HUBEI SANONDA CO., LTD.
ANNUAL REPORT 2003 (B-share)

Section I. Important Notes and Contents

The Board of Directors of Hubei Sanonda Co., Ltd. (hereinafter referred to as the Company) and its directors hereby confirm that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

No director stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

Chairman of the Board of the Company Mr. Zhang Maoli, General Manager Mr. Zheng Xianhai and person in charge of Financing Mr. He Xuesong hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

This report is prepared in both Chinese and English. Should there be any discrepancy in interpretation between the two versions, the Chinese version shall prevail.

Contents

Section II. Company Profile

1. Legal name of the Company:
   In Chinese: 湖北沙隆达股份有限公司
   In English: HUBEI SANONDA CO., LTD.
2. Legal Representative: Zhang Maoli
3. Secretary of the Board of Directors: Li Zhongxi
   Tel: (86) 716-8208632
   Contact Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Fax:(86) 716-8208899
   Authorized Representative in Change of Securities Affairs: Hu Haosong
   Contact Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Tel: (86) 0716-8208232
   Fax:(86) 0716-8208899
   E-mail: sanonda@sanonda.com.cn
4. Registered Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Office Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Post Code: 434001
   Website of the Company: http://www.sanonda.com.cn
   E-mail of the Company: sanonda@sanonda.com.cn
5. Newspaper for Disclosing the Information Chosen by the Company:
   China Securities, Securities Times and Ta Kung Pao
   Internet Web Site Designated by CSRC for Publishing the Annual Report of the Company: http://www.cninfo.com.cn
   The Place Where the Annual Report is Prepared and Placed:Office of the Company
6. Stock Exchange Listed With: Shenzhen Stock Exchange
   Short Form of the Stock: Sanonda A, Sanonda B
   Stock Code:000553, 200553
7. Other Relevant Information of the Company
   Initial registered date: Nov. 30, 1993
   Registered place: No. 93, Beijing East Road, Jingzhou, Hubei
   Registered number of corporation legal person’s business license: QGEZ Zi No.:002523
   Registered number of taxation: 421001706962287
   Name and office address of Certified Public Accountants engaged by the Company:
   Domestic: Tian Hua Certified Public Accountants
   Address: 17th Floor, Zhonghua Bldg., Fu Xing Men Wai Av., Xicheng Dis., Beijing
   Name: HO AND HO & CO.
   Address: Arion Commercial Centre, 2-12 Queen's Rd. West, HK

Section III. Summary of Accounting Highlights and Business Highlights

I. Major profit indexes of the Company as of the year 2003

Unit: RMB'000

Items	Amount
Total Profit	6,017.00
Net Profit	8,482.00
Profit from main operations	128,948.00
Other operating profit	17,766.00
Operating profit	23,242.00
Investment income	3,567.00
Net cash flow arising from operating activities	34,627.00
Net increase in cash and cash equivalents	15,372.00

II. Differences Between financial statements prepared under the PRC Accounting Rules and Regulations and IFRS

Other than the differences in the classifications of certain financial captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS.

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analyzed as follows:

	2003 RMB'000	2002 RMB'000
Net profit under the PRC Accounting Rules and Regulations	7,401	(115,815)
Adjustments:		
Income from short equity investment	-	2,064
Provision for bad and doubtful debt of receivables	-	(24,671)
Provision for depreciation for fixed assets not ready for use	-	(4,187)
Inventory net realization value adjustment	(2,336)	5,934
Provision for impairment loss of fixed assets	-	(9,902)
Written off of deferred assets	-	(11,796)
Sales cut-off adjustment	(5,189)	4,914
Amortisation of deferred revenue	160	-
Adjustment for unrealised loss on investment	(997)	-
Others	9,443	(3,150)
Net profit under IFRS	8,482	(156,609)

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' equity are analyzed as follows:

	2003 RMB'000	2002 RMB'000
Shareholders' equity under the PRC Accounting Rules and Regulations	868,578	860,166
Adjustments:		
Income from short equity investment	2,064	2,064
Provision for bad and doubtful debt of receivables	(46,623)	(46,623)
Provision for depreciation for fixed assets not ready for use	(27,175)	(27,175)
Inventory net realization value adjustment	-	2,336
Provision for impairment loss of fixed assets	(6,156)	(6,156)
Sales cut-off adjustment	-	5,189
Amortisation of deferred revenue	(1,465)	-
Adjustment for unrealised loss on investment	(997)	-
Others	5,499	(3,944)
Shareholders' equity under IFRS	793,725	(785,857)

III. Major accounting data and financial indexes over the previous three years at the end of report period (Unit: RMB'000)

Financial indexes	**Unit**	**2003**	**2002**	**2001**
Income from main operations	RMB'000	858,705	652,210	955,663
Net profit	RMB'000	8,482	-156,609	-20,916
Total assets	RMB'000	1,516,367	1,542,056	1,617,077
Shareholders' equity	RMB'000	793,725	785,857	943,507
Earnings per share (diluted)	RMB	0.03	-0.53	-0.07
Net assets per share	RMB	2.67	2.65	3.18
Net cash flow per share arising from operating activities	RMB	0.12	0.16	0.42
Return on equity (diluted)	%	1.07	-19.93	-2.22

(IV) Supplemental statement of profit calculated according to Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) released by CSRC:

Profit in the report period	**Return on equity (%)**				**Earnings per share (RMB)**			
	Fully diluted		**Weighted average**		**Fully diluted**		**Weighted average**	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Profit from main operations	16.25%	10.73%	16.32%	9.78%	0.43	0.29	0.43	0.29
Operating profit	2.93%	-16.03%	2.94%	-14.62%	0.08	- 0.43	0.08	-0.43

Net profit	1.07%	-19.45%	1.07%	-17.73%	0.03	-0.52	0.03	-0.52

(V) Particulars about changes in shareholders' equity during the report period

Unit: RMB'000

Items	Share capital	Capital public reserve	Surplus public reserve	Statutory public welfare fund	Retained profit	Shareholders' equity
Amount at the period-begin	296,962	565,633	62,676	17,823	-139,414	785,857
Increase in the report period					8,482	8,482
Decrease in the report period					614	614
Amount at the period-end	296,962	565,633	62,676	17,823	-131,546	793,725
Reasons for change	Net profit and profit distribution as of the year 2003					

Section IV. Changes in Share Capital and Particulars about Shareholders

(I) Particulars about changes in share capital

Unit: share

Items	Before the change	Increase/decrease of this time (+, -)					After the change
		Allotment of share	Bonus shares	Capitalization of public reserve	Others	Subtotal	
I. Unlisted Shares							
1. Promoters' shares							
Including:							
State-owned share	84,729,334						84,729,334
Domestic legal person's shares							
Foreign legal person's shares							
Others							
2. Raised legal person's shares							
3. Inner employees' shares							
4. Preference shares or others							
Total unlisted shares	84,729,334						84,729,334
II. Listed Shares							
1. Domestically RMB ordinary shares	97,232,276						97,232,276
2.Domestically listed foreign shares	115,000,000						115,000,000
3. Overseas listed foreign shares							

4. Others							
Total listed shares	212, 232,276						212, 232,276
III. Total shares	296,961,610						296,961,610

(II) Particulars about issuance and listing of shares

1. From Oct. 1993 to Nov. 30, 1993, the Company issued domestic RMB ordinary shares 30,000,000 and shares of the Company were listed in Shenzhen Stock Exchange for trade on Dec. 3, 1993.
2. Approved by Securities Committee of the State Council ZF(1997)No.23 document, the Company issued 100,000,000 domestic listed foreign shares(B-shares), with par value of RMB 1 per share from Apr. 29,1997 to May. 5,1997. The shares were listed in Shenzhen Stock Exchange for trade on May 15 of the same year. The Company also execute the surplus quota selling right of 15,000,000 during May 15 to May 21 of the same year.
3. Under the arrangement of Shenzhen Stock Exchange, 5,423,701 state-own transferred allotment shares of the Company were circulating in Shenzhen Stock Exchange on July 6,2000.
4. Dated Dec. 31, 2000, the directors, supervisors and senior executives hold 39158 shares of the Company. In terms of the relevant regulations, the shares were in custody of Shenzhen Securities Registration Co., Ltd.

2. Particulars about the shareholders

(1) In the end of the report period, the Company had 39183 shareholders in total, including 25087 A-shareholders and 14096 B-shareholders.

(2) In the end of the report period, particulars about shares held by the top ten shareholders of the Company:

Full name of Shareholders	**Increase / decrease in the report year (share)**	**Holding shares at the year-end (share)**	**Proportion (%)**	**Type of shares (Circulating/Non-circulating)**	**Number of share pledged/ frozen (share)**	**Nature of shareholders (State-owned shareholder/foreign shareholder)**
Sanonda Group Corporation	0	81,726,625	27.52	Non-circulating	81,726, 625	State-owned legal person shareholder
Qichun County State-owned Assets Administration Bureau	0	3,002,709	1.01	Non-circulating	0	State-owned shareholder
Zhang Sheng	+1,588,600	1,588,600	0.53	Circulating	Unknown	Foreign shareholder
Taiji Investment Co., Ltd.	0	1,000,000	0.33	Circulating	Unknown	Foreign shareholder

Guangqi Investment Co., Ltd.	0	1,000,000	0.33	Circulating	Unknown	Foreign shareholder
Anhui Guidu Heat Supply Engineering Co., Ltd.	+131,512	919,012	0.30	Circulating	Unknown	Circulation shareholder
Hubei Zhonglian Yangzi State-owned Soil Economic Development Company	0	835,000	0.28	Circulating	Unknown	Circulation shareholder
Zhou Wenqin	0	698,220	0.23	Circulating	Unknown	Circulation shareholder
Qu Wei	+662,815	662,815	0.22	Circulating	Unknown	Foreign shareholder
Deng Lanqin	+653,700	653,700	0.22	Circulating	Unknown	Circulation shareholder

Notes: (1) Sanonda Group Corporation is the holding shareholder of the Company, which held the Company's shares on behalf of the state.

(2) Among the top ten shareholders as listed above, there exists no associated relationship between Sanonda Group Corporation (the holding shareholder of the Company) and other shareholders, and it does not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies.

(3) The Company is unknown whether there exists associated relationship among other shareholders, or whether the shareholders belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies.

(III) Particulars about the holding shareholder

Name of the holding shareholder: Sanonda Group Corporation (it held 81,726,625 shares of the Company; taking 27.52% of total shares)

Legal representative of the holding shareholder: Zhang Maoli

Date of foundation: 1994

Registered capital: RMB 311,101,000

Scope of business: Agrochemical, chemical products, pharmaceutical products, mechanical equipments and fittings, import and export of the Company's products and the necessary raw and auxiliary material, etc.

Sanonda Group Corporation, the holding shareholder, is a shareholder holding state-owned shares of the Company, and its actual controller is Jingzhou Municipal State-owned Assets Administration Office. There was no change in shares held by the holding shareholder in the report period.

81,726,625 shares of the Company held by Sanonda Group Corporation were pledged or frozen. Of them, pledged shares were 55,770,000 shares and frozen shares were 25,956,625 shares (the event was published several times in designated newspapers China Securities, Securities Times and Ta Kung Pao).

(IV) There was no other legal person shareholder holding over 10% share.

(V) Particulars about shares held by the top ten circulating shareholders of the Company

Name of shareholder	**Number of circulating shares held in the report year-end**	**Type**
Zhang Sheng	1,558,600	B-share
Taiji Investment Co., Ltd	1,000,000	B-share
Guangqi Investment Co., Ltd	1,000,000	B-share
Anhui Huaidu Heat Supply Engineering Co., Ltd.	919,012	A-share
Hubei Zhonglian Yangzi Soil Economic Development Company	835,000	A-share
Zhou Wenqin	698,220	A-share
Qu Wei	662,815	B-share
Deng Lanqin	653,700	A-share
Zhao Quanshan	629,710	A-share
Wuhua Industrial Co., Ltd	600,000	A-share

The Company is unknown whether there exists associated relationship among shareholders of circulation share, or whether the shareholders belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies.

Section V. Particulars about Directors, Supervisors and Senior Executives and Employees

(I) Director, supervisor and senior executives

1. Basic Information

Name	Title	Sex	Age	Office term	Holding shares at the year-begin	Holding shares at the year-end	Reason for change
Zhang Maoli	Chairman of the Board	Male	60	Jun. 2003-Jun. 2006	11,830	11,830	-
Zheng Xianhai	Vice Chairman of the Board, General Manager	Male	52	Dec. 2003-Jun. 2006	0	0	-
Li Zuorong	Director	Male	54	Jun. 2003-Jun. 2006	3,000	3,000	-

Liu Xingping	Director	Male	41	Jun. 2003-Jun. 2006	2,000	2,000	-
Deng Guobin	Director, Deputy General Manager	Male	36	Jun. 2003-Jun. 2006	2,000	2,000	-
Zhang Jianguo	Director	Male	51	Jun. 2003-Jun. 2006	2,000	2,000	-
He Fuchun	Director, Deputy General Manager, Chief Engineer	Male	39	Jun. 2003-Jun. 2006	2,000	2,000	-
Tan Liwen	Independent Director	Male	56	Jun. 2003-Jun. 2006	0	0	-
Liao Hong	Independent Director	Male	60	Jun. 2003-Jun. 2006	0	0	-
Wan Zheming	Chairman of the Supervisory Committee	Male	55	Jun. 2003-Jun. 2006	7,098	7,098	-
Chen Changshun	Vice Chairman of the Supervisory Committee	Male	56	Jun. 2003-Jun. 2006	9,230	9,230	-
Sang Maoxiong	Supervisor	Male	53	Jun. 2003-Jun. 2006	0	0	-
Liu Jun	Supervisor	Female	42	Jun. 2003-Jun. 2006	0	0	-
Xu Baojian	Supervisor	Male	48	Jun. 2003-Jun. 2006	0	0	-
Wang Xuewen	Deputy General Manager	Male	37	Jun. 2003-Jun. 2006	0	0	-
He Xuesong	CFO	Male	49	Jun. 2003-Jun. 2006	0	0	-
Dai Juqing	Chief Economist	Male	53	Jun. 2003-Jun. 2006	0	0	-
Li Zhongxi	Secretary of the Board	Male	34	Jun. 2003-Jun. 2006	0	0	-

Particulars about directors and supervisors holding the post in Shareholding Company

Name	Name of the Shareholding Company	Post in the Shareholding Company	Office Term
Zhang Maoli	Sanonda Group Corporation	Chairman of the Board	2000 to now
Li Zuorong	Sanonda Group Corporation	Vice Chairman of the Board, General Manager	2000 to now
Zheng Xianhai	Sanonda Group Corporation	Director	2000 to now

Liu Xingpin	Sanonda Group Corporation	Director, Deputy General Manager	2000 to now

2. Particulars about the annual payment of directors, supervisors and senior executives

The Company implemented the evaluation system on the senior executives where their annual payment was linked with the achievements and results. In the year beginning, the Company would decide the evaluation index of operation achievements or management duties of the senior executives according to the overall development strategy and annual operating objectives; in the year-end, the Board evaluated the senior executives based on the operation achievements and the fulfilled duties.

Total annual payment	RMB 500,000
Total annual payment of the top three directors drawing the highest payment	RMB 100,000
Total annual payment of the top three senior executives drawing the highest payment	RMB 100,000
Name of directors and supervisors receiving no payment or allowance from the Company	None
Allowance of independent director and other treatment	The allowance of independent director was RMB 20,000 per year respectively. The Company reimbursed the reasonable charges according to the actual situation, which independent directors attended the meeting of the Board, shareholders' general meeting or exercise their functions and powers in accordance with the relevant laws and regulations and Articles of Association.
Amount of payment	Number
Over RMB40, 000	3
From RMB30, 000 to RMB40, 000	5
Below RMB30, 000	8

3. Particulars about change on the directors, supervisors and senior executives in the report period:

On Jun. 22, 2003, the 4th Board of Directors and 4th Supervisory Committee were elected and came into being at 2002 Shareholders' General Meeting. The 4th Board of Directors composed of directors Mr. Zhang Maoli, Mr. Liu Xingping, Mr. Li Zuorong, Mr. Zheng Xianhai, Mr. Deng Guobin, Mr. Zhang Jianguo and Mr. Hefuchun; independent directors Mr. Tan Liwen, Mr. Liao Hong. The 4th Supervisory Committee composed of Mr. Wan Zheming, Mr. Chen Changshun, Mr. Sang Maoxiong, Mrs. Liujun, and Mr. Xu Baojian.

On Jun. 22, 2003, Mr. Zhang Maoli was elected as the Chairman of the Board in the 1st meeting of the 4th Board, Mr. Liu Xingping as the vice Chairman of the Board. According to the nomination of the Chairman of the Board, Mr. Liu Xingping was engaged as General Manager. According to the nomination of the General Manager, Mr. Deng Guobin, Mr. He Fuchun and Mr. Wang Xuewen were engaged as the Deputy General Manager; Mr. Dai Juqing was engaged as the Chief Economist of the Company and Mr. He Xuesong as the Chief Accountant and Mr. He Fuchun concurrently as the Chief Engineer. According to the nomination of the Chairman, Mr. Li Zhongxi was engaged as the secretary of the Board; Mr. Wu Meng and Mr. Hu Haosong as representatives in charge of the security affairs.

On Jun. 22, 2003, Mr. Wan Zheming was elected as the Chairman of the Supervisory Committee and Employee Supervisor Mr. Chen Changshun as the Vice Chairman at the 1st meeting of the 4th Board.

On Dec. 30, 2003, the proposal on engaging the senior executives was passed at the 6th meeting of the 4th Board.

Due to work need, Mr. Liu Xingping proposed to resign the post of vice chairman of the Board and General Manager. The Board of the Company approved Mr. Liu Xingping's resignation and elected Director Mr. Zheng Xianhai as the vice chairman of the Board of the Company through negotiation. Nominated by Chairman of the Board, Mr. Zheng Xianhai was elected as the General Manager of the Company.

(II) About employees

In the end of the report period, the Company had totally 3633 employees, including 1911 registered employees. Of them, 1452 production personnel, 93 salespersons, 142 technicians, 42 financial personnel 135 administrative personnel. The Company had 758 persons graduated from 3-years regular college graduate or above. The Company had 582 retirees.

Section VI. Administrative Structure of the Company

I. Administration of the Company

In the report period, according to Company Law, Securities Law, Administrative Rules for Listed Companies and requirements of other relevant laws and regulations, the Company continuously improved the administration structure of the Company, integrated the actual status of the Company and established every rule of procedure and system in order to ensure the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the management to execute right according to law and implement duties.

The Company engaged directors according to the procedure stated in Articles of Association of the Company, the number of the directors of the Board and qualification of host were in accordance with relevant laws, regulations and Articles of Association of the Company. The directors of the Company cautiously made decision based on the duties endued by Articles of Association of the Company according to Rules of Procedure of the Board of Directors.

The Company engaged supervisors according to the procedure stated in Articles of Association of the Company, the number of the supervisors of the Supervisory Committee and qualification of host were in accordance with relevant laws, regulations and Articles of Association of the Company. The supervisors of the Company cautiously made decision based on the duties endued by Articles of Association of the Company and supervised over the Company's finance, directors and senior executives according to Rules of Procedure of the Supervisory Committee.

The Company timely studied the laws, regulations and all kinds of normative documents on administration of the companies, self-checked according to requirement, obeyed regulation of information disclosure, performed duties of information disclosure, actively improved quality of information disclosure and actually protected the vantage of the investors.

Compared with the requirement of Administration Rule of Listed Companies, the Company's administration was almost in accordance with relevant regulations, but according to the requirement of Guide Opinion of Independent Directors, the proportion of the independent directors of the Company was less than one third of the directors of the Board.

II. Performance of duties of Independent Directors

1. In the report period, the independent directors of the Company patiently performed duties according to Articles of Association of the Company, patiently participated in the decision-making of significant events of the Company and asserted the interest of the Company and all shareholders.

2. In the report period, the independent directors expressed independent opinion on the events such as Proposal on Purchasing Use Right of Two Lands of Sanonda Group and Proposal on Engagement of Senior Executives.

III. Separation between the Company and the control shareholder in the respects of business, personal, assets, organization and financing

(I) Independence of the Company's business: The Company has independent main business. The Company existed no competition in the same industry with the control shareholder. The related transactions between them are legal, transparent and fair and the price is reasonable.

(II) Independence of the Company's personal: The Company established independent systems of labor, personal and wage. The procedure of holding concurrent post of the directors of the Company by senior executives of the control shareholder is legal. The

General Manager and other senior executives of the Company did not hold posts except for directors in the control shareholders. The general manager, other senior executives and principal technical personals took the full time jobs in the Company and received the salary.

(III) Independence of the Company's assets: The assets of the Company are independent and the property is clear. The Company has independent production system, auxiliary production system and accessory installation. The Company has its own systems of purchase, production tool and sale.

(IV) Independence of the Company's organization: The Company has independent location of production and operation and office organization.

(V) Independence of the Company's financing: The Company has independent financial and accounting department, established normative and independent accounting settlement system and financial management system as well as independent bank account and independently pays tax.

IV. Particular about performance evaluation standards and encouragement and binding mechanism:

The Company was falling to establishing performance evaluation standards and encouragement and binding mechanism for the directors, supervisors and senior executives. According to the development stratagem and annual operation goal of the Company, the Company confirms the general index of annual operation achievement of the senior executives of the Company and establishes evaluation system and encouragement system of operation achievement.

Section VII. Brief Introduction of Shareholders' General Meeting

I. In the report period, the Company has not held the provisional Shareholders' General Meeting.

II. Annual Shareholders' General Meeting for 2002:

On May 22, 2003, the Board of Directors of the Company published the notification of holding Annual Shareholders' General Meeting for 2002 in China Securities, Securities Times and Ta Kung Pao. At 9 o'clock am. on June 22, 2003 (Sunday), Annual Shareholders' General Meeting for 2002 was held in the meeting room of the Company, No. 93, Beijing East Road, Jingzhou, Hubei. Total eight shareholders (including proxies of the shareholders) were present at the meeting, representing 81,765,783 shares of the Company, taking by 27.53% of the total shares of the Company (including 81,765,783 shares of A-share and 0 share of B-share). The meeting was presided by Chairman of the Board, Mr. Zhang Maoli. The directors, supervisors and senior executives of the Company took part in the meeting in compliance with relevant regulation of Company Law and Articles of Association of the Company. The lawyer of Hubei Tian Yuan Brother Law Firms participated in the meeting and witnessed. The meeting examined and approved the following proposals:

1. Work Report of the Board of Directors for 2002;
2. Annual Report for 2002 and its Summary;
3. Financial Settlement Report for 2002;
4. Profit Distribution Preplan for 2002;
5. Work Report of the Supervisory Committee for 2002;
6. Proposal on Engagement of Certified Public Accountants;
7. Proposal on Election at Expiration of Office Terms of the Board of Directors;

The meeting elected the 5th Board of Directors of the Company that was constituted by nine directors including Mr. Zhang Maoli, Mr. Liu Xingping, Mr. Li Zuorong, Mr. Zheng Xianhai, Mr. Deng Guobin. Mr. Zhang Jianguo, Mr. He Fuchun as well as Independent Director Mr. Tan Liwen and Mr. Liao Hongxian.

8. Proposal on Election at Expiration of Office Terms of the Supervisory Committee;

The meeting elected the 4th Supervisory Committee of the Company that constituted by five supervisors including Mr. Wan Zheming, Mr. Chen Changshun, Mr. Sang Maoxiong, Ms. Liu Jun and Mr. Xu Baojian.

9. Proposal on Amendment of Articles of Association of the Company;

The public notice on the above resolutions of the Shareholders' General Meeting and law opinion was disclosed in China Securities, Securities Times and Ta Kung Pao dated June 24, 2003.

Section VIII. Report of the Board of Directors

I. Operation in the report period

(I) Scope of main business and operation status

The business scope of the Company is production and sales of pesticides and chemical products. In 2003, the income from main business of the Company was RMB 863,890,000, an increase of 41% compared with that of the corresponding period of the previous year; profit of main business was RMB 136,470,000, an increase of 95% compared with that of the corresponding period of the previous year; export exchange was USD 19.50 million, an increase of 20% compared with that of the corresponding period of the previous year; the Company produced pesticides (converted into integer) of 26,500 tons, an decrease of 6% than that of the corresponding period of the previous year and caustic soda (converted into integer) of 72,000 tons, an increase of 13% compared with that of the corresponding period of the previous year.

Main product and its market share:

The pesticides produced by the Company took by over 10% of income from main business and profit of main business of the Company. The sale amount of pesticides of the Company in the whole year was RMB 539,995,352.67, taking by 62.51% of income from main business of the Company and its profit took by 81.37% of profit of main business and the gross profit ratio of sale was 21.18%.

(II) Operation and achievement of main share-controlling subsidiaries

Ended Dec.31, 2003, the share-controlling subsidiaries of the Company include:

Unit: RMB'0000

Name of companies	Business quality	Core business	Registered capital	Total assets	Income from main business	Net profit	Proportion of shares held
Sanonda Zhengzhou Agrochemical Co., Ltd.	Production enterprise	Pesticides and chemicals	4,000	21,436	12,738	1	70.00%
Jingzhou Dali Industrial Company	Production enterprise	Packing materials	280	340	363	1	53.00%
Hubei Sanonda Tianmen Agrochemical and Chemical Co., Ltd.	Production enterprise	Pesticides	800	7,885	6,624	794	85.00%
Jingzhou Sanonda Real Estate Co., Ltd.	Real estate	Real estate	1,000	3,598	3,758	182	90.00%
Jingzhou Sanonda Advertisement Co., Ltd.	Advertisement	Advertisement	120	189	134	16	60.00%
Sanonda (Jingzhou) Agrochemical and Chemical Co., Ltd.	Production enterprise	Pesticides	2,800	4,671	3,552	-879	87.50%
Sanonda Qichun Co., Ltd.	Production enterprise	Pesticides	8,000	9,329	3,898	-788	70.00%
Sanonda Foreign Trade Co., Ltd.	Trade	Import and export of pesticides	1,000	6,710	18,231	-3	90.00%
Hubei Fengyuan Chemical Industry Co., Ltd.	Production enterprise	Chemical fertilizers	4,000	8,734	3,220	-966	55.00%

Among of it, basic particulars about the companies whose investment earnings took over 10% of the net profit of the Company:

Name of companies	Total assets (RMB'0000)	Net assets (RMB'0000)	Business quality	Net profit (RMB'0000)
Jingzhou Sanonda Real Estate Co., Ltd.	3598	1191	Development and sale of real estate	182
Sanonda Tianmen Agrochemical and Chemical Co., Ltd.	7885	2364	Production and sales of pesticide products	794

(III) Major suppliers and customers

The total amount of purchase from the top five suppliers was RMB 86.82 million, taking by 11.98% of the total amount of purchase in the whole year. The amount of products sold to the top five customers was RMB 7835, taking by 9.07% of the sale amount of the whole year.

(IV) Difficulties and problems arising from the operation and solutions

In the report period, the production and operation of the Company came across larger difficulties and pressures: the first was the rise in large range of the price of such energy as chemical raw materials, vapor and electron and it caused the rise of production cost. The second was the influence of SARS. Going-out of persons was difficult and transportation of goods was put off and it impacted the work of production and sale of the Company. Aiming for the above unfavorable conditions, the

Company adopted the following measures: the first was to strengthen coordination of marketing, concentrate on grasping the sale of key kinds and key markets. Therefore, the sale amount of domestic market had a rise in larger range, export exchange and export amount created the best level in the history; the second was to patiently organize production, improve production burden as well as product quality and descend production cost; the third was to strengthen every internal management, control expense, drop financing cost, strictly perform purchase of comparative price and public bids and make efforts to digest the factor of price's rise of raw materials; the fourth was to grasp the construction of key technology regeneration projects and set up base for the Company's further continuous development.

II. Investment of the Company in the report period

1. In the report period, the Company has no raised capital. The last raised capital has been finished using in 2002.

2. Investment of proceeds not raised through share offering:

Unit: RMB'0000

Name of projects	Investment	Progress of projects	Estimated time of completion
Acetyl methyl amine phosphor	476	100.00%	The 1st half year of 2003
Multi-functional setting engineer	958	100.00%	In 2003
Salt well project	920	100.00%	The 1st half year of 2003
NPK (compound fertilizer) projects	1,466	100.00%	The 1st half year of 2003

(2) In Apr. 2003, the Company invested RMB 4.4 million, established Beijing Yingli Technology Development Co., Ltd. with TH-UNIS INSIGHT Co., Ltd. and Hebei Xinxing Chemical Industry Co., Ltd.. Its registered capital is RMB 8 million and the Company takes by 55%. The company mainly engages in researching, developing and selling of its own products (excluding danger chemicals and easily-virulent chemicals). In Dec. 2003, the Company sold equity amounting to RMB 1.7 million among of equity totally RMB 4.4 million to the management team of Beijing Yingli Technology Development Co., Ltd.. After the transfer, the Company holds equity amounting to RMB 2.7 million of Beijing Yingli Technology Development Co., Ltd., taking by 33.75% of the registered capital.

III. Financial situation and operation result of the Company

1. Analysis of financial situation and operation result of the Company in the report period:

Unit: RMB'000

Items	2003	2002	Increase/decrease (+/-)
Gross profit	128,948	81,791	57.66%
Profit for shareholders (loss)	8,482	-156,609	
Net increase/(decrease) of cash and cash equivalents	15,372.00	-116,106.00	
Trade receivables and other	240,365	183,791	30.78%

receivables			
Construction in progress	20,806	58,518	-64.45%
Short-term bank loan	287,838	197,663	45.62%
Bank loan-maturity after one year	88,760	46,280	91.79%

Reason of increase or decrease:

(1) The increase of profit of main business was mainly caused by the rise of sale amount of product and dropping of cost;

(2) The increase of profit for shareholders was mainly caused by the increase of gross profit;

(3) Net increase of cash and cash equivalent was mainly caused by the increase of net amount of cash flow from financing activities;

(4) The increase of trade receivables and other receivables was mainly caused by the increase of sale amount;

(5) The decrease of construction in progress was mainly caused by fixed assets changed after the projects were finished;

(6) The increase of short-term bank loan was caused by the larger increase of production in the report period and the increase of operation capital needed.

(7) Bank loan-maturity after one year was caused by the regeneration loan of national debt item in the report period.

2. Former adjustment

According to the notification of local taxation bureau of Hubei Province, the Company reduced the payment of local tax amounting to RMB 1,322,000 before 2002 and RMB 2,959,000 in 2002. Therefore, the Company adopted backward adjustment to respectively adjust shareholders' equity amounting to RMB 1,322,000 and RMB 4,281,000 for 2001 and 2002.

IV. Influence of environment of production and operation, macroscopic policies and regulations on the Company

According to the guideline of Notice on the Tax Policy of Pesticide released by Ministry of Finance of the PRC, Customs' General Administration of the PRC and State Administration of Taxation with FT [2003] No.186 document, since Jun.1, 2004, the value added tax in the production course of the main pesticide products produced by the Company will be resumed for collection. The policy will be stopped for execution, which exempt the value added tax in the production course of indigenous pesticide clarified in the 3rd term of the 1st item of Notice from Ministry of Finance and State Administration of Taxation on the Policy of Exempting the value added tax of Some Agricultural Production Material (FT [2001] No.113 document). The value added tax in 2004 is prefigured to increase nearly RMB several million.

V. Operation plan in 2004

2004 is the year for the Company to innovate and adjust. The operation object is to realize sales income amounting to more than RMB 1000 million, exportation amounting to more than USD20 million. The general requirements of the Company's operation are to change idea and notion and intensify enterprise's innovation; quicken structure adjustment and strengthen competition power; reinforce management and increase economical benefit, and make sure to achieve the operation objects of the whole year. Mainly to emphasize the following work: firstly the innovation of the Company. Carry through the innovation of cadre system with the objects of strengthening responsibility, increasing efficiency and reinforcing check, the labor system innovation with the objects of increasing the whole making and competition power of the Company, and the distribution system innovation with the objects of introducing market system, mobilize staff's enthusiasm and exerting their potential. Secondly quicken the adjustment of structure. The products structure adjustment of the Company will be about three aspects: adjust the pesticide to the type of high efficiency and low poison; increase the proportion of herbicide in the products; implement the collateral development of original emulsion production and new variety process. Thirdly strengthen enterprises' management. Continue to make quality and environment management system as the main thread, focus on the financial management, push "5S" management activity, actively develop the attestation work of professional safety and health management system, and promote the production level and economical operation quality with strict and normative management, strengthen the management and innovation of the subsidiaries, increase profit, decrease deficit and ensure the achievements of the annual objects of production and operation.

VI. Routine Work of the Board of Directors

1. In the report period, the Board of Directors of the Company totally held nine meetings with the resolutions as follows:

(1) At 9:00 am of Apr.15, 2003, the Company held the meeting of the Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, eight directors should be present and actually eight were present. Five supervisors attended the meeting as nonvoting delegates. The meeting examined and approved following resolutions:

a. General Manager's Work Report 2002;

b. Board of Directors' Work Report 2002;

c. Annual Report 2002 and its Summary;

d. Financial Settlement Report 2002;

e. Profit Distribution Preplan 2002;

Audited as per Chinese Accounting Standards, the Company realized a net profit of RMB –110.7941 million in 2002, as per International Accounting Standards; the

Company realized a net profit of RMB –153.6526 million. According to the principle of taking the lower amount and the regulation of Articles of Association, the profits available for distribution was RMB –153.6526 million, plus the undistributed profit of previous year RMB 57.9021 million, profits available for distribution was RMB –95.7505 million. Due to the deficit in 2002, the Board of Directors of the Company decided not to distribute the profit in 2002, not to convert public reserve into share capital.

f. Proposal on Engaging Certified Public Accountants;

The Company continue to engage Tianhua Certified Public Accountants as the Company's domestic financial auditor of 2002 with the annual auditing reward of RMB 280000; change to engage Pricewaterhousecoopers Certified Public Accountants as the Company's international financial auditor with the annual auditing reward of HKD 600000.

The holding of Annual Shareholders' General Meeting 2002 will be notified another day.

(2) At 10:30 am of Apr.24, 2003, the Company held the meeting of the Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, eight directors should be present and actually five were present, members of the Supervisors Committee attended the meeting as nonvoting delegates, which is in accordance with the Company Law and the Articles of Association of the Company. The Independent Director Tan Liwen and Liao Hongjin voted in the method of communication, Director Zhang Jianguo was out for business reason and authorized Director He Fuchun as his representative. The meeting examined and approved 1st Quarterly Report of 2003.

(3) At 2:30 pm of May 21, 2003, the Company held the meeting of the Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, eight directors should be present and actually six were present, members of the Supervisors Committee attended the meeting as nonvoting delegates, which is in accordance with the Company Law and the Articles of Association of the Company. The meeting examined and approved following resolutions:

a. Proposal on Changing Office Election of the Company;

b. Proposal on Amending Part Terms of the Articles of Association of the Company;

c. Proposal on Holding Annual Shareholders' General Meeting 2002.

(4) On Jun. 22, 2003, the Company held the 1st meeting of the 4th Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, nine directors should be present and actually nine were present, members of the Supervisors Committee attended the meeting as nonvoting delegates, which is in

accordance with the Company Law and the Articles of Association of the Company. The meeting examined and approved following resolutions:
a. Elect Mr. Zhang Maoli as the Chairman of the 4th Board of Directors, and elect Mr. Liu Xingping as the Vice Chairman of the Board;
b. Nominated by the Chairman of the Board, engage Mr. Liu Xingping as the General Manage of the Company;
c. Nominated by the General Manager, engage Mr. Deng Guobin, Mr. He Fuchun and Mr. Wang Xuewen as the Company's Vice General Manager, Mr. Dai Juqing as the General Economist, Mr. He Xuesong as the General Accountant and Mr. He Fuchun as the General Engineer.
d. Nominated by Chairman of the Board, Mr. Li Zhongxi was engaged as secretary of the Board, at the same time, deputed Mr. Wu Meng and Mr. Hu Haosong as authorized representative in change of securities affairs.
(5) At 9:30 am of Aug. 11, 2003, the Company held the 2nd meeting of the 4th Board of Directors at the office of Wuhan. The meeting was presided by the Chairman of the Board Zhang Maoli, nine directors should be present and actually nine were present, members of the Supervisors Committee and Senior Executives attended the meeting as nonvoting delegates, which is in accordance with the Company Law and the Articles of Association of the Company. The meeting examined and approved Semi year Report and Summary.
(6) On the morning of Sep. 30, 2003, the Company held the 3rd meeting of the 4th Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, nine directors should be present and actually nine were present, members of the Supervisors Committee and part of the Senior Executives attended the meeting as nonvoting delegates, which is in accordance with the Company Law and the Articles of Association of the Company. The meeting examined and approved following resolutions:
a. The correction report on the problems of HUBEI SANONDA Co., Ltd. found by Wuhan Security Regulation Office in their circuit examination.
b. Approved to apply project loan of RMB 90 million from Shashi Region Branch of Industrial and Commercial Bank of China with term of six years; and approved to take the Company's machine whose value is RMB 168.6 million as the mortagage of the loan with the term of six years.
(7) At 9:30 am of Oct. 19, 2003, the Company held the 4th meeting of the 4th Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, nine directors should be present and actually eight were present, Independent Director Mr. Tan Liwen was out for business and authorized Independent Director Mr. Liao Hong as his representative. members of the Supervisors

Committee attended the meeting as nonvoting delegates, which is in accordance with the Company Law and the Articles of Association of the Company. The meeting examined and approved the following resolutions:

a. the Company's 3rd Quarterly Report of 2003;

b. Proposal on Amending the Articles of Association of the Company;

c. Proposal on Engaging the Company's Certified Public Accountants of 2003. Continue to engage Beijing Tianhua Certified Public Accountants as the Company's domestic auditor of 2003. Change to engage He Xiling Certified Public Accountants as the Company's International auditor of 2003.

(8) On morning of Dec. 18, 2003, the Company held the 5th meeting of the 4th Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, nine directors should be present and actually nine were present, which is in accordance with the Company Law and the Articles of Association of the Company. The meeting examined and approved the following resolutions:

a. Proposal on Purchasing the use right of two pieces of land from SANONDA Group;

b. Proposal on jointly invest RMB 5 million and establish Jingzhou Nonghua Chemistry Co., Ltd.

(9) On morning of Dec. 30, 2003, the Company held the 6th meeting of the 4th Board of Directors at the Company's meeting room. The meeting was presided by the Chairman of the Board Zhang Maoli, nine directors should be present and actually nine were present, which is in accordance with the Company Law and the Articles of Association of the Company. The meeting examined and approved proposal on engaging senior executives.

Due to the requirements of the Company, Mr. Liu Xingping brought forward the request to resign his position of the Company's Vice Chairman of the Board and General Manager, elect Direct Mr. Zheng Xianhai as the Vice Chairman of the Board. Nominated by the Chairman of the Board, engage Mr. Zheng Xianhai as the General Manager of the Company.

2. Implementation of the resolution of the Shareholders' General Meeting by the Board of Directors

In the report period, authorized by the Shareholders' General Meeting, the Board of Directors seriously implemented every resolution of the Shareholders' General Meeting, and received the supervision from the Supervisory Committee.

VII. Profit Distribution Preplan in 2003

Audited as per Chinese Accounting Standards, the Company realized a net profit of RMB 7,400,592.33 in 2003, retroactive adjust the undistributed profit in 2002 of

RMB –6,344,584.97, so this year, the profit available for the Shareholders to distribute was RMB –52,446,961.20; As per International Accounting Standards; the Company realized a net profit of RMB 8,482,000, profit available for the Shareholders to distribute was RMB –131,546,000. According to the principle of taking the lower amount, the profits available for distribution was RMB –131,546,000. So the Board of Directors of the Company decided not to distribute the profit in 2002, not to convert public reserve into share capital. The preplan should be submit to 2003 Annual Shareholders' General Meeting of 2003.

VIII. Other Events

(1) In the report period, the newspapers appointed for information disclosure is China Securities, Securities Times and Ta Kung Pao.

(2) The special explanation of Tianhua Certified Public Accountants on the fund occupied by the Company's holding shareholders and other related parties:

Tianhua Certified Public Accountants presented the Company Special Explanation on the fund occupied by the Company's holding shareholders and other related parties with THA (2004) No. 080-02 document.

According to the requirements of the Information on Some Problems on Regulating the Listed Company and its Related Parties and the Listed Company's External Guarantee against Rules (SRF [2003] No.56 document) which was released by CSRC and State-owned Assets Supervisory and Administration Committee of the State Council (SASAC), it is the Company's responsibility to record faithfully and disclose the fund occupied by the holding shareholders and related parties and ensure that it is true, legal and integrity. We have check the relevant contents of the fund occupied by the holding shareholders and related parties recorded in the Company's Annual Report, of the recheck accountant files during out auditing the Company's financial report, and of the audited financial report, no significant disaccord has been found.

The fund in operation occupied by the holding shareholders and related parties

(Unit: RMB)

Items	2002.12.31	Increase in this period	Decrease in this period	2003.12.31
Holding Shareholders — Occupied in operation (exclude Bank Acceptance Bill)	0	0	0	0
Other Related Parties — Occupied in operation (exclude Bank Acceptance Bill)	53,975,478.04	127,800,373.04	110,035,503.02	71,740,348.06
Occupied by Bank Acceptance Bill	700,000.00	11,339,150.90	5,445,165.00	6,593,985.90

Total of the fund occupied in operation	54,675,478.04	139,139,523.94	115,480,668.02	78,334,333.96

The fund in non-operation occupied by the holding shareholders and related parties

	2002.12.31	Increase in this period	Decrease in this period	2003.12.31
Holding Shareholders — Occupied in non-operation	-12,411,016.51	-51,079,657.31	-39,961,130.37	-23,529,543.45
Other Related Parties — Occupied in non-operation	18,996,266.58	73,074,953.10	49,671,841.58	42,399,378.10

Ended Dec.31, 2003, the Company occupied the non-operation fund of its holding shareholder Sanonda Group Company RMB 23,529,543.45, mainly because that in this period, the Company did not pay the fund of land which the Company purchased from Sanonda Group Company. Other related parties occupied the non-operation fund of the Company amounted to RMB 42,399,378.10.

(3) The independent opinions from the Independent Directors on the Company's accumulative and periodic external guarantee:

According to the requirements of the CSRC[2003] No.56 document, in order to control the financial risk to a smaller scope, the Company will amend the relevant guarantee items on the Articles of Association and form proposal which will be submit to 2003 Annual Shareholders' General Meeting for approval.

Ended Dec.31,2003, the status of the Company's external guarantee was:

(unit: RMB '0000)

Name of the guarantee object	Relation with the Company	Date of occurrence	Amount of the guarantee	Type of the guarantee	Term of the guarantee	Whether finished	Guarantee decision procedure and disclosure procedure
Sanonda Zhenzhou Pesticide Co.,Ltd.	Subsidiary	2002.8.14	1000	Ordinary	03.1.24-04.1.23	No	
		2003.1.24	1000	Ordinary	03.6.27-04.6.27	No	
Sanonda (Jingzhou) Pesticide Chemistry Co., Ltd.	Subsidiary	2002.6.28	1127	Ordinary	03.6.28-04.6.27	No	
Hubei Fengyuan	Subsidiary	2002.8.12	2000	Ordinary	02.7.22-	No	

Chemistry Co., Ltd.					05.7.21		
Total occurrence of the related guarantee			5127				
Total balance of the related guarantee			5127				
Total balance of the guarantee			5127				

Section IX. Report of the Supervisory Committee

I. Meetings of the Supervisory Committee in 2003

In the report period, the Supervisory Committee of the Company totally held 6 Meetings of the Supervisory Committee with topics for discussion as follows:

On April 15, 2003, the Supervisory Committee held the Meeting, which considered and passed such resolutions as Annual Report and its Summary 2002;

On April 24, 2003, the Supervisory Committee held the Meeting, which considered and passed the 1st Quarterly Report for 2003;

On May 21, 2003, the Supervisory Committee held the Meeting, which considered and passed such resolutions as Renewal of the Supervisory Committee;

On June 22, 2003, the Supervisory Committee held the Meeting, which considered and passed such resolutions as Electing Chairman and Vice-chairman of the Supervisory Committee;

On Aug. 7, 2003, the Supervisory Committee held the Meeting, which considered and passed such resolutions as Semi-annual Report and its Summary 2003;

On Oct. 19, 2003, the Supervisory Committee held the Meeting, which considered and passed such resolutions as the 3rd Quarterly Report for 2002;

II. Independent work report

1. Operating according to laws. The members in the Supervisory Committee of the Company attended all the meetings of the Board as nonvoting delegates and supervised on the Company's decision-making and operation. The Supervisory Committee considered the procedures of the Company's decision-making were legal and internal control system was improved. In the daily work, the Company's directors, general manager and senior executives did not disobey laws and regulations and the Articles of Association of the Company, damage the interests of the Company or harm the interests of the shareholders and employees by abusing the authorities.

2. Inspecting the Company's finance. In the report period, the Supervisory Committee inspected the Company's business and finance and considered that the unqualified auditor's report presented by Tin Wha CPAs and Hong Kong Ho And Ho & Company for the Company reflected the Company's financial position and operating results in an objective and true way.

3. Use of the proceeds raised from the latest public offer. Ended the end of year 2000,

the Company's proceeds raised from B-shares offering had been used up. The change of projects invested with the proceeds raised from B-shares offering was considered and passed by Temporary Shareholders' General Meeting on Jan. 8, 1999 with legal procedures. The input projects were the same as the changed projects.

4. Acquisition and sales of assets of the Company. The 5th Meeting of the 4th Board of Directors held on Dec. 18, 2003 considered and passed Proposal on Purchasing Two Land Use Right from Sanonda Group Company. The Company invested RMB 29.3368 million to purchase two land use rights amounting to 135,715.54 sq. m. held by Group Company with reasonable price.

5. Related transactions. The related transactions were fair and just, not harming the interests of the Company.

Section X. Significant Events

I. In the report period, the Company had no any material lawsuit or arbitration.

II. In the report period, the Company's material acquisition and sales of assets, absorption and merger

The 5th Meeting of the 4th Board of Directors of the Company held on Dec. 18, 2003 considered and passed Proposal on Purchasing Two Land Use Rights from Sanonda Group Company. The Company invested RMB 29,336,800 to purchase two land use rights amounting to 135,715.54 sq. m. held by the Group Company, which was for the sake of making the property relationships smooth, settling the historical problems left in the aspects of assets and capital separation between the Company and Sanonda Group Company and strengthening the standardized operation of the Company and was also beneficial for reducing the Company's related transactions and operating risks possibly existing in the future.

III. Material related events in the report period:

1. If one company is able to control another company directly or indirectly or plays material influence on the finance and operating decision-making of another company, then the said two companies belong to related parties. Those companies who suffer collective controls or the same material influence can also be considered as related parties.

The Group is a part of the larger group member company in Sanonda Group Company, who has obvious transaction and business relationships with the affiliated companies in the same grade. Based on this kind of relationship, the clauses of these transactions are probably not the same with the clauses in the transactions with all non-related parties. Sanonda Group Company itself is held by Chinese Government, who also holds or controls respectable other enterprises (state-owned enterprises) directly or indirectly.

According to International Financial Reporting Standards, the state-owned enterprises except for Sanonda Group Company and the affiliated companies in the same grade do not belong to related parties. The related parties refer to those enterprises where Sanonda Group Company is able to exert material influence.

Related parties' names and their relationships with the Group are as follows:

Names	Relationships
Sanonda Group	Parent Company
Same-graded affiliated companies of Sanonda Group	
Affiliated companies and associated companies not consolidated	

The relationships of main related parties are as follows:

	In 2003	In 2002
	RMB'000	RMB'000
Purchasing raw materials from Sanonda Group and its same-graded affiliated companies	21,229	22,077
Purchasing raw materials from affiliated companies and associated companies not consolidated	13,273	12,713
Selling goods to Sanonda Group and its same-graded affiliated companies	2,009	3,402
Selling goods to affiliated companies and associated companies not consolidated	552	1,248

Sanonda provided loan guarantees for the Group (Notes 26) and the amount receivable from related parties on balance sheet date was as follows:

	In 2003	In 2002
	RMB'000	RMB'000
Account receivable from Sanonda Group and its same-graded affiliated companies	3,062	7,453
Account receivable from affiliated companies and associated companies not consolidated	778	5,599
Total	3,840	13,052

The amount payable to related parties on balance sheet date was as follows:

	In 2003	In 2002
	RMB'000	RMB'000
Account payable to Sanonda Group and its same-graded affiliated	542	11,847

companies		
Account payable to affiliated companies and associated companies not consolidated	1,180	2,004
Total	1,722	13,851

The amount receivable (payable) from/to related parties do not include interests with no pledge and with no fixed term for refunding.

2. Related transactions from assets and equity transfer

(1) Summary of the related transaction

Hubei Sanonda Co., Ltd. (hereinafter referred to as Company or the Company) signed Agreement on Transferring Land Use Rights with Sanonda Group Company (hereinafter referred to as Group Company) in Jingzhou, Hubei on Dec. 16, 2003. The Company planned to purchase two land use rights amounting to 135,715.54 sq. m. held by Group Company. Since Group Company is the first largest shareholder of the Company, holding 81,726,625 shares, taking 27.52% of the Company's shares, Group Company and the Company form related parties. Therefore, the said transaction forms a related transaction.

(2) Introduction of the related party

Sanonda Group Company

Registered address: No. 93, Beijing East Road, Jingzhou, Hubei

Registered capital: RMB 311,101,000

Economic quality: Associated (tight type)

Legal representative: Zhang Maoli

Business scope: pesticide chemical products, chemical products, medical products, gas, importing and exporting the Company's products and necessary raw and accessory materials, machinery equipments, fittings, byproducts and transportation of automobile goods.

(3) Main contents and pricing policy in the contract of the related transaction

Both parties of the transaction: Hubei Sanonda Co., Ltd. and Sanonda Group Company

Contents of the transaction: the Company planned to invest RMB 29,336,800 to purchase two land use rights amounting to 135,715.54 sq. m. held by Group Company.

Date of agreement signing: Dec. 16, 2003

Pricing of the transaction and transaction price: with Nov. 18, 2003 as norm date, the transaction price for purchasing land use right is based on the total price of land assets assessed by appraisal institutions. Way of the transaction: the Company pays payment to Group Company with self-owned capital within 10 workdays (including the current date of gaining land use right license) from the date when the land use right is transferred to the Company according to laws (namely the Company's gaining the letter on transferring land use right).

(2) Guarantees

In the report period, the Company had no any material external guarantee.

IV. Material contracts and their implementations:

1. In the report period, the Company did not trust, contract or lease the assets of other companies or vice versa.

2. Material guarantees

1) Short-term loans

Guarantors	Borrowers					
	Sanonda Fengyuan Chemical Company	Sanonda Co., Ltd.	Sanonda Zhengzhou Pesticide Company	Sanonda Jingzhou Chemurgy	Sanonda Qichun Chemurgy Company	Jingzhou Sanonda Real Estate Company
I. Short-term loans						
Sanonda Group Company	5,000,000.00	2,000,000.00	40,000,000.00	990,000.00	810,000.00	5,000,000.00
Sanonda Co., Ltd.			20,000,000.00	11,270,000.00		
Sanonda Foreign Trade Company				350,000.00		
Total	5,000,000.00	2,000,000.00	60,000,000.00	12,610,000.00	810,000.00	5,000,000.00

2) Long-term loans

Guarantors	Borrowers	
	Sanonda Fengyuan Chemical Company	Sanonda Zhengzhou Pesticide Company
Sanonda Group Company	10,000,000.00	8,680,000.00
Sanonda Co., Ltd.	20,000,000.00	
Total	30,000,000.00	8,680,000.00

The guarantees provided to the controlling subsidiaries by the Company are mainly used for loan guarantee of current capital and can be refunded basically on time according to requirements in the Articles of Association and from relevant bank departments, strictly in compliance with relevant procedures, which shall not impact adverse influence on the Company.

3. In the report period, the Company did not entrust others to conduct management of cash assets or there was no entrusted loan.

V. In the report period, the Company or shareholders holding over 5% shares of the Company had no commitment to be disclosed in the report period or continuing to the report period.

VI. In the report period, the Company continued to engage Tin Wha CPAs as the domestic auditor and preliminarily decided the auditing expense for year 2003 amounting to RMB 300,000 (excluding room and board expense and business expense of staffs). The said CPAs and its former identity namely Zhongxin Certified Public Accountants and Zhongtianxin Certified Public Accountants have provided auditing service for the Company for 11 years. The Company changed to engage Hong Kong Ho And Ho & Company as the Company’s foreign auditor and paid its annual auditing remuneration amounting to HKD 500,000 in accordance with the agreement signed by the both parties, while the business traveling expense was to be burdened by the Company. The said CPAs provided auditing service for the Company from year 2003. (The Company disclosed the said event, which still should be considered and passed by Shareholders’ General Meeting 2003 of the Company, in the designated newspapers on Oct. 19, 2003)

VII. In the report period, the Company, its Board and Directors have not been checked, punished, criticized with circulars by CSRC or condemned publicly by Shenzhen Stock Exchange.
CSRC Wuhan Securities Regulatory Office conducted traveling inspection to the Company during July 28 to Aug. 1, 2003, conducted spot inspection to the Company in the aspects of normative operation, information disclosure, use of raised proceeds and finance and issued Circular on Rectification in Limited Term (WSRTW (2003) No. 14 document, hereinafter referred to as Circular) on Sept. 3. After receiving the Circular, the Company’s directors, supervisors and senior executives seriously studied and researched the Circular, analyzed the problems listed in the Circular item by item and established corresponding measures of rectification. On Sept. 30, 2003, the 3rd Meeting of the 4th Board of Directors of the Company considered and passed Rectification Report of Hubei Sanonda Co., Ltd. on Problems in Traveling Inspection by CSRC Wuhan Securities Regulatory Office (The Company disclosed the said resolution of the Board of Directors in the designated newspapers on Sept. 30, 2003).

Hubei Sanonda Co., Limited

Report and Financial Statements
For the year ended 31st December 2003

Ho and Ho & Company

Certified Public Accountants

Hong Kong

Hubei Sanonda Co., Ltd

Report and Financial Statements
For the year ended 31st December 2003

Content

REPORT OF THE AUDITORS

To the shareholders of Hubei Sanonda Co., Limited
(incorporated in the People's Republic of China
with limited liability)

We have audited the accompanying consolidated balance sheet of Hubei Sanonda Co., Limited (the "Company") and its subsidiaries (together with the Company referred to as the "Group") as of 31st December 2003 and the related consolidated statements of income, cash flows and statement of changes in equity for the year then ended. These consolidated financial statements set out on pages 2 to 34 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31st December 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Ho and Ho & Company
Certified Public Accountants

25th March 2004, Hong Kong

Consolidated income statement for the year ended 31st December 2003

(Expressed in Renminbi Thousand Yuan)

	Note	2003 RMB'000	2002 RMB'000
Turnover	4	858,705	652,210
Cost of sales		(729,757)	(570,419)
Gross profit		128,948	81,791
Other operating income		17,766	5,428
Distribution expenses		(43,318)	(65,998)
Administrative expenses		(76,153)	(142,354)
Other operating expenses		(4,001)	(1,267)
Profit (loss) from operations	5	23,242	(122,400)
Net financing costs	6	(20,792)	(24,224)
Investment income		3,567	2,112
Profit (loss) before tax and minority interests		6,017	(144,512)
Income tax expenses	7	(4,589)	(17,876)
Profit (loss) before minority interests		1,428	(162,388)
Minority interests		7,054	5,779
Net profit (loss) for the year		8,482	(156,609)
Earnings (loss) per share – Basic	9	RMB0.03	RMB(0.53)

Consolidated balance sheet as at 31st December 2003

(Expressed in Renminbi Thousand Yuan)

	Note	2003 RMB'000	2002 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	11	463,391	402,134
Land use rights	12	175,261	149,150
Construction in progress	13	20,806	58,518
Investments in unconsolidated subsidiaries		2,653	2,653
Investments in associates	14	5,048	2,138
Investments in non-trading securities	15	11,931	12,570
Intangible assets	16	5,128	5,676
Negative goodwill	17	(408)	(458)
Other assets		47	112
Total non-current assets		683,857	632,509
Current assets			
Inventories	18	257,653	311,061
Investments in trading securities	19	74,154	69,253
Trade and other receivable		240,365	183,791
Income tax recoverable		8,750	19,601
Prepaid expenses and other current assets		30,978	120,603
Cash and cash equivalents		220,610	205,238
Total current assets		832,510	909,547
Total assets		1,516,367	1,542,056

Consolidated balance sheet as at 31st December 2003

(Expressed in Renminbi Thousand Yuan)

	Note	2003 RMB'000	2002 RMB'000
Equity and liabilities			
Shareholders' equity			
Share capital	21	296,962	296,962
Capital reserve	22	565,633	565,633
Surplus reserves	23	62,676	62,676
Accumulated losses		(131,546)	(139,414)
		793,725	785,857
Minority interests		32,136	39,190
Non-current liabilities			
Deferred revenue	25	8,422	3,846
Long-term bank borrowings	26	88,760	46,280
Total non-current liabilities		97,182	50,126
Current liabilities			
Trade and other payable		268,234	392,488
Short-term bank borrowings		287,838	197,663
Current portion of long- term bank borrowings	26	37,253	76,732
Total current liabilities		593,345	666,883
Total liabilities		690,527	717,009
Total equity and liabilities		1,516,387	1,542,056

The financial statements on pages 2 to 53 were approved and authorized for issue by the Board of Directors on 25th March 2004 and are signed on its behalf by:

Director

Director

Consolidated statement of changes in equity for the year ended 31st December 2003

(Expressed in Renminbi Thousand Yuan)

	Share capital RMB'000	Capital reserve RMB'000	Surplus reserves RMB'000	Accumulated (losses) profits RMB'000	Total equity RMB'000
Balance at 1st January 2002	296,962	565,353	57,287	23,905	942,186
Waiver of a payable in a subsidiary's book	-	280	-	-	280
Net loss for the year	-	-	-	(153,652)	(156,609)
Appropriations	-	-	5,389	(5,389)	-
Balance at 31st December 2002 and 1st January 2003	296,962	565,633	62,676	(135,136)	785,857
Net profit for the year	-	-	-	8,482	8,482
Dividend paid	-	-	-	(614)	(614)
Balance at 31st December 2003	296,962	565,633	62,676	(131,546)	793,725

Consolidated cash flow statement for the year ended 31st December 2003

(Expressed in Renminbi Thousand Yuan)

	2003 RMB'000	2002 RMB'000
Profit (loss) before tax	6017	(144,512)
Adjustments for:		
Depreciation of property, plant and equipment	59,559	57,600
Amortization of land use rights	3,226	3,420
Amortization of intangible assets	1,024	1,096
Amortisation of other assets	68	-
Negative goodwill released to income	(50)	-
Deferred revenue released to income	(160)	(131)
Gain on disposal of investments	(3,067)	(3,957)
Unrealized loss on fair value adjustment of investment	-	1,952
Loss on disposal of property, plant and equipment	7,416	491
Impairment loss on property, plant and equipment	1,578	17,015
Impairment loss on associate	-	1,515
Impairment charge for bad debt and doubtful debts	-	26,188
Written off of negative goodwill upon acquisition of minority interests	-	(445)
Written off of inventories to net realisable value	-	11,463
Interest expenses	28,514	30,919
Interest income	(8,052)	(5,625)
Operating cash flows before movements in working capital	96,073	(3,011)
Decrease (Increase) in inventories	53,408	(82,711)
(Increase) decrease in trade accounts receivable	(56,574)	46,372
(Decrease) increase in trade accounts payable	(64,542)	95,048
Cash generated by operations	28,365	55,698
Income tax refunded (paid)	6,262	(7,355)
Net cash from operating activities	34,627	48,343

Consolidated cash flow statement for the year ended 31st December 2003
(Expressed in Renminbi Thousand Yuan)

	Note	2003 RMB'000	2002 RMB'000
Net cash from operating activities		34,627	48,343
Investing activities			
Government grants received		4,736	3,908
Proceeds from disposal of property, plant and equipment, intangible assets and other assets		158	1,691
Proceeds from disposal of investments		78,825	-
Purchase of property, plant and equipment , intangible assets and other assets		(84,350)	(103,817)
Purchase of investments		(79,451)	-
Net cash used in investing activities		(80,082)	(98,218)
Financing activities			
Interest paid		(29,266)	(31,415)
Interest received		8,052	3,859
Capital injection from minority shareholders		-	18,000
Dividend paid		(614)	-
Dividend paid to minority shareholders		-	(3,115)
New bank loans raised		477,873	196,304
Repayments of bank loans		(395,218)	(249,864)
Net cash from (used in) financing activities		62,055	(66,231)
Net increase decrease) in cash and cash equivalents		15,372	(116,106)
Cash and cash equivalents at beginning of year		205,238	321,344
Cash and cash equivalents at end of year			
Bank balances and cash		220,610	205,238

Notes to the financial statements for the year ended 31st December 2003

1. General information

Hubei Sanonda Co., Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on 30th September 1992. Its domestically listed ordinary public shares (A shares) and domestically listed foreign ordinary public shares (B shares) have been listed on the Shenzhen Stock Exchange since December 1993 and May 1997 respectively.

The Company considers that Sanonda Group Company ("SGC") is its parent and ultimate parent company.

The Company together with its consolidated subsidiaries is collectively referred to as the "Group".

The Group is principally engaged in the manufacturing and sale of agrochemical and chemical products; and property development.

As of 31 December 2003, the Company has direct interests in the following subsidiaries, all of which are incorporated in the PRC. Particulars of which are set out below:

Name of company	Attributable equity interests	Principal Activities
a) Consolidated subsidiaries		
Qichun Agrochemical Co., Limited (沙隆達蘄春有限公司)	70%	Manufacturing and sale of agrochemicals
Jinzhou Agrochemical Co., Limited (沙隆達(荊州)農葯化工有限公司)	87.5%	Manufacture and sale of agrochemicals
Hubei Sanonda International Trade Co., Limited (湖北沙隆達對外貿易有限公司)	90%	Import and export sales of agrochemical, chemical and medicinal products
Sanonda Zhengzhou Agrochemical Co., Limited (沙隆達鄭州農葯有限公司)	70%	Manufacture and sale of agrochemical and chemical products
Sanonda Tianmen Agrochemical Co., Limited (湖北沙隆達天門農化有限責任公司)	85%	Manufacture and sale of agrochemicals
Jinzhou Sanonda Real Estate Development (荊州市沙隆達房地產開發有限公司)	90%	Real estate development
Hubei Feng Yuan Chemical Co., Limited (湖北丰源化工有限公司)	55%	Manufacture and sale of chemical products

Name of company	Attributable equity interests	Principal Activities
b) Unconsolidated subsidiaries		
Sanonda Dali Co. (沙隆達達利實業公司)	53%	Manufacture and sale of packaging materials
Jinzhou Sanonda Advertisement Co., Limited (荊州沙隆達廣告有限公司)	60%	Design, make, release and agency of domestic advertisement
c) Associates		
Jinzhou Sida Chemical Plant (荊州市四達化工廠)	50%	Manufacture and sale of agrochemicals
[1] Zhengzhou Sanonda Weixin Agrochemical Co., Limited (鄭州沙隆達偉新農葯有限公司)	21%	Manufacture and sale of agrochemical
Jinzhou Sanonda Jianghan Pharmaceutical Co., Limited (荊州市沙隆達江漢制葯有限公司)	25%	Manufacture and sale of pharmaceutical products
Jinzhou Tianyang Huibao Micro Chemical Co., Limited (荊州市天氧滙寶精細化工有限公司)	48%	Manufacture and sale of chemical products
北京英力精化技術發展有限公司	33.75%	

2. Prior period adjustment

According to the notice from Hubei Province Local Tax Bureau, the Company had been undercharged of tax payment other than income tax for RMB1,322,000 for the years prior to 2002 and by RMB2,959,000 for 2002. Accordingly, prior period adjustment was made resulting in the decrease of shareholders' equity by RMB1,322,000 and RMB4,281,000 of 2001 and 2002 respectively.

3. Principal accounting policies

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations.

The Group maintains its accounting records and prepares its statutory financial statements in accordance with PRC Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises ("Statutory Financial Statements").

4. Principal accounting policies (continued)

a) Statement of compliance (continued)

The accounting policies and basis adopted to the preparation of the Statutory Financial Statements differ in certain respects from IFRS. The differences arising from the restatement of the results of operations and the net assets for compliance with IFRS are adjusted in financial statements but will not be taken up in the accounting records of the Group.

b) Basis of preparation

The consolidated financial statements have been prepared in Renminbi ("RMB"), the currency in which the majority of the Group's transactions are denominated.

Except for certain financial instruments which are stated at their fair value, the financial statements have been prepared on the historical cost basis.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year.

The principal accounting policies adopted in this report are set out below:

c) Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to the profit from ordinary activities after taxation. All significant inter-company balances, transactions, and any unrealized gains arising from intercompany transactions are eliminated on consolidation.

d) Investments in unconsolidated subsidiaries

Investments in unconsolidated subsidiaries are not material to the consolidated financial statements of the Group both individually and taken as a whole. Their assets, liabilities and results are not consolidated. Instead, they are regarded as available-for-sale financial assets, and are stated at cost less provision for impairment loss.

e) Interests in associates

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

3. Principal accounting policies (Continued)

e) Interests in associates (Continued)

Investments in associates are not material to the consolidated financial statements of the Group both individually and taken as a whole. They are not accounted for by the equity method of accounting. Instead, they are regarded as non-trading financial assets, and are stated at cost less provision for impairment loss.

f) Foreign currency transactions

Transactions in foreign currencies are translated to RMB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet dates are re-translated to RMB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, that are stated at historical cost are translated to RMB at the foreign exchange rate ruling at the date of the transaction.

Exchange gains and losses are recognized as income or expense in the income statement, except those capitalized as construction in progress and those arising from the translation at closing rates of foreign currency assets hedged by foreign currency borrowings, and the gains and losses on those foreign currency borrowings (to the extent of exchange differences arising on the foreign currency assets), which are taken directly to reserves.

The results of foreign enterprises are translated into RMB at the average exchange rates for the year; balance sheet items are translated into RMB at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit of loss on disposal.

g) Property, plant and equipment

i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs.

Where an item of property, plant and equipment comprises major components having difference useful lives, they are accounted for as separate items of property, plant and equipment.

ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment, including inspection and overhead expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plan and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

3. Principal accounting policies (Continued)

g) Property, plant and equipment (Continued)

iv) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful lives are as follows:

	Year
Buildings	24 years
Machinery and equipment	9 – 18 years
Motor vehicles	9 years

v) Disposals

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement on the date of retirement or disposal.

h) Land use rights

Land use rights acquired are classified as operating leases. The prepaid lease payments are and amortised on a straight-line basis over the leased periods of 50 years.

i) Construction in progress

Construction in progress represents properties under construction and is stated in the consolidated balance sheet at cost less impairment losses. Cost comprises direct cost of construction as well as interest charges and foreign exchange differences on related borrowing funds to the extent that they are regarded as an adjustment to interest charges during the period of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

3. Principal accounting policies (Continued)

j) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over estimated useful life of the intangible asset.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

k) Investment

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the same time of the purchase and re-evaluates such designation on a regular basis.

Dated debt securities that the Group has the ability and intention to hold to maturity are classified as “held-to-maturity securities”. Held-to-maturity securities are stated in the consolidated balance sheet at amortised cost less provision for impairment losses. Provisions are determined for each investment individually and are recognized in the income statement when carrying amounts are not expected to be fully recovered. For the periods presented, none of the Group’s debt securities were classified as held-to maturity securities.

Securities that are acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer’s margin are classified as “trading securities”. Trading securities are stated in the balance sheet at fair value with the changes in the fair value included in the income statement. The fair value for listed securities is based on the quoted market price without any deduction from transaction costs.

Securities other than those classified as held-to-maturity and trading are classified as “non-trading securities”. Non-trading securities are stated in the balance sheet at cost less impairment losses.

Gains or losses on disposal of investment are determined on the specific identification basis and are accounted for in the income statement on the trade date.

Dividend income from unlisted securities is recognized when the right to receive payment is established. Dividend income from listed securities is recognized when the underlying securities are quoted ex-dividend or ex-distribution.

Interest income from debt securities is recognized as it accrues, as adjusted by the amortization of the discount or accretion of the premium, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity. Other interest income is accrued on a time-apportioned basis buy reference to the principal outstanding and the rate applicable.

3. Principal accounting policies (Continued)

l) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which has not yet been recognized, it is recognized in the income statement when the future losses and expenses are recognized. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognized in the income statement over the weighted average useful life of those assets that are depreciable/amortizable. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognized immediately in the income statement.

On disposal of subsidiaries, any attributable amount of purchased goodwill not previously amortised through the income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

m) Impairment

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognized as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as income.

n) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

The cost of inventories is calculated based on the weighted average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

3. Principal accounting policies (Continued)

o) Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realizable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties, and an appropriate portion of production overheads and borrowing costs. Net realizable value represents the estimated selling price less the estimate costs necessary to make the sales.

p) Properties under development for sale

Properties under development held for sale are stated at the lower of cost and net realizable value. Cost includes cost of land use rights acquired, construction costs and an appropriate proportion of production overheads and borrowing costs during the period of construction. Net realizable value represents the estimated selling price less the estimated costs of completed and the estimated costs necessary to make the sale.

q) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

r) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and call deposits, short-term highly liquid investments with original maturities of three months or less.

s) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

t) Trade and other payables

Trade and other payables are stated at their cost.

u) Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

3. Principal accounting policies (Continued)

v) Deferred revenue and government grants

Deferred revenue represents the portion of income relating to the unexpired period of government grants. A government grant is initially recognized as deferred revenue, when there is 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 recognized in the income statement on a systematic basis to match with the related costs which they are intended to compensate. Grant relating to assets is recognized in the accounts on a systematic basis over the useful life of the asset.

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

w) Revenue

i) Sales of goods

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Sales of completed properties

Revenue from the sale of completed properties is recognized upon signing of the sale and purchase agreement when the significant risks and rewards of ownership have been transferred to the buyer. Deposits and installments received on properties sold prior to the date of revenue recognized are included in the consolidated balance sheet under deposits received in advance.

iii) Interest income

Interest income from bank deposits if accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

x) Expenses

i) Operating lease payments

Payments made under operating lease are recognized in the income statement on straight-line basis over the terms of the respective leases. Lease incentive received is recognized in the income statement as an integral part of the total lease expense. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3. Principal accounting policies (Continued)

x) Expenses (Continued)

ii) Net financing costs

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the assets.

Interest expenses are recognized in the income statement using the effective interest rate method.

iii) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

y) Retirement benefits

The Group participates in retirement schemes operated by local authorities and the annual cost of providing retirement benefits is charged to the consolidated income statement according to the contribution determined by the relevant schemes. The Group has no further liability to the retirement schemes operated by the local authorities.

z Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment of tax payable in respect of previous years.

3. Principal accounting policies (Continued)

z Income tax (Continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asst can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segment.

4. Turnover

Turnover represents revenue from sale of agrochemical products and properties. The amount of each significant category of revenue recognized in turnover during the year is as follows:-

	2003	2002
	RMB'000	RMB'000
Sales of agrochemical products and chemicals	821,120	652,210
Sales of properties	37,585	-
	858,705	652,210

5. Profit (loss) from operations

Profit (loss) from operations is arrived at after charging (crediting):

	2003	2002
	RMB'000	RMB'000
Depreciation on property, plant and equipment	60,915	57,600
Amortization of land use rights	2,294	3,240
Amortisation of intangible assets	1,024	1,096
Written off of construction in progress	4,428	7,872
Trading investment- fair value adjustment	(160)	1,952
Amortisation of negative goodwill	(50)	(45)

6. Net financing costs

	2003 RMB'000	2002 RMB'000
Interest expenses on borrowings	29,266	32,084
Less: Amount capitalised in construction in progress	(752)	(2,032)
	28,514	30,052
Interest income	(8,052)	(6,701)
Exchange difference	6	213
Others	324	660
	20,792	24,224

7. Income tax expenses

Income tax expenses in the consolidated income statement represent:

	2003 RMB'000	2002 RMB'000
Current tax	4,589	6,080
Deferred tax	-	11,796
	4,589	17,876

A reconciliation of the expected tax with the actual tax expense is as follows:-

	2003 RMB'000	2002 RMB'000
Profit from ordinary activities before taxation	6,032	(144,512)
Expected PRC income tax expense at a statutory tax rate of 33%	1,991	(47,589)
Tax effect of expenses that are not deductible in determining taxable profit	2,598	558
Tax effect of unrecognized temporary differences arise in the current year	-	53,211
Prior year deferred tax asset written off	-	11,796
Total tax expense for the year	4,589	17,876

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

7. Income tax expenses (Continued)

No deferred tax asset in respect of the Group's deductible temporary differences as of 31st December 2003 because it is uncertain as to whether sufficient taxable profits will be available against which the deferred tax assets can be utilized.

8. Dividends

The Directors propose not to declare any dividends for the year.

9. Earnings (loss) per share

The earnings (loss) per share for the year ended 31st December is calculated based on the net profit for the year of RMB 8,482,000(2002: net loss for the year of RMB156,609,000) and the weighted average number of ordinary shares outstanding during the year of 296,962,000 shares (2002: 296,962,000 shares).

The amount of diluted earning per share is not presented as there were no dilutive potential ordinary shares in expositing during the years presented.

10. Employee benefit plan

As stipulated by the regulation of the PRC, the Group participates in various defined contribution retirement plans organized by municipal and provincial government for its staff. The Group is required to make contributions to the retirement plan at rates ranging from 16% to 30% of the salaries, bonus and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligations for the payment of pension benefits associated with these plans beyond the annual contribution described above.

The Company's contribution to the defined contribution plans is recognized as an expense in the income statement as incurred.

11. Property, plant and equipment

	Buildings	Machinery and Equipment	Motor Vehicle	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1st January 2003	254,245	539,366	13,616	807,227
Additions	47,946	75,264	1,390	124,600
Disposal	(331)	(14,619)	(2,355)	(17,305)
At 31st December 2003	301,860	600,011	12,651	914,522
Accumulated depreciation and impairment losses				
At 1st January 2003	81,248	316,057	7,788	405,093
Depreciation charge for the year	8,087	51,765	1,041	60,893
Written back on disposal	(415)	(12,786)	(1,654)	(14,858)
At 31st December 2003	88,920	355,036	7,175	451,113
Net book value				
At 31st December 2003	212,940	244,975	5,476	463,391
At 31st December 2002	172,997	223,309	5,828	402,134

All of the buildings owned by the Group are located in the PRC under medium lease (lease periods of 10 years or more but less than 50 years).

The additions of property, plant and equipment during the year includes assets of RMB30,893,000 transferred from construction in progress.

As of 31st December 2003, certain of the Group's property, plant and equipment amounting to RMB18,972,000 were mortgaged as collateral for bank loans.

12. Land use rights

	2003
	RMB'000
Cost	
At 1st January 2003	159,947
Additions	29,337
At31st December 2003	189,284
Accumulated amortisation	
At 1st January 2003	10,797
Charge for the year	3,226
At 31st December 2003	14,023
Net book value	
At 31st December 2003	175,261
At 31st December 2002	149,150

13. Construction in progress

	2003	2002
	RMB'000	RMB'000
At 1st January	62,159	71,104
Additions	16,470	51,267
Amount transferred to property, plant and equipment	(46,522)	(33,431)
Amount transferred to consolidation income statement	(7,416)	(26,781)
At 31st January	52,164	62,159
Less: Impairment losses	(3,885)	(3,641)
	20,806	95,948

14. Investments in associates

	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	6,563	3,653
Less: Impairment loss recognized	(1,515)	(1,515)
	5,048	2,138

15. Investments in non-trading securities

	2003 RMB'000	2002 RMB'000
Unlisted shares	27,241	27,520
Less: Provision for impairment losses	(17,500)	(17,500)
	9,741	10,020
Listed shares	2,190	2,370
National debts debenture	-	180
	11,931	12,570

16. Intangible assets

Intangible assets comprised technical know-how and the movement during the year is as follows:

	2003 RMB'000
Cost	
At 1st January 2003	10,411
Acquisition	460
End of year	10,871
Accumulated amortization	
Beginning of year	4,719
Charge for the year	1,024
End of year	5,743
Net book value	
End of year	5,128
Beginning of year	5,692

17. Negative goodwill

	2003
	RMB'000
Cost	
At 1st January 2003 and 31st December 2002	503
Accumulated amortisation	
At 1st January 2003	45
Amortisation for the year	50
At 31st December 2003	95
Net book value	
At 31st December 2003	408
At 31st December 2002	458

18. Inventories

	2003	2002
	RMB'000	RMB'000
Raw materials	121,774	50,184
Work-in-progress	21,631	45,963
Finished goods	107,819	196,394
Real estate in development	22,722	37,148
	273,946	329,689
Less: Allowance for diminution in value of inventories	(16,293)	(18,628)
	257,653	311,061

19. Investments in trading securities

	2003	2002
	RMB'000	RMB'000
Listed equity securities, at market value	-	5,395
National debts	75,154	63,858
PRC listed equity securities, at market value	75,154	69,253

20. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is set out below:

	2003	2002
	RMB'000	RMB'000
Cash at bank	220,238	204,866
Cash in hand	372	372
	220,610	205,238

21. Share capital

	2003		2002	
	No. of shares		No. of shares	
	'000	RMB'000	'000	RMB'000
Registered, issued and fully paid:				
Listed:-				
A shares of RMB1.00 each	97,232	97,232	97,232	97,232
B shares of RMB1.00 each	115,000	115,000	115,000	115,000
	212,232	187,368	187,368	187,368
Unlisted:-				
State-owned A shares of RMB 1 each	84,730	84,730	84,730	84,730
	296,962	296,962	296,962	296,962

All A shares and B shares rank pari passu in all respects.

22. Capital reserve

In accordance with the articles of association, the Company shall record the following as capital reserve: (i) share premium; (ii) donations; (iii) appreciation arising from revaluation of assets; and (iv) other items in accordance with the articles of association and relevant regulations in the PRC. Capital reserve may be utilized to offset prior years' losses or for the issuance of bonus shares.

As at 31st December 2002, the capital reserve of the Company mainly represents share premium, that is, net assets acquired from SGC in excess of par value of state shares issued and proceeds from the issuance of A shares and B shares in excess of their par value, net of expenses directly relating to the issue of the shares. The application of the share premium account is governed by Section 178 and 179 of the PRC Company Law.

23. Surplus reserves

	2003 RMB'000	2002 RMB'000
Statutory surplus reserve	39,240	39,240
Statutory public welfare fund	19,620	19,620
Discretionary surplus reserve	3,816	3,816
	62,676	62,676

a) Statutory surplus reserve

According to the Company's Articles of Association, the Company and its subsidiaries are required to transfer 10% of its net profit, as determined in accordance with the PRC Accounts g Rules and Regulations, to statutory surplus 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 surplus reserve can be used to make good previous years' losses, if any, and may be converted into shares capital by the issue 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.

b) Public welfare fund reserve

According to the Company's Articles of Association, the Company and its subsidiaries is required to transfer 5% to 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilized on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

c) Discretionary surplus reserve

Discretionary surplus reserve fund is appropriated after the appropriation of statutory surplus reserve and statutory public welfare reserve at the resolution of the Board of Directors and the discretion of the general shareholders' meeting. Its usage is similar to that of stationary surplus reserve.

24. Retained profits available for distribution

The Company is in the loss position as at 31st December 2003. Accordingly, no profits are available for distribution to the shareholders.

25. Deferred revenue

Deferred revenue represents a government grant for purchase of plant and equipment. Such plant and equipment was put into operational use and has an average useful life of 10 years. This government grant, net of the related enterprise income tax payable calculated at 33% of the gross amount, was recorded as deferred revenue in the balance sheet.

26. Bank borrowings

The analysis of long-term bank borrowings is as follows:

	2003		2002	
	Interest rate per annum	Amount RMB'000	Interest rate per annum	Amount RMB'000
Secured	6%	75,633	0%-10.8%	31,022
Guaranteed	0-5.76%	50,380	0%-10.08%	86,290
Unsecured and not guaranteed			7.56%	5,700
		126,013		123,012
Less: Amount overdue or repayable within one year		(37,253)		(76,732)
		88,760		46,280

The above guaranteed bank loans were guaranteed by SGC.

The maturities of the Group's long-term bank borrowings are as follows:

	2003 RMB'000	2002 RMB'000
Amount overdue	27,653	-
Within one year	9,600	76,732
Between one to two years	-	8,800
Between two to five years	38,680	37,480
After five years	50,080	-
	126,013	123,012

26. Bank borrowings (Continued)

As of 31 December 2003, the Company had been negotiating with the banks for renewing the relevant repayment terms. The Directors are of the opinion that the negotiations will be concluded in the near future. There will have no material adverse impact on the Group's operating and cash flow.

27. Financial instruments

Financial assets of the Group include cash and cash equivalents, trade and other receivables and amounts due from related companies. Financial liabilities of the Group include bank loan loans, trade and other payables and amounts due to related companies. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31st December 2003 and 2002. Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

a) Credit risk

The carrying amounts of cash and cash equivalents, receivables and investments represent the Group's maximum exposure to credit risk in relation to financial assets. Cash is placed with reputable banks.

The majority of the Group's trade account receivable relate to sales of agrochemical products to related parties and third parties. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. The Group has no significant concentration of credit risk with any single counterparty or group counterparties.

b) Liquidity risks

The Group's implements prudent liquidity risk management, which implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilitates, and the ability to close out market positions.

c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group has no significant interest-bearing assets. The Group policy is to maintain all its borrowings in fixed rate instruments.

27. Financial instruments) (Continuous)

d) Foreign currency risk

The Group has no significant foreign currency transactions other than its overseas sales. Substantially all of the Group's overseas sales are denominated in United States dollars ("USD"). The Group does not enter into any foreign exchange forward contracts or use other means to hedge its exposure to USD. However, the Group's management closely monitors the fluctuation of the exchange rate of USD against that of RMB. Management of the Group believes that the Group's net exposure to USD will not result in significant exchange loss to the Group.

e) Fair value

The directors consider that as the interest rates are rather steady in the foreseeable future. Therefore, the carrying value of the long-term bank loans approximate to their fair value.

The fair value of the Group's trading investment is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The face vale less any estimate credit adjustments for financial assets and liabilities with as maturity of less than one year are assumed to approximate their fair values.

28. Commitments

Up to the date of this report, the Directors are of the opinion that there is no material commitments matter.

29. Contingencies

Up to the date of this report, the Directors are of the opinion that there is no material contingency matter.

30. Related parties transactions

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

The Group is part of a larger group of companies under SGC Group Company and has significant transactions and relationships with the SGC Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. SGC Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Under IFRS, state-owned enterprises, other than SGC Group Company and fellow subsidiaries, are not considered related parties. Related parties refer to enterprises over which SGC Group Company is able to exercise significant influence.

Name of related parties and nature of relationship

Name	Relationship
SGC	Parent Company
Subsidiaries of SGC	
Unconsolidated subsidiaries and associates	

The principal related party transactions, which were carried out in the ordinary course of business, are as follows:

	2003 RMB'000	2002 RMB'000
Purchase of raw material from SGC and its subsidiaries	21,229	22,077
Purchase of raw materials from unconsolidated subsidiaries and associates	13,273	12,713
Sales of products to SGC and its subsidiaries	2,009	3,402
Sales of products to unconsolidated subsidiaries and associates	552	1,248

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

30. Related parties transactions (Continued)

The outstanding balances with the related parties are as follows:

	2003 RMB'000	2002 RMB'000
Due from SGC and its subsidiaries:	3,062	7,453
Due from unconsolidated subsidiaries and associates:	778	5,599
Total	3,840	13,052

	2003 RMB'000	2002 RMB'000
Trade and other payables to SGC and its subsidiaries		11,847
Trade and other payables to unconsolidated subsidiaries and associate		2,004
Total		13,851

The amount due from (to) related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

In addition to the above, SGC provided guarantee for the Group for the banking facilities granted. (note 26).

31. Segment information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group comprises the following main business segments:

Agrochemical products: The manufacture and sale of agrochemical and chemical products, as well as research and development activities in this area.

Property development: The development and sale of residential properties.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segment are the same as those described in the Principal Accounting Policies Corporate administrative costs and assets are not allocated to the operating segments.

31. Segment information (Continued)

Business segment

Reportable information on the Group's business segments is as follows:-

	Agrochemical products		*Property development*		*Consolidated*	
	2003	*2002*	*2003*	*2002*	*2003*	*2002*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	821,120	652,210	37,585	-	858,705	652,210
Segment results						
Profit (loss) from operations	20,737	(122,400)	2,505	-	23,242	(122,400)
Net Financing cost	(19,978)	24,224	(814)	-	(20,792)	24,224
Investment income	3,567	2,112		--	3,567	2,112
Profit(loss)before tax and minority interests	3,304	(144,512)	2,713		6,017	(144,512)
Income tax expenses	(3,694)	(17,876)	(895)	-	(4,589)	(17,876)
Profit before minority interest	(390)	(162,388)	1,181	-	1,428	(162,388)

	Agrochemical products		*Property development*		*Consolidated*	
	2003	*2002*	*2003*	*2002*	*2003*	*2002*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	*1,480,385*	*1,542,056*	*35,982*		*1,516,367*	*1,542,056*
Segment liabilities	*666,434*	*717,009*	*24,072*		*690,506*	*717,009*

32. Differences Between financial statements prepared under the PRC Accounting Rules and Regulations and IFRS

Other than the differences in the classifications of certain financial captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS.

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analyzed as follows:

	2003 RMB'000	2002 RMB'000
Net profit under the PRC Accounting Rules and Regulations	7,401	(115,815)
Adjustments:		
Income from short equity investment	-	2,064
Provision for bad and doubtful debt of receivables	-	(24,671)
Provision for depreciation for fixed assets not ready for use	-	(4,187)
Inventory net realization value adjustment	(2,336)	5,934
Provision for impairment loss of fixed assets	-	(9,902)
Written off of deferred assets	-	(11,796)
Sales cut-off adjustment	(5,189)	4914
Amortisation of deferred revenue	160	-
Adjustment for unrealised loss on investment	(997)	-
Others	9443	(3,150)
Net profit under IFRS	8,482	(156,609)

32. Differences Between financial statements prepared under the PRC Accounting Rules and Regulations and IFRS (Continued)

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' fund are analyzed as follows:

	2003 RMB'000	2002 RMB'000
Shareholders' fund under the PRC Accounting Rules and Regulations	868,578	860,166
Adjustments:		
Income from short equity investment	2,064	2,064
Provision for bad and doubtful debt of receivables	(46,623)	(46,623)
Provision for depreciation for fixed assets not ready for use	(27,175)	(27,175)
Inventory net realization value adjustment	-	2,336
Provision for impairment loss of fixed assets	(6,156)	(6,156)
Sales cut-off adjustment	-	5,189
Amortisation of deferred revenue	(1,465)	-
Adjustment for unrealised loss on investment	(997)	-
Others	5,499	(3,944)
Shareholders' fund under IFRS	793,725	785,857