Notes to the Proforma Consolidated Accounts

1. COMPANY BACKGROUND, GROUP REORGANISATION AND BASIS OF PRESENTATION

EcoGreen Fine Chemicals Group Limited ("the Company") was incorporated in the Cayman Islands on 3rd March 2003 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 9th March 2004.

Upon incorporation on 3rd March 2003, the Company had an authorised share capital of HK$100,000, divided into 1,000,000 shares of HK$0.1 each. It allotted and issued as nil paid a total of 450,000 ordinary shares during the period ended 31st December 2003. Apart from the foregoing, no other transactions were carried out by the Company during the period from 3rd March 2003 (date of incorporation) to 31st December 2003.

Subsequent to 31st December 2003 (year end), on 16th February 2004, the Company acquired the entire issued share capital of EcoGreen Fine Chemicals Limited, a company incorporated in the British Virgin Islands, through a share exchange ("the Reorganisation") and consequently became the holding company of the subsidiaries as set out in Note 33.

As the Reorganisation took place on 16th February 2004, the current group structure resulting from the Reorganisation did not exist at any day during the year ended 31st December 2003. The Company's accounts as at and for the period from 3rd March 2003 (date of incorporation) to 31st December 2003 have not reflected the effect of the Reorganisation in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" ("SSAP 27") issued by the Hong Kong Society of Accountants because SSAP 27 specifies that accounts should not incorporate a combination which occurs after the date of the most recent balance sheet included in the accounts even though the reorganisation occurred after such date meets the definition of a group reconstruction.

The Company's Directors consider that it will provide additional information by presenting proforma consolidated accounts of the Group using merger accounting by treating the Group as a continuing entity. On this basis, the proforma consolidated accounts as at and for the year ended 31st December 2003 have presented the state of affairs, results of operations and cash flows of the companies now comprising the Group as if the structure of the Group resulting from the Reorganisation had been in existence throughout the year and the share capital of the Company outstanding immediately after the share exchange in connection with the Reorganisation and the related subsequent capitalisation issue as described in Note 26, totalling 300,000,000 shares of HK$0.1 each, had been in existence throughout the year.

Comparative figures as at and for the year ended 31st December 2002 have been presented on the same basis, except for the acquisitions of additional interests in Xiamen Doingcom Chemical Co., Ltd., Xiamen Sinoloon Import and Export Co., Ltd. and Xiamen Sinotek Enterprise Development Co., Ltd. from third parties during the year ended 31st December 2002 (see Note 33), which do not meet the definition of a group reconstruction under SSAP 27, were accounted for by acquisition accounting.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The proforma consolidated accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants, except for the adoption of merger accounting in respect of the Reorganisation as described in Note 1, which is not in compliance with SSAP 27.

(b) Consolidation

The proforma consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the proforma consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Goodwill/Negative goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition. Goodwill is amortised on a straight-line basis over its estimated useful life of five years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Goodwill/Negative goodwill *(Continued)*

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition over the cost of acquisition. It is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets of twenty-two years; negative goodwill in excess of the fair value of those non-monetary assets is recognised in the profit and loss account immediately.

(d) Revenue recognition

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

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

(e) Property, plant and equipment

(i) Construction-in-progress

Construction-in-progress, representing buildings and machinery on which construction work has not been completed and machinery pending installation, is stated at cost, which includes construction expenditures incurred, cost of machinery, and other direct costs capitalised during the construction and installation period, less any accumulated impairment losses. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment.

(ii) Other property, plant and equipment

Other property, plant and equipment, comprising land and buildings, plant and machinery, leasehold improvements, office furniture, fixtures and equipment, and motor vehicles, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

(iii) Depreciation

Leasehold land is depreciated over the period of the lease. Other property, plant and equipment are depreciated at rates sufficient to write off their costs less any accumulated impairment losses and estimated residual value over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

Land	1.4% to 2%
Buildings	3.3%
Plant and machinery	6.7% to 20%
Leasehold improvements	20%
Office furniture, fixtures and equipment	20%
Motor vehicles	20%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from property, plant and equipment.

(iv) Impairment and gain or loss on sale

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

The gain or loss on disposal of property, plant or 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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design, development and testing of new or improved products are recognised as product development costs where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of five years 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.

Where an indication of impairment exists, the carrying amount of any product development cost is assessed and written down immediately to its recoverable amount.

(g) Investment securities

Investment securities are stated at cost less any accumulated impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to their fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(h) Inventories

Inventories comprise raw materials, work-in-progress and finished goods, and 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 expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against receivables, including trade, loans and other receivables, to the extent that they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) 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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Government grants

A government grant is initially recognised as deferred income when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received. Grants relating to income are recognised in the profit and loss account on a systematic basis over the period to match with the related costs which they are intended to compensate. Grants relating to assets are recognised in the profit and loss account on a straight-line basis over the expected useful lives of the related assets.

(m) 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 expensed in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to defined contribution retirement schemes are expensed as incurred.

(o) Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Operating leases

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Translation of foreign currencies

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

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date while the profit and loss accounts are translated at average rates. Exchange differences are dealt with as a movement in reserves.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist of property, plant and equipment, product development costs, inventories, receivables and other operating assets. Segment liabilities consist of operating liabilities and exclude taxation. Capital expenditure comprises additions to property, plant and equipment and product development costs.

In respect of geographical segment reporting, turnover and segments results are determined based on the destination of shipment/delivery of goods. Total assets, liabilities, capital expenditures and depreciation and amortisation are based on where the assets and liabilities are located.

(s) Cash and cash equivalents

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

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

(a) Turnover and revenues

The Group is principally engaged in the production of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products. The Group's turnover and revenues were as follows:

	2003 RMB'000	2002 RMB'000
Turnover		
Sale of merchandise (net of value-added tax)	223,152	146,761
Other revenues		
Interest income from		
– bank deposits	333	183
– loans receivable	320	304
Amortisation of deferred income on government grants	38	–
Gain on disposal of unlisted investment securities	–	4,667
Dividend income from unlisted investment securities	–	29
	691	5,183
Total revenues	223,843	151,944

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

No segment information by business segment is presented as the Group operates in one business segment – manufacturing and selling of fine chemicals.

An analysis of the Group's turnover and segment results by geographical location, which is determined based on the destination of shipment/delivery of goods, is as follows:

	2003 RMB'000	2002 RMB'000
Turnover		
– Mainland China	181,136	124,092
– Hong Kong	19,410	9,210
– Others	22,606	13,459
	223,152	146,761
Segment results		
– Mainland China	53,274	36,111
– Hong Kong	3,640	1,879
– Others	4,940	3,984
	61,854	41,974

No geographical analysis of assets, liabilities, capital expenditures, depreciation and amortisation is presented as substantially all of the Group's assets and liabilities are located in Mainland China.

4. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2003 RMB'000	2002 RMB'000
Charging		
Employment costs (including directors' emoluments) *(Note 10)*	7,750	7,032
Depreciation of property, plant and equipment	4,380	4,120
Amortisation of		
– goodwill (included in general and administrative expenses)	324	221
– product development costs (included in general and administrative expenses)	2,238	2,086
Provision for slow-moving and obsolete inventories	731	139
Provision for bad and doubtful debts	2,450	992
Operating leases rental in respect of rented premises	551	410
Net exchange loss	32	–
Auditors' remuneration	638	106
Crediting		
Amortisation of		
– negative goodwill (included in general and administrative expenses)	39	2
– deferred income on government grants (included in other revenues)	38	–
Net exchange gain	–	35

5. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest expense on		
– bank borrowings wholly repayable within five years	4,387	3,918
– government loans wholly repayable within five years	128	–
– other loans wholly repayable within five years	–	514
– convertible bonds	1,206	387
	5,721	4,819
Amortisation of convertible bonds issuance costs	1,453	425
	7,174	5,244

6. TAXATION

	2003 RMB'000	2002 RMB'000
Current taxation		
– Mainland China enterprise income tax	–	711

Notes:

(i) **Hong Kong profits tax**

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong.

(ii) **Mainland China enterprise income tax**

The subsidiaries established in Xiamen, Fujian Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% (2002: 15%). In February 2002, Xiamen Sinotek Enterprise Development Co., Ltd., a subsidiary, transformed from a domestic enterprise to a wholly foreign owned enterprise and obtained exemption from Mainland China Tax Bureau for payment of enterprise income tax for two years starting from the coming first year of profitable operations, followed by a 50% reduction in enterprise income tax for the next three years. In August 2003, Xiamen Doingcom Chemical Co., Ltd. was accredited as a New High Technology Enterprise and accordingly is exempted from payment of enterprise income tax for two years starting from the first year of profitable operations, followed by a 50% reduction in enterprise income tax for the next three years.

(iii) **Overseas income taxes**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

6. TAXATION *(Continued)*

Notes (Continued):

(iii) **Overseas income taxes** *(Continued)*

The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of the British Virgin Islands income tax.

(iv) **Mainland China value-added tax**

The subsidiaries established in Mainland China are subject to Mainland China value-added tax ("VAT") at 17% of revenue from sale of goods in Mainland China and 2% of revenue from sale of goods outside Mainland China. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the relevant enterprise income tax rate in Mainland China, where substantially all of the Group's profit was earned, and the reconciliation was as follows:

	2003	2002
	RMB'000	RMB'000
Profit before taxation	**54,680**	36,730
Calculated at Mainland China enterprise income tax rate of 15%	**8,202**	5,510
Effect of		
– tax exemption	**(8,946)**	(4,702)
– tax losses not probable to be utilised in the foreseeable future and not recognised	**1,070**	525
– utilisation of previously unrecognised tax losses	**(367)**	(658)
– others	**41**	36
Taxation	**–**	711

As at 31st December 2003, the Group has unrecognised tax losses of approximately RMB25,140,000 (2002: RMB20,453,000), which can be carried forward to offset against future taxable income. Included in the tax loss as at 31st December 2003 was a loss of RMB8,161,000 that will expire during the period from 2004 to 2008, while other losses can be carried forward indefinitely. The deferred tax benefit of such tax losses was not recognised as it was not probable that future taxable profit will be available against which the unutilised tax losses can be utilised.

7. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

The following dividends were paid by a subsidiary out of its retained earnings to its then shareholders before the Reorganisation:

	2003 RMB'000	2002 RMB'000
Xiamen Sinotek Enterprise Development Co., Ltd., amount attributable to		
– the Group	7,600	23,750
– the then minority shareholder pursuant to an agreement in connection with the acquisition of additional interest in the company	400	1,250
	8,000	25,000

All dividends were settled by offsetting amounts due from a director at the instructions of the relevant shareholders.

8. EMPLOYEE RETIREMENT BENEFITS

As stipulated by rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China, which is a defined contribution plan. The Group and its employees contribute approximately 16% to 17% and 5% to 6%, respectively, of the employees' salary as specified by the local government, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month.

During the year, the aggregate amounts of the Group's contributions to the aforementioned pension schemes were approximately RMB245,000 (2002: RMB365,000). As at 31st December 2003, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions.

9. PROFORMA EARNINGS PER SHARE

The basic proforma earnings per share is calculated based on the proforma profit attributable to shareholders of RMB54,680,000 (2002: RMB33,926,000) and weighted average number of 300,000,000 (2002: 300,000,000) shares deemed to be in issue during the year as if the share capital of the Company outstanding immediately after the share exchange in connection with the Reorganisation and the related subsequent capitalisation issue as described in Note 26 had been in existence throughout the year.

Diluted proforma earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31st December 2003 (2002: Nil).

10. EMPLOYMENT COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003 RMB'000	2002 RMB'000
Wages, salaries and allowances	7,505	6,667
Retirement benefit – defined contribution plan	245	365
	7,750	7,032

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to executive directors of the Company were as follows:

	2003 RMB'000	2002 RMB'000
Fees	–	–
Other emoluments		
Salaries and other allowances	2,691	1,444
Retirement benefit – defined contribution plan	49	13
	2,740	1,457

None of the directors waived any emoluments during the year ended 31st December 2003 (2002: Nil).

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

	2003	2002
Nil to RMB1,060,000 (equivalent of HK$1,000,000)	4	4
RMB1,060,001 (equivalent of HK$1,000,001) to RMB1,590,000 (equivalent of HK$1,500,000)	1	1
	5	5

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2003 include four (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals are as follows:

	2003 RMB'000	2002 RMB'000
Salaries and other allowances	165	181
Retirement benefit – defined contribution plan	5	10
	170	191

The emoluments of the remaining individuals fell within the following band:

	2003	2002
Nil to RMB1,060,000 (equivalent of HK$1,000,000)	1	2

(c) During the year ended 31st December 2003, no emoluments were paid to the directors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office (2002: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

Movements were:

	Land and buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements, office furniture and equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
At 1st January 2003	48,014	38,378	2,176	2,158	1,288	92,014
Additions	528	78	214	521	17,184	18,525
Transfers	419	1,573	–	–	(1,992)	–
At 31st December 2003	**48,961**	**40,029**	**2,390**	**2,679**	**16,480**	**110,539**
Accumulated depreciation						
At 1st January 2003	1,879	2,951	849	1,040	–	6,719
Charge for the year	1,273	2,462	362	283	–	4,380
At 31st December 2003	**3,152**	**5,413**	**1,211**	**1,323**	–	**11,099**
Net book value						
At 31st December 2003	**45,809**	**34,616**	**1,179**	**1,356**	**16,480**	**99,440**
At 31st December 2002	46,135	35,427	1,327	1,118	1,288	85,295

All land and buildings are located in Mainland China. Land and buildings with a net book value of approximately RMB40,809,000 (2002: RMB41,135,000) are located on land held under land use rights for a period of 50 to 70 years up to April 2043 to December 2065. The remaining balance of RMB5,000,000 (2002: RMB5,000,000) represented a deposit for the acquisition of a piece of land in Mainland China.

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Analysis of construction-in-progress is:

	2003 RMB'000	2002 RMB'000
Construction costs of buildings	5,095	65
Cost of machinery	11,385	1,223
	16,480	1,288

Certain land and buildings with a net book value of approximately RMB37,197,000 (2002: RMB38,260,000) were pledged as collateral for the Group's bank borrowings (see Notes 20 and 24).

13. GOODWILL

Movements were:

	Goodwill RMB'000	Negative goodwill RMB'000	Total RMB'000
Cost			
At 1st January 2003 and **at 31st December 2003**	**1,625**	**(863)**	**762**
Accumulated amortisation			
At 1st January 2003	(221)	2	(219)
Charge for the year	(324)	39	(285)
At 31st December 2003	**(545)**	**41**	**(504)**
Net book value			
At 31st December 2003	**1,080**	**(822)**	**258**
At 31st December 2002	1,404	(861)	543

14. PRODUCT DEVELOPMENT COSTS

Product development costs represent costs incurred on design, development and testing of new or improved fine chemicals.

Movements were:

	2003 RMB'000	2002 RMB'000
Cost		
At 1st January	16,308	14,821
Additions	6,216	1,487
At 31st December	22,524	16,308
Accumulated amortisation		
At 1st January	4,689	2,603
Charge for the year	2,238	2,086
At 31st December	6,927	4,689
Net book value		
At 31st December	15,597	11,619

15. INVESTMENT SECURITIES

	2003 RMB'000	2002 RMB'000
Unlisted equity interest, at cost		
– Guangxi Wuzhou Joint Stock Co., Ltd. *(i)*	200	200
– Xiamen Xiada Taigu Pharmaceutical Co., Ltd. *(ii)*	200	–
	400	200

Notes:

(i) Guangxi Wuzhou Joint Stock Co., Ltd. is a domestic enterprise established in Mainland China and is principally engaged in the manufacturing and trading of fine chemicals. As at 31st December 2003, the Group had approximately 0.2% (2002: 0.2%) interest in this company.

(ii) Xiamen Xiada Taigu Pharmaceutical Co., Ltd. is a domestic enterprise established in Mainland China and is principally engaged in the research and development of biological and chemical pharmaceutical products. As at 31st December 2003, the Group had a 10% (2002: Nil) interest in this company.

16. INVENTORIES

	2003 RMB'000	2002 RMB'000
Raw materials	9,454	3,758
Work-in-progress	1,104	1,546
Finished goods	12,073	11,285
	22,631	16,589
Less: Provision for slow-moving and obsolete inventories	(1,146)	(415)
	21,485	16,174

As at 31st December 2003, inventories of approximately RMB21,485,000 (2002: RMB16,174,000) were stated at net realisable value.

17. TRADE AND BILLS RECEIVABLES

The credit period granted by the Group to its customers is generally around 60 to 90 days. The aging analysis of trade and bills receivables is as follows:

	2003 RMB'000	2002 RMB'000
0 to 30 days	33,002	13,799
31 to 60 days	23,962	7,551
61 to 90 days	13,558	2,304
91 to 180 days	3,386	1,082
181 to 365 days	152	688
	74,060	25,424
Less: Provision for bad and doubtful debts	(3,442)	(992)
	70,618	24,432

18. PREPAYMENTS AND OTHER RECEIVABLES

	2003	2002
	RMB'000	RMB'000
Prepayment for purchases of raw materials	4,233	4,301
Deferred convertible bonds issuance costs *(i)*	2,482	3,935
Net input value-added tax recoverable *(ii)*	3,090	711
Advances to		
– an export agent	–	2,669
– employees	212	3,062
Interest receivable	–	304
Other receivables	155	412
	10,172	15,394

Notes:

(i) Convertible bonds issuance costs are amortised on a straight-line basis over the period of the bonds.

(ii) Input value-added tax recoverable of approximately RMB3,090,000 (2002: Nil) was pledged as collateral for the Group's short-term bank loans (see Note 20).

19. CASH AND BANK DEPOSITS

As at 31st December 2003, cash and bank deposits of approximately RMB64,042,000 (2002: RMB6,232,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

20. SHORT-TERM BANK BORROWINGS

	2003 RMB'000	2002 RMB'000
Short-term bank loans	**54,600**	18,000

As at 31st December 2003, short-term bank loans bear interest at rates ranging from 5.6% to 6.4% per annum (2002: 5.8% to 6.9% per annum) and are secured by the following:

(i) Pledge of certain land and buildings with a net book value of approximately RMB37,197,000 as at 31st December 2003 (2002: RMB38,260,000) (see Note 12);

(ii) Pledge of input value-added tax recoverable of approximately RMB3,090,000 (2002: Nil) (see Note 18); and

(iii) Corporate guarantees provided by an unrelated third party of RMB9,500,000 (2002: RMB3,500,000). In November 2003, the relevant bank has agreed in principle to release the corporate guarantees and to replace the same with security from the Company and/or its subsidiaries upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

21. OTHER BORROWINGS

	2003 RMB'000	2002 RMB'000
Government loans *(i)*	**36,170**	30,970
Other loans	**–**	1,000
	36,170	31,970
Analysed as:		
Amounts repayable within a period:		
– not exceeding one year	**30,900**	31,700
– more than one year but not exceeding two years	**270**	–
– more than two years but not exceeding five years	**–**	270
– more than five years	**5,000**	–
	36,170	31,970
Less: Amounts repayable within one year included under current liabilities	**(30,900)**	(31,700)
	5,270	270

21. OTHER BORROWINGS *(Continued)*

Note:

(i) Government loans represent loans from State Development and Reform Commission, Xiamen Development Planning Commission and other Mainland China government bureaus to finance the Group's product development activities and expansion of production facilities. These loans are unsecured and non-interest bearing, except for an amount of RMB5,000,000 as at 31st December 2003 (2002: Nil) which bears interest at 2.55% per annum. As at 31st December 2003, government loans of RMB21,170,000 (2002: RMB20,970,000) shall be repayable on terms and conditions to be determined between the government bureaus and the Group upon completion of the relevant project, government loans of RMB10,000,000 (2002: RMB10,000,000) will be repayable in 2004, and government loans of RMB5,000,000 (2002: Nil) will be repayable in 2018.

22. TRADE AND BILLS PAYABLE

The aging analysis of trade and bills payable is as follows:

	2003	2002
	RMB'000	RMB'000
0 to 30 days	4,806	6,988
31 to 60 days	2,256	2,861
61 to 90 days	2,633	4,132
91 to 180 days	2,565	221
181 to 365 days	475	2
Over 365 days	107	–
	12,842	14,204

23. ACCRUALS AND OTHER PAYABLES

	2003 RMB'000	2002 RMB'000
Payable for construction and purchase of property, plant and equipment	3,400	3,987
Net output value-added tax payable	7,830	2,019
Accruals for		
– general and administrative expenses	4,681	2,606
– convertible bonds interest	1,551	345
– government loans interest	128	–
Payable for professional fees	1,111	981
	18,701	9,938

24. LONG-TERM BANK BORROWINGS

Details of long-term bank borrowings were:

	2003 RMB'000	2002 RMB'000
Amounts repayable within a period		
– not exceeding one year	8,000	–
– more than one year but not exceeding two years	28,000	5,000
– more than two years but not exceeding three years	–	36,000
	36,000	41,000
Less: Amounts repayable within one year included under current liabilities	(8,000)	–
	28,000	41,000

24. LONG-TERM BANK BORROWINGS *(Continued)*

Long-term bank loans bear interest at rates ranging from 6.5% to 6.6% per annum (2002: 6.4% to 6.6% per annum) and are secured by the following:

(i) Pledge of certain land and buildings with a net book value of approximately RMB37,197,000 as at 31st December 2003 (2002: RMB38,260,000) (see Note 12); and

(ii) Corporate guarantees provided by an unrelated third party of RMB16,000,000 (2002: RMB16,000,000). Such corporate guarantees were subsequently released in February 2004 following the repayment of the corresponding loans.

25. CONVERTIBLE BONDS

Pursuant to subscription agreements dated 9th July 2002 and 8th August 2002, EcoGreen Fine Chemicals Limited, a wholly-owned subsidiary, issued convertible bonds of approximately RMB37,151,000 (equivalent of US$4,500,000). The convertible bonds are unsecured, denominated in United States Dollars, bear interest at 3.0% per annum, and are convertible (in multiples of US$450,000) from 10th October 2002 to 9th September 2005 into shares of the Company or EcoGreen Fine Chemicals Limited as described below, or are repayable upon maturity on 9th September 2005 if not converted. If the conversion takes place before a listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Listing"), the full conversion of such convertible bonds will enable the bondholder to a 10% interest in EcoGreen Fine Chemicals Limited. If the conversion takes place after the Listing, the conversion will be for the shares of the Company at a price of (i) 120% of the offer price of the Company's shares upon the Listing during the period from the seventh month to the twelfth month after the Listing, and (ii) 140% of the offer price thereafter to 9th September 2005, and no conversion can be made within the first six months following the Listing.

Subsequent to 31st December 2003, on 10th February 2004, convertible bonds of RMB18,575,500 (equivalent of US$2,250,000) were converted into 5,000 shares of US$1 each of EcoGreen Fine Chemicals Limited, representing approximately 5.3% interest in EcoGreen Fine Chemicals Limited. In addition, the Company issued replacement convertible bonds in the principal amount of RMB18,575,500 (equivalent of US$2,250,000) to replace and exchange for the remaining outstanding convertible bonds. The terms of the replacement convertible bonds are substantially the same as that of the old convertible bonds, except that the replacement convertible bonds are only convertible into shares of the Company instead of shares of EcoGreen Fine Chemicals Limited.

26. SHARE CAPITAL

Movements during the year ended 31st December 2003 and up to the date of the Listing on 9th March 2004 were:

	Note	Number of shares	Nominal value RMB'000
Ordinary shares of HK$0.1 each			
Authorised:			
Upon incorporation on 3rd March 2003	*(i)*	1,000,000	106
Increase in authorised share capital	*(iii)*	1,999,000,000	211,894
At 9th March 2004, date of the Listing		2,000,000,000	212,000
Issued and fully paid:			
Allotted and issued nil paid	*(ii)*		
– on 24th March 2003		1	–
– on 28th October 2003		449,999	–
– on 10th February 2004		25,000	–
On acquisition of EcoGreen Fine Chemicals Limited			
– nil paid shares credited as fully paid	*(ii)(a)*	–	50
– consideration shares issued	*(ii)(b)*	475,000	51
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares of the Company in connection with the Listing	*(iv)*	299,050,000	–
Proforma share capital of the Group at 31st December 2002 and 2003		300,000,000	101
New issue of shares	*(v)*	115,000,000	12,190
Capitalisation of share premium account	*(iv)*	–	31,699
At 9th March 2004, date of the Listing		415,000,000	43,990

26. SHARE CAPITAL *(Continued)*

Notes:

(i) On 3rd March 2003 (date of incorporation), the authorised share capital of the Company was RMB106,000 (equivalent of HK$100,000), divided into 1,000,000 ordinary shares of HK$0.1 each.

(ii) On 24th March 2003, 28th October 2003 and 10th February 2004, 1 share, 449,999 shares and 25,000 shares of the Company were allotted and issued as nil paid, respectively. On 16th February 2004, the Company:

(a) credited as fully paid at par value of HK$0.1 each 475,000 ordinary shares of the Company, which were allotted and issued as nil paid; and

(b) further allotted and issued 475,000 ordinary shares of the Company, credited as fully paid at par value of HK$0.1 each,

as consideration of and in exchange for the entire issued share capital of EcoGreen Fine Chemicals Limited in connection with the Reorganisation (see Note 1).

(iii) On 16th February 2004, the authorised share capital of the Company was increased from RMB106,000 (equivalent of HK$100,000) to RMB212,000,000 (equivalent of HK$200,000,000), by the creation of additional 1,999,000,000 shares of HK$0.1 each.

(iv) On 16th February 2004, 299,050,000 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then existing shareholders of the Company in proportion to their respective shareholding, by the capitalisation of RMB31,699,300 (equivalent of HK$29,905,000) from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the Listing as described in (v) below.

(v) On 8th March 2004, the Company issued 115,000,000 ordinary shares of HK$0.1 each at approximately RMB1.46 (equivalent of HK$1.38) per share in connection with the Listing, and raised net proceeds of approximately RMB149,245,000 (equivalent of HK$140,797,000).

27. SHARE OPTION SCHEME

Pursuant to a resolution of the shareholders of the Company passed on 16th February 2004, a share option scheme ("the Share Option Scheme") was approved and adopted. Under the Share Option Scheme, the Company's Directors may, at their sole discretion, grant to any employee, director, supplier of goods or services, customer, person or entity that provides research, development or other technological support to the Group, shareholder and adviser or consultant of the Group to subscribe for shares in the Company at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of the offer of grant; or (ii) the average closing price of shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share. A nominal consideration of HK$1 (equivalent of RMB1.06) is payable on acceptance of the grant of an option. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group from time to time must not in aggregate exceed 30% of the share capital of the Company in issued from time to time. The Share Option Scheme will remain in force for a period of 10 years up to February 2014.

As at the date of approval of the proforma consolidated accounts, no options had been granted under the Share Option Scheme.

28. RESERVES

	Capital reserve (i) RMB'000	Contributed surplus (ii) RMB'000	Statutory reserves (iii) RMB'000	Share issuance costs RMB'000	Retained earnings RMB'000	Total RMB'000
At 31st December 2001	643	–	4,750	–	17,495	22,888
Capital contribution from an executive director and an indirect substantial shareholder	–	9,500	–	–	–	9,500
Share issuance costs	–	–	–	(393)	–	(393)
Profit attributable to shareholders	–	–	–	–	33,926	33,926
Dividends	–	–	–	–	(23,750)	(23,750)
At 31st December 2002	643	9,500	4,750	(393)	27,671	42,171
Share issuance costs	–	–	–	(3,464)	–	(3,464)
Profit attributable to shareholders	–	–	–	–	54,680	54,680
Transfer	–	–	5,000	–	(5,000)	–
Dividends	–	–	–	–	(7,600)	(7,600)
At 31st December 2003	643	9,500	9,750	(3,857)	69,751	85,787

Notes:

(i) Capital reserve represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

(ii) Contributed surplus represents the capital contribution from an executive director and an indirect substantial shareholder of the Company, as part of a group reorganisation exercise.

(iii) According to the articles of association of the relevant subsidiaries established in Mainland China and the Mainland China rules and regulations, Mainland China subsidiaries are required to transfer not less than 10% of their net profit as stated in the accounts prepared under Mainland China accounting regulations to statutory reserves before the corresponding Mainland China subsidiaries can distribute any dividend. Such a transfer is not required when the amount of statutory reserves reach 50% of the corresponding subsidiaries' registered capital. The statutory reserves shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries' production operations, or to increase the capital of the corresponding subsidiaries. Upon approval by resolutions of the corresponding subsidiaries' shareholders in general meetings, the corresponding subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to existing owners in proportion to their existing ownership structure.

29. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

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

	2003 RMB'000	2002 RMB'000
Profit before taxation	54,680	36,730
Adjustment for:		
Depreciation of property, plant and equipment	4,380	4,120
Gain on disposal of unlisted investment securities	–	(4,667)
Dividend income from unlisted investment securities	–	(29)
Amortisation of		
– goodwill	324	221
– negative goodwill	(39)	(2)
– product development costs	2,238	2,086
– deferred income on government grants	(38)	–
Interest income	(653)	(487)
Interest expense	7,174	5,244
Operating profit before working capital changes	68,066	43,216
Increase in inventories	(5,311)	(5,407)
Increase in trade and bills receivables	(46,186)	(1,593)
Decrease/(increase) in prepayments and other receivables	3,465	(5,792)
(Decrease)/increase in trade and bills payables	(1,362)	2,742
Increase/(decrease) in accruals and other payables	7,429	(3,812)
Net cash inflow generated from operations	26,101	29,354

29. PROFORMA CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing

	Short-term bank loans RMB'000	Long-term bank loans RMB'000	Other borrowings RMB'000	Convertible bonds RMB'000
At 31st December 2001	41,500	16,000	31,100	–
New loans/borrowings	18,000	25,000	26,870	–
Repayments	(41,500)	–	(26,000)	–
Issue of convertible bonds	–	–	–	37,151
At 31st December 2002	18,000	41,000	31,970	37,151
New loans/borrowings	57,900	–	5,600	–
Repayments	(21,300)	(5,000)	(1,000)	–
Others	–	–	(400)	–
At 31st December 2003	54,600	36,000	36,170	37,151

(c) Cash and cash equivalents

Cash and cash equivalents represent cash and bank deposits.

(d) Major non-cash transaction

Dividends of RMB7,600,000 for the year ended 31st December 2003 (2002: RMB23,750,000) declared by a subsidiary to its then shareholders were settled by offsetting amounts due from a director at the instructions of the relevant shareholders.

30. CONTINGENT LIABILITIES

The Group had the following contingent liabilities:

	2003 RMB'000	2002 RMB'000
Guarantees for bank loans of an unrelated third party	**1,500**	1,000

In February 2004, the above guarantees were released.

31. COMMITMENTS

(a) Operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2003 RMB'000	2002 RMB'000
Not later than one year	1,063	473
Later than one year and not later than five years	2,669	186
Later than five years	325	–
	4,057	659

(b) Capital commitments

	2003 RMB'000	2002 RMB'000
Authorised and contracted but not provided for		
– Construction-in-progress and property, plant and equipment	6,950	–
– Product development projects	5,000	–
– Capital injection to a subsidiary (i)	9,092	9,092
	21,042	9,092

Note:

(i) According to the Articles of Association of Xiamen Hoozyn Life Chemistry Technology Limited, a subsidiary, the Group has to make capital contribution of RMB11,570,000 (equivalent of US$1,400,000) within two years after its establishment in June 2002. As at 31st December 2003, the Group has made capital contribution of approximately RMB2,478,000 (equivalent of US$299,700).

32. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Significant transactions with related parties are summarised below:

	2003 RMB'000	2002 RMB'000
Personal guarantee provided by Mr. Ho Wan Ming to a landlord in respect of a rental agreement entered into by a wholly-owned subsidiary *(i)*	178	483
Sales to Fujian Qingshan Zhangzhou Perfumery Industry Co., Ltd. *(ii)*	–	765
Export service fees charged by Xiamen Zhongji Import & Export Co., Ltd. *(iii)*	–	59

Notes:

(i) Mr. Ho Wan Ming is an executive director and an indirect shareholder of the Company. In February 2004, the relevant landlord has agreed in principle that such personal guarantee will be released and replaced by a guarantee or other security from the Company and/or its subsidiaries upon the Listing.

(ii) Fujian Qingshan Paper Holdings Co., Ltd. was a minority owner of Xiamen Doingcom Chemical Co., Ltd., a subsidiary, up to 10th December 2002. Fujian Qingshan Zhangzhou Perfumery Industry Co., Ltd. is a subsidiary of Fujian Qingshan Paper Holdings Co., Ltd., and the Group also held 5% equity interest in Fujian Qingshan Zhangzhou Perfumery Industry Co., Ltd. up to 9th December 2002. The transactions with Fujian Qingshan Zhangzhou Perfumery Industry Co., Ltd. prior to 10th December 2002 were classified as related party transactions.

(iii) The majority owner and a director of Xiamen Zhongji Import & Export Co., Ltd. was a former director and former minority owner of certain subsidiaries of the Group. He disposed of his entire equity interests in the subsidiary to the Group in April 2002 and ceased to be a director of those subsidiaries since 7th June 2002. The transactions with Xiamen Zhongji Import & Export Co., Ltd. prior to 7th June 2002 were classified as related party transactions.

In the opinion of the Company's Directors and the Group's management, the above sales to Fujian Qingshan Zhangzhou Perfumery Industry Co., Ltd. and the export service provided by Xiamen Zhongji Import & Export Co., Ltd. were carried out in the usual course of business of the Group, on normal commercial terms, and in accordance with terms of the contracts entered into by the Group and the related parties.

32. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Amount due (to)/from a director was:

	2003	2002
	RMB'000	RMB'000
Mr. Yang Yirong, an executive director	**(2,136)**	19,160

Maximum balance outstanding during the year was:

	2003	2002
	RMB'000	RMB'000
Mr. Yang Yirong, an executive director	**27,511**	22,109

Balance with a director was unsecured, non-interest bearing and with no pre-determined repayment terms.

(c) During the year ended 31st December 2003, the Group's bank borrowings were secured by, among others, personal guarantee of RMB2,000,000 (2002: Nil) provided by Mr. Yang Yirong, an executive director and an indirect substantial shareholder of the Company. Such personal guarantee was released in September 2003 following the repayment of the corresponding loan.

33. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries of the Company as at 31st December 2003, on the assumption that the Reorganisation had been effective as at that date, are as follows:

Name	Place of incorporation/ operation	Principal activities	Issued and fully paid up capital	Percentage of equity interest attributable to the Group *(i)*
EcoGreen Fine Chemicals Limited (formerly known as Islesound Manufacturing Limited)	British Virgin Islands	Investment holding	US$90,000	100%
EcoGreen Fine Chemicals Manufacturing Limited (formerly known as Vertical Assault Investments Limited)	British Virgin Islands	Investment holding	US$1	100%
Rich Success Technology Limited	Hong Kong	Research and development of fine chemicals	HK$10,000	100%
Sino Bright International Trading Limited	Hong Kong	Trading of fine chemicals	HK$10,000	100%
Xiamen Doingcom Chemical Co., Ltd. *(ii)*	Mainland China	Manufacturing and sale of fine chemicals	RMB23,450,000	100% *(iii)*, *(v)*
Xiamen Hoozyn Life Chemistry Technology Limited *(ii)*	Mainland China	Research and development of fine chemicals	US$299,700 (iv)	100%
Xiamen Sinoloon Import and Export Co., Ltd. *(ii)*	Mainland China	Investment holding and trading of fine chemicals	RMB7,000,000	100% (vi)
Xiamen Sinotek Enterprise Development Co., Ltd. *(ii)*	Mainland China	Manufacturing and sale of fine chemicals	RMB20,000,000	100% (vii)

33. PARTICULARS OF SUBSIDIARIES *(Continued)*

Notes:

(i) The shares of EcoGreen Fine Chemicals Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.

(ii) Xiamen Doingcom Chemical Co., Ltd. is a limited liability enterprise established in Xiamen, Fujian Province, Mainland China for a term of 10 years up to October 2007. Xiamen Hoozyn Life Chemistry Technology Limited is a wholly foreign owned enterprise established in Xiamen, Fujian Province, Mainland China for a term of 10 years up to June 2012. Xiamen Sinoloon Import and Export Co., Ltd. is a wholly foreign owned enterprise established in Xiamen, Fujian Province, Mainland China for a term of 17 years up to April 2012. Xiamen Sinotek Enterprise Development Co., Ltd. is a wholly foreign owned enterprise established in Xiamen, Fujian Province, Mainland China for a term of 20 years up to July 2016.

(iii) On 11th December 2002, the Group's 60% interest in Xiamen Doingcom Chemical Co, Ltd. was pledged to a former minority owner of Xiamen Doingcom Chemical Co., Ltd. in respect of certain corporate guarantees granted by that entity relating to certain of the Group's bank loans. The pledge was released in February 2004.

(iv) The Group is committed to make capital contribution to Xiamen Hoozyn Life Chemistry Technology Limited of RMB11,570,000 (equivalent of US$1,400,000) within two years after its establishment in June 2002, of which approximately RMB2,478,000 (equivalent of US$299,700) had been made as at 31st December 2003.

(v) Prior to 10th December 2002, Xiamen Sinotek Enterprise Development Co., Ltd. had a 40% interest in Xiamen Doingcom Chemical Co., Ltd. and Xiamen Sinoloon import and Export Co., Ltd. had a 13% interest in Xiamen Doingcom Chemical Co., Ltd. On 11th December 2002, Xiamen Sinotek Enterprise Development Co., Ltd. acquired the remaining 47% interest in Xiamen Doingcom Chemical Co., Ltd. for a cash consideration of RMB6,502,000.

(vi) Prior to 27th April 2002, Xiamen Sinotek Enterprise Development Co., Ltd. had a 60% interest in Xiamen Sinoloon Import and Export Co., Ltd. On 12th March 2001, the Group entered into the equity transfer agreement for the acquisition of the remaining 40% interest in Xiamen Sinoloon Import and Export Co., Ltd. for a cash consideration of RMB1,863,000. The acquisition became effective on 28th April 2002.

(vii) Prior to 6th February 2002, the Group had a 95% interest in Xiamen Sinotek Enterprise Development Co., Ltd. On 12th March 2001, the Group entered into the equity transfer agreement for the acquisition of the remaining 5% interest in Xiamen Sinotek Enterprise Development Co., Ltd. for a cash consideration of RMB500,000. The acquisition became effective on 7th February 2002.

34. SIGNIFICANT SUBSEQUENT EVENTS

Saved as disclosed elsewhere in the proforma consolidated accounts, no other significant event has taken place subsequent to 31st December 2003.

35. APPROVAL OF PROFORMA CONSOLIDATED ACCOUNTS

The proforma consolidated accounts were approved by the Board of Directors of the Company on 20th April 2004.