the Company is in a healthy financial position.

CAPITAL STRUCTURE OF THE COMPANY

The H shares of the Company (the "H Shares") 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

Including the Directors, as at 31 December 2005, the Company employed a total of 325 employees (2004: 305 employees). Employees are remunerated in accordance with the nature of the job and also on individual merit. Total amount of staff costs for the year ended 31 December 2005 was approximately Rmb20,081,000 (2004: Rmb13,258,000). The increase in staff cost was mainly due to salary increment and an incentive bonus amounting to approximately Rmb4,916,000 (2004: Nil) was given to the employees for the year ended 31 December 2005. Under the staff incentive scheme for each of the three 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 Rmb40 million (the "Target Profit"):

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

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Company as at 31 December 2005 and 2004.

CHANGES IN THE COMPOSITION OF THE COMPANY DURING THE YEAR

There is no acquisitions and disposals of subsidiaries and affiliated companies by the Company during the year ended 31 December 2005 and 2004.

CONTINGENT LIABILITIES

As at 31 December 2005 and 31 December 2004, 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 49, 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 39, 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 63, 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. Yu Xiao Ping (虞小平), aged 50, 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 United States. Mr. Yu joined the Company in December 1992.

Mr. Lu Chong Zhu (呂崇竹), aged 63, 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 44, 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 60, 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 65, 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 38, 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 51, 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 61, 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 36, 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 48, 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 69, 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 34, 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 37, 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 37, 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 32, 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.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Save as disclosed in the paragraph headed “Chairman and general manager (chief executive officer)” below, the Company has complied with the code provisions of the Code on Corporate Practice as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2005.

The Company’s corporate governance structure includes the board of directors and the supervisory committee. The Company has also established two committees under the Board, namely the remuneration committee and the audit committee. The corporate governance practices adopted by the Company are as follows:

THE BOARD

The major responsibilities of the Board include the formation of the Company’s overall strategies, setting business plans and the supervision of the performance of the management. The Directors acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Board is also responsible for preparing a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other statutory requirements. The Board has performed an annual review of the effectiveness of the internal control system of the Company and was satisfied that an effective and adequate internal control system has been in operation.

The Board comprises two executive Directors, namely, Mr. Rui Xin Sheng and Mr. Jiang Jun Jie, four non-executive Directors, namely, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Lu Chong Zhu and Mr. Leng Yi Xin and three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

CORPORATE GOVERNANCE

The Board meets regularly, and had met four times for the year ended 31 December 2005. Attendance of individual members of the Board meeting for the year ended 31 December 2005 is as follows:

	Name of Director	Attended/ Eligible to attend
Chairman	Rui Xin Sheng	4/4
Executive Director	Jiang Jun Jie	4/4
Non-executive Directors	Zeng Xian Biao	4/4
	Zhu Lai Fa (resigned on 16 September 2005)	2/3
	Yu Xiao Ping	1/4
	Lu Chong Zhu	2/4
	Leng Yi Xin	4/4
Independent Non-executive Directors	Ouyang Ping Kai	1/4
	Yang Sheng Li	3/4
	Wei Xin	4/4

Save that Ms. Leng Yi Xin is the wife of Mr. Rui Xin Sheng, each of the Directors is independent of other Directors.

Chairman and general manger (chief executive officer)

Code provision A.2.1 of Appendix 15 to the GEM Listing Rules stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Rui Xin Sheng, the chairman of the Board, also acts as the general manager (chief executive officer) of the Company. Since Mr. Rui Xin Sheng is well aware of the Company's business and operation, the Company considers that it is in the best interest of the Company for Mr. Rui Xin Sheng to act as the general manager of the Company.

CORPORATE GOVERNANCE

Code of Conduct Regarding Securities Transactions by Directors

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 during the year ended 31 December 2005.

Appointment of Directors

Appointments of Directors, being individuals who are suitably qualified and expected to make positive contributions to the performance of the Board, are first considered by the existing Directors. Thereafter, all Directors are subject to election by shareholders at the shareholders' general meeting. A Director may serve consecutive terms if re-elected upon the expiration of the terms.

Each of the Directors (including independent non-executive Directors) has entered into a service agreement with the Company. Each service contract is for a term of or less than three years and will be expired on 17 June 2007.

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 still considers the independent non-executive Directors remained independent.

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee was established in March 2005 to ensure there are formal and transparent procedures for developing and overseeing the Company's policies on the remuneration of its directors and senior management. It is chaired by the Chairman, Mr. Rui Xin Sheng with three independent non-executive Directors, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin. The remuneration committee held one meeting in 2005 and the attendance rate was 100%.

The remunerations of Directors and senior management is based on the skill, knowledge and involvement in the Company's affair of each Director or senior management and is also determined with reference to the performance and profitability of the Company. The Company has formulated a staff incentive bonus scheme. Details of which is set out in the paragraph headed "Employees" under the section headed "Management Discussion and Analysis".

CORPORATE GOVERNANCE

Audit Committee

The Company has established an audit committee in June 2002 with written terms of reference in compliance with GEM Listing Rules. The audit committee comprises three independent non-executive directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Company, to review the Company's financial information and to review the relationship with the Auditors of the Company. The Audit Committee held four meetings for the year ended 31 December 2005 with attendance rate of 100%.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including to review, inter alia, the Company's quarterly, interim and annual results released during the year ended 31 December 2005 and to recommend the Board the appointment of external auditors.

Auditors' remuneration

PricewaterhouseCoopers have been re-appointed as the Company's international external auditors by shareholders at the 2004 annual general meeting. They are primarily responsible for providing audit services in connection with the Company's annual financial statements.

During the year, the total remuneration in respect of statutory audit services provided by the external auditors amounted to HK\$580,000 (approximately equivalent to Rmb603,000).

THE SUPERVISORY COMMITTEE

The supervisory committee is accountable to the general meeting. The responsibilities of the supervisory committee include the monitoring of whether the Directors and senior management have, in the performance of their duties, acted in contravention of any laws, administrative regulations, the Articles of Association or the resolutions passed at general meetings; and the reviewing of the Company's financial information. Supervisors can attend the Board meetings.

CORPORATE GOVERNANCE

The supervisory committee comprises two supervisors nominated by shareholders, Ms. Zhou Rui Juan and Mr. Lu He Xing, a supervisor nominated by employees, Mr. Pan Chun and two independent supervisors nominated by shareholders, Prof. Gu Jian Xin and Prof. Jiang Yao Zhong. Each of the Supervisor has entered into a service agreement with the Company. Each service contract is for a term of or less than three years and will be expired on 17 June 2007.

The supervisory committee held two meetings for the year ended 31 December 2005 with attendance rate of 100%.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31 December 2005.

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 5 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the profit and loss account on page 45.

The Directors recommend the payment of a final dividend of Rmb 0.033 per share, totalling approximately Rmb 22,562,000.

RESERVES

Movements in the reserves of the Company during the year are set out in Note 22 to the accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company are set out in Note 15 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 21 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the distributable reserves of the Company were approximately Rmb 93,723,000 (2004: Rmb 50,449,000) 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 86 of the annual report.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not purchased, sold or redeemed any of its listed securities for the year ended 31 December 2005.

SHARE OPTIONS

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 and the Scheme shall lapse should the conditions as set out in the Scheme not be fulfilled within 36 months immediately after the date when the Company commenced the trading of its shares on GEM of the Stock Exchange (the "Expiry Date").

Up to the Expiry Date, the relevant conditions have not yet been fulfilled and the Scheme lapsed accordingly during the year. No options have been granted under the Scheme since its adoption.

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 (resigned on 16 September 2005)

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

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. Each service contract is for a term of not more than three years 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 2005, 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:

Director	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
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:

Director	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Promoter Foreign Shares	Percentage shareholding in the Promoter Foreign Shares
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%
Prof. Ouyang Ping Kai	(Note (f))	–	–	(Note (f))	(Note (f))
Prof. Yang Sheng Li	(Note (g))	–	–	(Note (g))	(Note (g))
Supervisor					
Ms. Zhou Rui Juan	(Note (h))	–	–	(Note (h))	(Note (h))
Mr. Pan Chun	(Note (i))	–	–	(Note (i))	(Note (i))
Mr. Lu He Xing	(Note (j))	–	–	(Note (j))	(Note (j))
Prof. Gu Jian Xin	(Note (k))	–	–	(Note (k))	(Note (k))
Prof. Jiang Yao Zhong	(Note (l))	–	–	(Note (l))	(Note (l))

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)

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

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)

- (e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign Shares.
- (f) 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.
- (g) Prof. Yang is the registered holder and beneficial owner of 2,000 Class "B" shares of HK\$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 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) 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.
- (i) 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.
- (j) 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.
- (k) 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.
- (l) 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 2005, 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 2005, the following, not being a Director, Supervisor or chief executives 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	Percentage shareholding in the Promoter		Number of H Shares	Percentage shareholding in the H Shares
				Number of Foreign Shares	Foreign Shares		
常州曙光化工廠 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	-	-	-	-
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	-	-	135,000,000	48.04%	-	-

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	Percentage shareholding in the Promoter		Number of H Shares	Percentage shareholding in the H Shares
				Number of Foreign Shares	Foreign 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	–	–	–	–	25,788,000	14.04%
Chervon Holdings Limited	Interest of controlled corporation	–	–	–	–	25,788,000 (Note (c))	14.04%
PS Holdings Limited	Interest of controlled corporation	–	–	–	–	25,788,000 (Note (d))	14.04%

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)

Notes:

- (a) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Promoter Foreign Shares.
- (b) Shanghai Technology Investment Company is the beneficial owner of 49% of the issued share capital of Shanghai Technology Investment Company Limited, which is the registered holder and beneficial owner of 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 25,788,000 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 Investments Limited is the beneficial owner of 25,788,000 H Shares.

Save as disclosed above, as at 31 December 2005, the Directors are not aware of any person, not being a Director, Supervisor or chief executives 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

	2005	2004
– the largest supplier	20%	4%
– five largest suppliers combined	46%	18%

Sales

	2005	2004
– the largest customer	16%	9%
– five largest customers combined	34%	33%

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:

	2005	2004
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	3,557	1,455
Electricity charged by Shuguang Factory (note (b))	2,249	2,038
Water supply charged by Shuguang Factory (note (c))	303	315
Rental expenses to Shuguang Factory (note (d))	186	186
Transportation expense charged by Shuguang Factory (note (e))	467	327
Processing fee charged by Shuguang Factory (note (f))	798	–
Sales commission charged by Shuguang Factory (note (f))	394	–

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)*Notes:*

- (a) The Company purchased maleic anhydride and crude maleic anhydride from Shuguang Factory. In accordance with a master purchase agreement dated 9 June 2002, the prices were determined by the two parties subject to that the prices of maleic anhydride should not exceed the lower of (i) the lowest price paid by any independent third party to Shuguang Factory for the maleic anhydride in the immediately preceding month; and (ii) the then prevailing market prices of maleic anhydride as reported from time to time in “化工市場七日訊” (“Chemical Industry Market Weekly”), a journal edited by independent third party and which contains information on the prices of maleic anhydride and various types of chemicals and that the prices of crude maleic anhydride are set at prices which are no higher than 73% of the prices of maleic anhydride for the same period of time. The agreement was expired on 31 May 2005. In view of the Company’s continuous demand for maleic anhydride and crude maleic anhydride, the Company has entered into a renewed agreement dated 20 December 2004 with Shuguang Factory to extend the terms of the original agreement. The renewed agreement will be expired on 31 December 2007. Under the renewed agreement, the prices were determined by the two parties subject to that the prices of maleic anhydride should not exceed the lower of (i) the average lowest price paid by any independent third party to Shuguang Factory for the maleic anhydride in the month of supply; and (ii) the then prevailing market prices of maleic anhydride as reported from time to time in Chemical Industry Market Weekly 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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

- (d) Rental expenses to Shuguang Factory includes the rental for leasing of a land use right and a building. The Company leases the land use right from Shuguang Factory for a term of 50 years at a rate of (i) in respect of the period between 20 June 2001 to 31 March 2002, Rmb 5,611 per annum; and (ii) in respect of the period from 1 April 2002 to 12 June 2050, Rmb 25,611 per annum. The Company leases a building from Shuguang Factory for a term of 5 years from 1 April 2002 to 31 March 2007 at an annual rental of Rmb 160,000.
- (e) Transportation expenses to Shuguang Factory were based at fixed fees with reference to market price quoted from third parties.
- (f) Processing fee and sales commission to Shuguang Factory were based at fixed fees in accordance with the terms of the processing and sales agreements.

The Company had made an announcement in respect of the purchase of maleic anhydride and crude maleic anhydride from Shuguang Factory and the payment of electricity charge to Shuguang Factory on 31 December 2004 (the "Announcement"). 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 as stated in the Announcement.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2005, 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 2005.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Details of the retirement schemes are set out in Notes 2.15 and 12 to the accounts.

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, 8 March 2006

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2005, 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; 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 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;
3. the financial statements of the Company for the year ended 31 December 2005, which have been audited by PricewaterhouseCoopers, reflected truly and fairly the operating results and financial 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, 8 March 2006.

AUDITORS' REPORT



羅兵咸永道會計師事務所

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

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

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

We have audited the accounts on pages 45 to 85 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 Hong Kong Standards on Auditing 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 affairs of the Company as at 31 December 2005 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, 8 March 2006

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

	Note	2005 Rmb'000	2004 Rmb'000
Turnover	5	299,006	200,984
Cost of sales		(190,350)	(138,083)
Gross profit		108,656	62,901
Other operating income	6	2,465	915
Selling expenses		(6,717)	(6,175)
Administrative expenses		(21,759)	(15,259)
Operating profit	7	82,645	42,382
Finance costs	8	(1,956)	(1,073)
Profit before taxation		80,689	41,309
Taxation	9	(12,102)	(4,128)
Profit for the year attributable to equity holders of the Company		68,587	37,181
Dividends	10	22,562	15,041
Basic earnings per share	11	Rmb0.100	Rmb0.054

BALANCE SHEET

As at 31 December 2005

	Note	2005 Rmb'000	2004 Restated Rmb'000
ASSETS			
Non-current assets			
Acid patent	14	6,944	7,611
Property, plant and equipment	15	101,124	91,760
Land use rights	16	11,062	11,303
Construction in progress	17	75,652	33,646
		194,782	144,320
Current assets			
Inventories	18	48,075	35,031
Trade and bills receivables	19	55,457	30,433
Other receivables and prepayments		10,258	10,611
Bank balances and cash	20	29,526	52,971
		143,316	129,046
Total assets		338,098	273,366
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	68,370	68,370
Reserves	22	183,068	137,043
Proposed final dividend		22,562	15,041
Total equity		274,000	220,454

BALANCE SHEET

As at 31 December 2005

	Note	2005 Rmb'000	2004 Restated Rmb'000
LIABILITIES			
Non-current liability			
Long-term bank borrowings	23	9,000	–
Current liabilities			
Amounts due to a shareholder	24	2,285	2,579
Trade payables	25	3,244	3,450
Other payables and accrued charges		16,987	13,488
Taxation payable		3,582	1,395
Bank borrowings	23	29,000	32,000
		55,098	52,912
Total liabilities		64,098	52,912
Total equity and liabilities		338,098	273,366
Net current assets		88,218	76,134
Total assets less current liabilities		283,000	220,454

Rui Xin Sheng
Director

Jiang Jun Jie
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Note	Attributable to equity holders of the Company			Total Rmb'000
		Share capital Rmb'000	Other reserves (Note 22) Rmb'000	Retained earnings Rmb'000	
Balance at 1 January 2004		68,370	92,730	30,377	191,477
Transfer from profit and loss account	22	–	3,141	(3,141)	–
Profit for the year		–	–	37,181	37,181
Final dividend for the year ended 31 December 2003		–	–	(8,204)	(8,204)
Balance at 31 December 2004		68,370	95,871	56,213	220,454
Balance at 1 January 2005		68,370	95,871	56,213	220,454
Transfer from profit and loss account	22	–	5,577	(5,577)	–
Profit for the year		–	–	68,587	68,587
Final dividend for the year ended 31 December 2004		–	–	(15,041)	(15,041)
Balance at 31 December 2005		68,370	101,448	104,182	274,000

CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	2005 Rmb'000	2004 Rmb'000
Cash flow from operating activities			
Cash generated from operations	26(a)	58,665	40,390
Interest paid		(1,961)	(1,073)
PRC income tax paid		(9,915)	(3,539)
Net cash generated from operating activities		46,789	35,778
Cash flow from investing activities			
Interest received		297	173
New short-term bank deposit	20	(1,000)	–
Purchase of property, plant and equipment		–	(812)
Additions of construction in progress		(61,492)	(22,249)
Proceed from sale of property, plant and equipment		2	–
Net cash used in investing activities		(62,193)	(22,888)
Cash flow from financing activities			
New bank borrowings	26(b)	61,000	42,000
Repayment of bank borrowings	26(b)	(55,000)	(30,000)
Dividends paid	26(b)	(15,041)	(8,204)
Repayments of amounts due to shareholders		–	(7,075)
Net cash used in financing activities		(9,041)	(3,279)
Net (decrease)/increase in cash and cash equivalents		(24,445)	9,611
Cash and cash equivalents at 1 January		52,971	43,360
Cash and cash equivalents at 31 December		28,526	52,971

NOTES TO THE ACCOUNTS

1 GENERAL INFORMATION

Changmao Biochemical Engineering Company Limited (the “Company”) is a joint stock limited company incorporated in the People’s Republic of China (“PRC”). The Company listed its H shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 June 2002. The principal activities of the Company are the production and sale of organic acids.

These accounts are presented in thousand units of Renminbi (Rmb’000), unless otherwise stated. These accounts have been approved for issue by the Board of Directors on 8 March 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). They have been prepared under the historical cost convention.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2005, the Company adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.1 Basis of preparation** (Continued)

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities

The adoption of new/revised HKASs 1, 2, 7, 8, 16, 21, 23, 24, 33, 36 and 38 did not result in substantial changes to the Company's accounting policies. In summary:

- HKAS 1 had no material effect on the presentation and disclosure of financial information.
- HKASs 2, 7, 8, 16, 23, 33, 36 and 38 had no material effect on the Company's policies.
- HKAS 21 had no material effect on the Company's policy. The Company has the same functional currency as the presentation currency for the accounts.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.1 Basis of preparation** (Continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is an impairment, the impairment is expensed in the profit and loss account. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment (if any). There is no impact on the Company's results for both 2005 and 2004 as a result of this change in the accounting policy.

The adoption of HKASs 32 and 39 has no material financial impact to the Company.

The Company has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable.

The Company has not early adopted the following new Standards, Interpretations or Amendments that have been issued but are not yet effective. The Directors anticipate that the adoption of these Standards, Interpretations or Amendments in future periods will have no material impact on the accounts of the Company.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.1 Basis of preparation** (Continued)

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.3 Foreign currency translation***(a) Functional and presentation currency*

Items included in the accounts are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The accounts are presented in Renminbi, which is the Company’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

2.4 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 impairment exists, the carrying amount of the acid patent is assessed and written down immediately to its recoverable amount.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.5 Property, plant and equipment** (Continued)

Depreciation of property, plant and equipment is calculated on the straight-line basis to write off their costs less accumulated impairment losses to their estimated residual values over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	10 years
Equipment and motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment 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.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Land use rights are amortised using the straight-line method over their estimated useful life of 50 years. Where an indication of impairment exists, the carrying amount of the land use rights are assessed and written down immediately to its recoverable amount.

2.7 Construction in progress

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

No depreciation is provided for construction in progress until they are completed and put into production ready for their intended use, upon which they will be transferred to property, plant and equipment.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.8 Impairment of non-financial assets**

Assets that are subject to depreciation or amortisation and construction in progress which are not subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 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, otherwise grants with no future related costs are recognised as income in the period in which they become receivable.

Government grants relating to the purchase of property, plant and equipment 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.

2.10 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. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.12 Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held with banks at call. Bank deposits with original maturities of more than three months are excluded from cash and cash equivalents.

2.13 Borrowing costs

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

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

2.14 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.

2.15 Employees benefits

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

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.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.16 Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.17 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 the 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.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value-added tax. Revenue from sales of goods are recognised when goods are delivered to customers and title has passed.

Interest income is recognised on a time-proportion basis using the effective interest method.

2.19 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged in the profit and loss account on a straight-line basis over the period of the lease.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's accounts in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE ACCOUNTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Company's policies approved by the Board of Directors. The Company does not use any significant derivative financial instruments during the year.

(a) *Foreign exchange risk*

The Company mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Company is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("USD") and Euro ("EUR"). The Company has not used any significant forward contracts, currency borrowings or other means to hedge its foreign currency exposure. The depreciation or appreciation of foreign currencies against Renminbi will affect the Company's results of operations.

(b) *Credit risk*

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Company performs periodic credit evaluation of its customers.

(c) *Liquidity risk*

The Company's primary cash requirements have been for construction of and upgrades on property, plant and equipment, payment on related debts and payment for research and development expenses. The Company finances its working capital requirements through a combination of funds generated from operations, short-term and long-term bank borrowings.

Due to the dynamic nature of the underlying businesses, the Company's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate lines of funding to meet its liquidity requirements in the short and long term.

NOTES TO THE ACCOUNTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors** (Continued)*(d) Cash flow and fair value interest rate risk*

The Company's income and operating cash flows are substantially independent of changes in market interest rates and the Company has no significant interest-bearing assets except for the cash and cash equivalents, details of which are disclosed in Note 20. The Company's exposure to changes in interest rates is mainly attributable to its long-term and short-term bank borrowings which carry interest at fixed rates and expose the Company to cash flow interest-rate risk; long-term borrowings at fixed rate expose the Company to fair value interest-rate risk, details of which are disclosed in Note 23. The Company has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Accounting for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. During the year ended 31 December 2005, the Company did not enter into any derivative financial instruments.

3.3 Fair value estimation

The carrying amounts of the Company's current financial assets, including cash and cash equivalents, trade receivables and other receivables and prepayments, and current financial liabilities, including trade payables, other payables and accrued charges and short-term bank borrowings, approximate their fair values due to their short maturities.

The nominal value less estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

NOTES TO THE ACCOUNTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

Management determines the estimated useful lives and related depreciation charges for the Company's property, plant and equipment, other than construction in progress. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Acid patent

Management determines the estimated useful life and the related amortisation charges for the Company's acid patent. Management will revise the amortisation charge where its useful life is different to previously estimated, or it will write-off or write-down the carrying value of the acid patent to its recoverable amount where there is an impairment of the asset.

(c) Impairment of non-financial assets

Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates. Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

NOTES TO THE ACCOUNTS

5 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:

	2005 Rmb'000	2004 Rmb'000
Sales of goods	299,006	200,984

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

	2005 Rmb'000	2004 Rmb'000
Mainland China	162,592	106,114
Europe	50,487	50,926
Asia Pacific	41,399	33,292
America	41,027	5,728
Others	3,501	4,924
	299,006	200,984

The Asia Pacific region includes Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand.

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 for the year were located or utilised in Mainland China.

NOTES TO THE ACCOUNTS

6 OTHER OPERATING INCOME

	2005 Rmb'000	2004 Rmb'000
Sales of scrap materials	1,473	260
Government grants	672	338
Interest income	297	173
Others	23	144
	<hr/>	<hr/>
	2,465	915

7 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005 Rmb'000	2004 Rmb'000
Crediting		
Net exchange gains	–	107
	<hr/>	<hr/>
Charging		
Amortisation of acid patent recognised in administrative expense (Note 14)	667	667
Amortisation of land use rights recognised in administrative expense (Note 16)	241	241
Auditors' remuneration	588	551
Depreciation (Note 15)	9,330	8,264
Loss on disposal of property, plant and equipment	24	–
Net exchange losses	1,423	–
Operating leases in respect of land and buildings	416	337
Impairment of trade receivables	14	63
Research and development costs	1,770	1,812
Staff costs (including emoluments of Directors and Supervisors) (Note 12)	20,081	13,258

NOTES TO THE ACCOUNTS

8 FINANCE COSTS

	2005 Rmb'000	2004 Rmb'000
Interest on bank borrowings – wholly repayable within five years	1,961	1,073
Less: Interest capitalised	(5)	–
	1,956	1,073

9 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% and is not subject to any local income tax. 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 was entitled to a reduced EIT rate of 12% until the financial year ended 31 December 2004.

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 or the “Certificate”) obtained by the Company in June 2001.

Upon expiry of the above special tax treatments, with effect from 1 January 2005, the Company is entitled to a preferential tax rate of 15% with reference to the renewed Certificate obtained by the Company in December 2003. During the year, such preferential tax treatment has been further extended for a period of two years up to the financial year ending 31 December 2007 upon renewal of the Certificate in November 2005.

NOTES TO THE ACCOUNTS

9 TAXATION (Continued)

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:

	2005 Rmb'000	2004 Rmb'000
Profit before taxation	80,689	41,309
Calculated at the approved taxation rate of 15% (2004:10%)	12,103	4,131
Others	(1)	(3)
Taxation charge	12,102	4,128

As at 31 December 2005 and 2004, there was no significant unprovided deferred taxation.

10 DIVIDENDS

	2005 Rmb'000	2004 Rmb'000
Final, proposed, of Rmb0.033 (2004: Rmb0.022) per share	22,562	15,041

At a Board meeting held on 8 March 2006, the Directors proposed a final dividend of Rmb0.033 per share, totalling approximately Rmb22,562,000 for the year ended 31 December 2005. 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 2006.

NOTES TO THE ACCOUNTS

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the Company's profit attributable to shareholders of Rmb68,587,000 (2004: Rmb37,181,000) and the 683,700,000 (2004: 683,700,000) shares in issue during the year.

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

12 STAFF COSTS

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

	2005 Rmb'000	2004 Rmb'000
Salaries, wages and related welfare	17,339	10,924
Social security costs	1,177	1,017
Contributions to defined contribution retirement schemes (note (b))	1,565	1,317
	20,081	13,258

(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 based employees. Contributions to the retirement schemes are payable at a rate of 21% of the total salaries and allowances of the PRC based employees, subject to a ceiling, and the Company has no further retirement benefit obligations to all its existing and future retired PRC based employees.

NOTES TO THE ACCOUNTS

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (a) The remuneration of each of the Directors of the Company for the year ended 31 December 2005 is set out as follows:

Name of Director	Basic salaries, allowances and benefits		Bonus	Retirement	Total
	Fees	in kind		contributions	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<i>Executive director</i>					
Mr. Rui Xin Sheng	320	469	1,639	11	2,439
Mr. Jiang Jun Jie	100	140	468	10	718
<i>Non-executive director</i>					
Mr. Zeng Xian Biao	50	–	234	–	284
Mr. Zhu La Fa (note (i))	36	–	234	–	270
Mr. Yu Xiao Ping	50	–	234	–	284
Mr. Lu Chong Zhu	50	–	234	–	284
Ms. Leng Yi Xin	50	–	234	–	284
<i>Independent non-executive director</i>					
Prof. Ouyang Ping Kai	50	–	–	–	50
Prof. Yang Sheng Li	50	–	–	–	50
Ms. Wei Xin	50	–	–	–	50

NOTES TO THE ACCOUNTS

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

- (a) The remuneration of each of the Directors of the Company for the year ended 31 December 2004 is set out as follows:

Name of Director	Fees Rmb'000	Basic salaries, allowances and benefits	Bonus Rmb'000	Retirement benefit	Total Rmb'000
		in kind Rmb'000		contributions Rmb'000	
<i>Executive director</i>					
Mr. Rui Xin Sheng	320	470	–	10	800
Mr. Jiang Jun Jie	100	142	–	8	250
<i>Non-executive director</i>					
Mr. Zeng Xian Biao	50	–	–	–	50
Mr. Zhu La Fa	50	–	–	–	50
Mr. Yu Xiao Ping	50	–	–	–	50
Mr. Lu Chong Zhu	50	–	–	–	50
Ms. Leng Yi Xin	50	–	–	–	50
<i>Independent non-executive director</i>					
Prof. Ouyang Ping Kai	50	–	–	–	50
Prof. Yang Sheng Li	50	–	–	–	50
Ms. Wei Xin (note (ii))	13	–	–	–	13

Notes:

- (i) Resigned on 16 September 2005
(ii) Appointed on 30 September 2004

None of the Directors waived any emoluments during the years ended 31 December 2005 and 2004.

NOTES TO THE ACCOUNTS

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

- (b) The remuneration of each of the Supervisors of the Company for the year ended 31 December 2005 is set out as follows:

Name of Supervisor	Basic salaries, allowances and benefits		Bonus	Retirement	Total
	Fees	in kind		contributions	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Jian	15	42	74	8	139
Mr. Lu He Xing	6	–	–	–	6
Mr. Pan Chun	6	40	73	8	127
Prof. Gu Jian Xin	15	–	–	–	15
Prof. Jiang Yao Zhong	15	–	–	–	15

The remuneration of each of the Supervisors of the Company for the year ended 31 December 2004 is set out as follows:

Name of Supervisor	Basic salaries, allowances and benefits		Bonus	Retirement	Total
	Fees	in kind		contributions	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Jian	15	37	11	8	71
Mr. Lu He Xing	6	–	–	–	6
Mr. Pan Chun	6	36	12	7	61
Prof. Gu Jian Xin	15	–	–	–	15
Prof. Jiang Yao Zhong (note (i))	8	–	–	–	8
Prof. Qian Shu Fa (note (ii))	7	–	–	–	7

Notes:

- (i) Appointed on 18 June 2004
(ii) Resigned on 17 June 2004

None of the Supervisors waived any emoluments during the years ended 31 December 2005 and 2004.

NOTES TO THE ACCOUNTS

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

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

	2005	2004
Directors	2	2
Supervisors	1	1
Employees	2	2
	<hr/>	<hr/>
	5	5

Details of the emoluments paid and payable to the two employees (2004: two employees) mentioned above, each of whose emoluments were less than HK\$1,000,000, are as follows:

	2005 Rmb'000	2004 Rmb'000
Basic salaries, allowances and benefits in kind	758	771
Discretionary bonus	242	37
Retirement benefit contributions	16	18
	<hr/>	<hr/>
	1,016	826

(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

14 ACID PATENT

	2005 Rmb'000	2004 Rmb'000
Net book amount, at 1 January	7,611	8,278
Amortisation charge (Note 7)	(667)	(667)
Net book amount, at 31 December	6,944	7,611
	2005 Rmb'000	2004 Rmb'000
At cost	10,000	10,000
Accumulated amortisation	(3,056)	(2,389)
Net book amount	6,944	7,611

NOTES TO THE ACCOUNTS

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings Rmb'000	Plant and machinery Rmb'000	Equipment and motor vehicles Rmb'000	Total Rmb'000
At 1 January 2004				
Cost	34,953	61,363	5,145	101,461
Accumulated depreciation	(3,137)	(9,534)	(2,373)	(15,044)
Net book amount	31,816	51,829	2,772	86,417
Year ended 31 December 2004				
Opening net book amount	31,816	51,829	2,772	86,417
Additions	–	802	10	812
Transfer from construction in progress (Note 17)	5,480	6,608	707	12,795
Depreciation	(1,803)	(5,738)	(723)	(8,264)
Closing net book amount	35,493	53,501	2,766	91,760
At 31 December 2004				
Cost	40,433	68,773	5,862	115,068
Accumulated depreciation	(4,940)	(15,272)	(3,096)	(23,308)
Net book amount	35,493	53,501	2,766	91,760
Year ended 31 December 2005				
Opening net book amount	35,493	53,501	2,766	91,760
Transfer from construction in progress (Note 17)	94	15,732	2,894	18,720
Disposals	–	–	(26)	(26)
Depreciation	(1,821)	(6,473)	(1,036)	(9,330)
Closing net book amount	33,766	62,760	4,598	101,124
At 31 December 2005				
Cost	40,527	84,505	8,499	133,531
Accumulated depreciation	(6,761)	(21,745)	(3,901)	(32,407)
Net book amount	33,766	62,760	4,598	101,124

NOTES TO THE ACCOUNTS

16 LAND USE RIGHTS

The Company's interests in land use rights represent prepaid operating lease payments for land use rights on 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 net book amount of prepaid operating lease payments for the land use rights are analysed as follows:

	2005 Rmb'000	2004 Rmb'000
Net book amount, at 1 January	11,303	11,544
Amortisation charge (Note 7)	(241)	(241)
Net book amount, at 31 December	11,062	11,303

	2005 Rmb'000	2004 Rmb'000
At cost	12,040	12,040
Accumulated amortisation	(978)	(737)
Net book amount	11,062	11,303

17 CONSTRUCTION IN PROGRESS

	2005 Rmb'000	2004 Rmb'000
At 1 January	33,646	24,963
Additions	60,726	21,478
Transfer to property, plant and equipment (Note 15)	(18,720)	(12,795)
At 31 December	75,652	33,646

NOTES TO THE ACCOUNTS

18 INVENTORIES

	2005 Rmb'000	2004 Rmb'000
Raw materials	13,193	8,741
Work-in-progress	6,290	4,236
Finished goods	28,592	22,054
	48,075	35,031

As at 31 December 2005 and 2004, all inventories were stated at cost.

19 TRADE AND BILLS RECEIVABLES

	2005 Rmb'000	2004 Rmb'000
Trade receivables (note (a))	45,724	27,977
Bills receivables (note (b))	9,733	2,456
	55,457	30,433

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

	2005 Rmb'000	2004 Rmb'000
0 to 3 months	44,625	26,238
4 to 6 months	796	1,150
Over 6 months	303	589
	45,724	27,977

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

The carrying amounts of trade and bills receivables approximate to their fair value.

There is no concentration of credit risk with respect to trade and bills receivables, as the Company has a large number of internationally dispersed customers.

NOTES TO THE ACCOUNTS

20 BANK BALANCES AND CASH

	2005 Rmb'000	2004 Rmb'000
Cash and cash equivalents	28,526	52,971
Short-term bank deposit with an initial term of more than three months	1,000	–
	<hr/> 29,526	<hr/> 52,971
	<hr/>	<hr/>
	2005 Rmb'000	2004 Rmb'000
Denominated in:		
– RMB	19,136	33,396
– USD	7,483	12,874
– EUR	2,238	2,092
– HK Dollars	669	4,609
	<hr/> 29,526	<hr/> 52,971
	<hr/>	<hr/>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposit earns interest at an effective interest rate of 2.1% (2004: Nil).

The conversion of Renminbi denominated balances into foreign currencies and the remittance of these funds out of the Mainland China is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

NOTES TO THE ACCOUNTS

21 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2005 and 2004	683,700,000	68,370

(a) As at 31 December 2005 and 2004, 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 and the Scheme shall lapse should the conditions as set out in the Scheme not be fulfilled within 36 months immediately after the date when the Company commenced the trading of its shares on GEM of the Stock Exchange (the "Expiry Date").

Up to the Expiry Date, the relevant conditions have not yet been fulfilled and the Scheme lapsed accordingly during the year. No options have been granted under the Scheme since its adoption.

NOTES TO THE ACCOUNTS

22 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

15,041

Retained earnings as at

31 December 2004

41,17256,213

NOTES TO THE ACCOUNTS

22 RESERVES (Continued)

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2005	87,159	5,808	2,904	56,213	152,084
Transfer from profit and loss account	–	3,718	1,859	(5,577)	–
Final dividend for the year ended 31 December 2004	–	–	–	(15,041)	(15,041)
Profit for the year	–	–	–	68,587	68,587
At 31 December 2005	87,159	9,526	4,763	104,182	205,630

Representing:

2005 proposed final dividend

22,562

Retained earnings as at

31 December 2005

81,620

104,182

NOTES TO THE ACCOUNTS

22 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 2005, the Board of Directors proposed the transfer of approximately Rmb 6,860,000 (2004: approximately Rmb 3,718,000) 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 2006.

(b) Statutory public welfare fund

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

For the year ended 31 December 2005, the Board of Directors proposed the transfer of approximately Rmb 3,430,000 (2004: Rmb 1,859,000) 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 2006.

NOTES TO THE ACCOUNTS

23 BANK BORROWINGS

Bank borrowings of the Company are analysed as follows:

	2005 Rmb'000	2004 Rmb'000
Non-current		
Unsecured, long-term bank borrowings wholly repayable within five years	18,000	–
Less: current portion of long-term bank borrowings	(9,000)	–
	9,000	–
Current		
Unsecured, short-term bank borrowings	20,000	32,000
Current portion of long-term bank borrowings as shown above	9,000	–
	29,000	32,000
Total borrowings	38,000	32,000

The Company's non-current bank borrowings were repayable as follows:

	2005 Rmb'000	2004 Rmb'000
Within one year	9,000	–
In the second year	9,000	–
	18,000	–

All the Company's borrowings are denominated in Renminbi. The carrying amounts of these bank borrowings approximate their fair values.

NOTES TO THE ACCOUNTS

23 BANK BORROWINGS (Continued)

As at 31 December 2005, the effective interest rates of the bank borrowings were as follows:

	2005	2004
Long-term bank borrowings, at fixed rate	5.8%	–
Short-term bank borrowings, at fixed rate	5.4%	5.3%

24 AMOUNT DUE TO A SHAREHOLDER

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

As of 31 December 2005, included in the amount due to a shareholder was an amount of Rmb 1,011,000 (2004: Rmb 1,011,000) representing balance of the distributions of the Excess payable to Shuguang Factory.

The amount due to a shareholder is unsecured, interest free and repayable on demand (also see Note 28 (iii)).

25 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2005 Rmb'000	2004 Rmb'000
0 to 6 months	3,150	3,113
7 to 12 months	21	270
Over 12 months	73	67
	3,244	3,450

NOTES TO THE ACCOUNTS

26 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before taxation to net cash generated from operation

	2005 Rmb'000	2004 Rmb'000
Profit before taxation	80,689	41,309
Interest income	(297)	(173)
Interest expense	1,956	1,073
Depreciation	9,330	8,264
Amortisation of acid patent	667	667
Amortisation of land use rights	241	241
Loss on disposal of property, plant and equipment	24	–
Impairment of trade receivables	14	63
Changes in working capital:	92,624	51,444
Increase in inventories	(13,044)	(13,615)
Increase in trade and bills receivables, other receivables and prepayments	(24,685)	(2,236)
Increase in trade payables, other payables and accrued charges	4,064	5,261
Decrease in amount due to a shareholder	(294)	(464)
Net cash generated from operations	58,665	40,390

(b) Analysis of changes in financing during the year

	Bank borrowings		Dividends payable	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Balance at 1 January	32,000	20,000	–	–
New bank borrowings	61,000	42,000	–	–
Repayment of bank borrowings	(55,000)	(30,000)	–	–
2004 final dividend	–	–	15,041	–
2003 final dividend	–	–	–	8,204
Dividends paid	–	–	(15,041)	(8,204)
Balance at 31 December	38,000	32,000	–	–

NOTES TO THE ACCOUNTS

27 COMMITMENTS

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

	2005 Rmb'000	2004 Rmb'000
Authorised but not contracted for	25,000	–
Contracted but not provided for	11,739	12,356
	<u>36,739</u>	<u>12,356</u>

(b) Commitments under operating leases

The Company leases various offices and warehouses under non-cancellable operating leases. At 31 December 2005, the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	2005 Rmb'000	2004 Rmb'000
Not later than one year	423	267
Later than one year and not later than five years	251	302
Later than five years	1,011	1,037
	<u>1,685</u>	<u>1,606</u>

The leases for offices and warehouse generally ranged from 2 to 5 years.

NOTES TO THE ACCOUNTS

28 RELATED PARTY TRANSACTIONS

Parties are considered to be related if they have the ability, directly or indirectly, to control the parties or exercise significant influence over the Company in making financial and operating decisions, or vice versa, or where the Company and the parties are subject to common control or common significant influence.

(i) Name and relationship with related parties

Shuguang Factory is a related party as it is a shareholder of the Company.

(ii) Transactions with related parties

The Company entered into the following significant transactions in the ordinary course of business with Shugang Factory during the year:

	2005 Rmb'000	2004 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	3,557	1,455
Electricity charged by Shuguang Factory (note (b))	2,249	2,038
Water supply charged by Shuguang Factory (note (b))	303	315
Rental expenses to Shuguang Factory (note (c))	186	186
Transportation expenses charged by Shuguang Factory (note (d))	467	327
Processing fee charged by Shuguang Factory (note (e))	798	–
Sales commission charged by Shuguang Factory (note (e))	394	–

- (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 are charged by Shuguang Factory on a cost reimbursement basis.
- (c) Rental expenses to Shuguang Factory were based at fixed amounts in accordance with the terms of the lease agreements.
- (d) Transportation expenses to Shuguang Factory were based at fixed fees with reference to market price quoted from third parties.
- (e) Processing fee and sales commission to Shuguang Factory were based at fixed amounts in accordance with the terms of the processing and sales agreements.

NOTES TO THE ACCOUNTS

28 RELATED PARTY TRANSACTIONS**(iii) Balances with related parties**

	2005 Rmb'000	2004 Rmb'000
Distribution of Excess payable to Shuguang Factory	1,011	1,011
Purchase of raw materials and services payable to Shuguang Factory	1,274	1,568
Amount due to a shareholder (Note 24)	2,285	2,579

(iv) Key management compensation

	2005 Rmb'000	2004 Rmb'000
Salaries and other short-term employee benefits	3,136	1,032
Retirement benefit costs	21	18
	3,157	1,050

29 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 8 March 2006.

FIVE YEAR SUMMARY

	2001 Rmb'000	2002 Rmb'000	2003 Rmb'000	2004 Rmb'000	2005 Rmb'000
Results					
Turnover	117,213	96,769	144,632	200,984	299,006
Operating profit	38,237	24,465	23,380	42,382	82,645
Finance costs	(579)	(879)	(589)	(1,073)	(1,956)
Profit before taxation	37,658	23,586	22,791	41,309	80,689
Taxation	(4,514)	(2,805)	(1,861)	(4,128)	(12,102)
Profit for the year attributable to the equity holders of the Company	33,144	20,781	20,930	37,181	68,587
Distributions to shareholders/dividends	24,202	15,564	8,204	15,041	22,562
Assets and liabilities					
Acid patent	9,611	8,944	8,278	7,611	6,944
Property, plant and equipment	28,531	58,740	86,417	91,760	101,124
Land use rights	4,560	11,785	11,544	11,303	11,062
Construction in progress	31,104	29,898	24,963	33,646	75,652
Net current assets	36,880	75,251	60,275	76,134	88,218
Total assets less current liabilities	110,686	184,618	191,477	220,454	283,000
Long-term portion of amount due to shareholders	11,735	5,867	–	–	–
Long-term bank borrowings	10,800	–	–	–	9,000
	88,151	178,751	191,477	220,454	274,000
Share capital	50,000	68,370	68,370	68,370	68,370
Reserves	38,151	110,381	123,107	152,084	205,630
Total equity	88,151	178,751	191,477	220,454	274,000
Basic earnings per share	Rmb 0.089	Rmb 0.035	Rmb 0.031	Rmb 0.054	Rmb 0.100

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2005 annual general meeting (“AGM”) of Changmao Biochemical Engineering Company Limited (the “Company”) will be held at Lecture Room A, Joint Professional Centre, Unit 1, G/F, The Center, 99 Queen’s Road Central, Hong Kong on 10 May 2006, at 10:30 a.m. for the following purposes:

As ordinary resolution:

1. To consider and approve the Report of the Directors for the year 2005;
2. To consider and approve the Report of the Supervisory Committee for the year 2005;
3. To consider and approve the audited financial statements of the Company for the year ended 31 December 2005;
4. To consider and approve the final dividend distribution proposal for the year ended 31 December 2005;
5. To consider and approve the appropriation to statutory common reserve and statutory public welfare fund for the year 2005;
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 Accountants Co., Ltd.) as the PRC auditors of the Company for the year 2006 and PricewaterhouseCoopers as the international auditors of the Company for the year 2006 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 is to be given to the Board:
 - (a) to place and/or issue Domestic Shares, Foreign Shares and/or H shares within a period of twelve months from the date of the resolution provided that the number of Domestic Shares, Foreign Shares and/or H shares to be placed and/or issued shall not exceed 20 per cent. of the numbers of Domestic Shares, Foreign Shares and H shares separately then in issue (“20 per cent. limit”);
 - (b) to decide within the 20 per cent. limit the number of Domestic Shares, Foreign Shares and/or H shares to be placed and/or issued and to deal with matters arising out of and incidental to such placement and/or issue of new shares; and

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 2006

Notes:

1. The H share register of shareholders of the Company will be closed from 7 April 2006 to 10 May 2006 (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 6 April 2006 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 19 April 2006. The reply slip may be delivered by hand, by post or by fax to the number (852) 2865 0990.