CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED
常茂生物化學工程股份有限公司

(A Joint Stock Limited Company Incorporated In The People's Republic Of China)
(Stock Code: 8208)

2007 ANNUAL REPORT

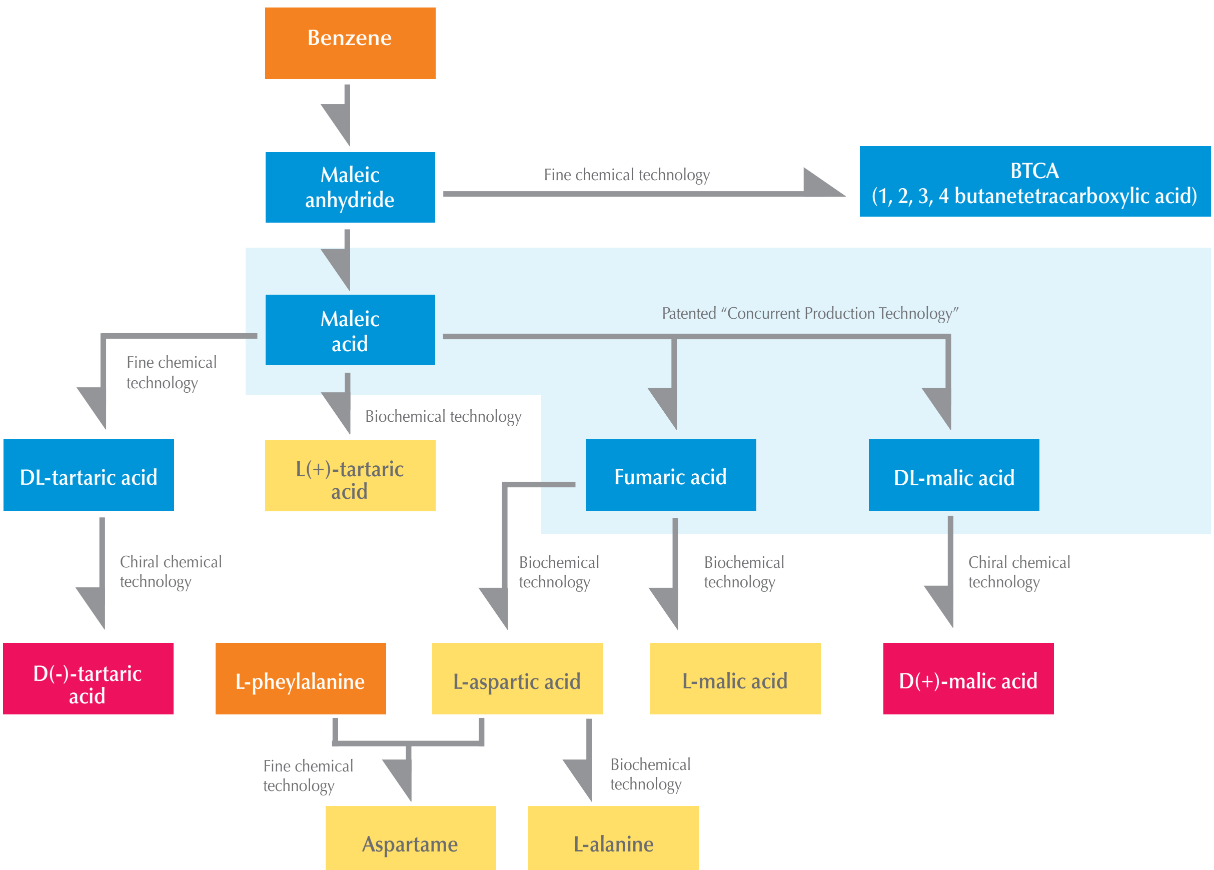
CONTENTS

CORPORATE PROFILE

Established in 1992, Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is a leading organic acid producer in the People's Republic of China (the "PRC"). Changmao produces organic acids for sales to food additive, chemical and pharmaceutical industries. Changmao's products conform to the highest international standards and are mainly exported to overseas such as Western Europe, the United States, Australia and Japan.

The core products of the Company and its subsidiaries (collectively referred to as the "Group") are organic acids and their derivatives with four carbons in their structures including fumaric acid, maleic acid, L-malic acid, D-malic acid, DL-malic acid, L(+)-tartaric acid, D(-)-tartaric acid, DL-tartaric acid, L-aspartic acid and aspartame. These products are mainly used as food additives or medical inter-mediaries. The Group's major products are produced along vertical production chains. The major advantage of the production chains is that each of the products in the production chains is also a finished product for sales to customers.

PRODUCTION FLOWCHART OF CHANGMAO'S PRODUCTS

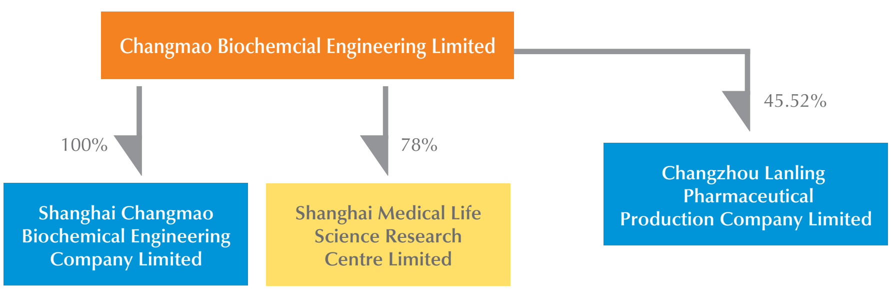


CORPORATE PROFILE

The Group persists in pursuing advanced technologies as its production direction and focuses in investment in new technology research and development which combines the production process with theoretical concepts. The Group received numerous awards in relation to production technologies including 技術發明一等獎 (First Prize in Technological Achievement) and 進步二等獎 (Second Prize in Scientific Improvement) in 中國石油化工行業 (The Petroleum Chemical Industry in China). The Group attained the ISO9001 Quality System Standards and the Certificate of the Hazard Analysis Critical Control Point (HACCP) Food Safety Management System. Its core product, L(+)-tartaric acid obtained the Food and Drug Administration (FDA) certificate in 2006 and was also recognised as a 江蘇名牌產品 (Jiangsu Province Top Brand).

The Group's major competitive edge is its delicate and advanced production system. Changmao successfully applied the theoretical concepts of enzyme technology and chirotechnology in its highly efficient and cost effective production process. The Group has a research and development base in Changzhou, the Jiangsu Biochemical Chirotechnology Research Centre (the "Chirotechnology Centre"), to research on new products and new production technologies. The Group will continue the production of food additives as its core business and develop new nutraceutical products to extend its production chain. The Group therefore acquired a research centre in Shanghai specialising in research and development of nutraceutical products in 2007. The Group believes its strong capability in research and development would enable the Group to continue to grow.

GROUP STRUCTURE



CORPORATE INFORMATION

EXECUTIVE DIRECTOR
Mr. Rui Xin Sheng

NON-EXECUTIVE DIRECTORS
Mr. Jiang Jun Jie
Mr. Zeng Xian Biao
Mr. Yu Xiao Ping
Ms. Leng Yi Xin
Mr. Wang Jian Ping

INDEPENDENT NON-EXECUTIVE DIRECTORS
Prof. Ouyang Ping Kai
Prof. Yang Sheng Li
Ms. Wei Xin

SUPERVISORS NOMINATED BY SHAREHOLDERS
Ms. Zhou Rui Juan
Mr. Lu He Xing

SUPERVISOR NOMINATED BY EMPLOYEES
Mr. Pan Chun

INDEPENDENT SUPERVISORS NOMINATED BY SHAREHOLDERS
Prof. Gu Jian Xin
Prof. Jiang Yao Zhong

COMPANY SECRETARY
Ms. Wan, Pui Ling Alice (CPA)

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

COMPLIANCE OFFICER
Mr. Rui Xin Sheng

QUALIFIED ACCOUNTANT
Ms. Wan, Pui Ling Alice (CPA)

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

REMUNERATION COMMITTEE
Mr. Rui Xin Sheng
Prof. Ouyang Ping Kai
Prof. Yang Sheng Li
Ms. Wei Xin

LEGAL ADDRESS
Western Chemical Area
Jiangbian Developing Zone
Changzhou City
Jiangsu Province, 213033
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 54, 5/F, New Henry House
10 Ice House Street
Central
Hong Kong

PRINCIPAL BANKERS
Bank of China
Changzhou Branch, the PRC

Industrial and Commercial Bank of China
Changzhou Branch, the PRC

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants

COMPANY'S WEBSITE ADDRESS
www.cmbec.com.hk

GEM STOCK CODE
8208

CHAIRMAN'S STATEMENT

To the Shareholders,

On behalf of the board of directors of the Company (the "Board"), I am pleased to present the annual report of the Company for the year ended 31 December 2007. With the efforts of the Board and the staff, the business of the Group developed towards a healthy direction in 2007. The Group's operation and production were stable; the progresses of research and collaboration with international partners were satisfactory; and the acquisition and expansion work were completed smoothly.

RESULTS OF THE YEAR

The Group's turnover was approximately Rmb397,420,000 and the net profit was Rmb34,618,000 for the year ended 31 December 2007. The profitability of 2007 was restricted because of the continued increase in raw material prices in 2007, the impact of appreciation of Renminbi and the decrease in the refund rate of value added tax on export goods from 13% to 5% which was effective on 1 July 2007. The Group has actively explored new markets and obtained new customers which led to the increase of 24 % in turnover of the Group. The advantage from economy of scale, the smooth operation of the new production lines and the successful acquisition of the newly acquired entities will form a good foundation for the Group's future development. The Group is in a healthy financial position and has a great potential in future. The Group is confident to grasp the business opportunities and to achieve its goal on expanding its business.

BUSINESS OVERVIEW

In 2007, the Group's operation and production were stable; new production lines gradually reached their full capacities; sales were satisfactory with steady growth in turnover. In addition, the progress of collaboration with international partners was satisfactory. Management system of the sophisticated production lines was enhanced. The strategic investments helped the Group to speed up its process in entering the bio-medicine market and expanded the Group's operating scale. These will be the future growth areas of the Group. The Group believes that its business will develop in a healthy direction.

(1) Production

The Group has increased the ratio of using fumaric acid (including maleic anhydride) as raw material for producing down stream products to reduce the impact of increase in raw material price.

The Group has completed the trial run of the new L-(+)-tartaric acid production line which is running smoothly now. The Group has made improvements on this production line by using more automated equipments which benefited the Group economically and also improved the production environment. The adoption of the Good Manufacturing Practice (GMP) standards in the production and the obtaining of the Food and Drug Administration (FDA) certificate on L(+)-tartaric acid help the Group to further explore overseas market such as the United States. Sales of L(+)-tartaric grow steadily with the continuous increasing demand in the market.

CHAIRMAN'S STATEMENT

The Group has completed the expansion of the L-malic acid production line and it will continue to use its sophisticated technology to produce L-malic acid. The new GMP production line will enhance the product quality and production management. The wider application areas of L-malic acid in the food additive and medicinal markets will generate greater growth on sales.

Production of DL-malic acid was stable. The production technology used to produce DL-malic acid is environmentally friendly. The advantage of this technology is that one production line can produce two kinds of products, fumaric acid and DL–malic acid with the output ratio adjustable according to the market demand. In addition, the new production line is more automated and controlled by the Distributed Control System (DCS). It stabilises product quality and reduces production costs. The Group believes that this production will enable the Group to increase its competitiveness and create economic value to the Group.

(2) Sales

The fast growth in the food industry encourages the development of the food additive industry. In 2007, the Group has made a lot of effort in marketing and achieved a satisfactory growth in sales. In particular, the market and application areas of tartaric acid and malic acid, the Group's core products, had been further expanded which contributed to the growth of the Group. These products will have a great prospect as the food industry will continue to grow.

1. *Existing products*

   The Group has an excellent sales team. Although the Group's profitability was affected by the increase in raw material prices, the appreciation of Renminbi and the decrease in refund rate of value added tax on export goods, turnover maintained a steady growth. The Group has long term contracts with its North America and Australia distributors. The new value added tax policy launched in July 2007 has affected the

CHAIRMAN'S STATEMENT

gross profit of the export products. The Group maintained its credibility by honouring its contracts on hand to further strengthen its customer relationship. In addition, the Group also negotiated with its customers to share part of the risk.

2. *New markets*

The United States is important in the world market as it has great business potential. The Group has made use of its advantages of having FDA certificate and HACCP food safety management system to create a high quality image of its brand name. The Group made a lot of effort in expanding its market in the United States, enhancing the market status of its products and customer confidence. The sales of tartaric acid continued to grow with expansion of new markets and application areas. In addition, the Group's sales team has made effort in exploring market and more ways of application on new high-value products with an aim to further increase sales.

(3) New products

The new product, aspartame, has been under the quality assurance phase for a long time. The commercial sale of aspartame has gradually commenced. The Group has adopted marketing strategies to increase its market share, bargaining power and profitability. Although aspartame has not made economic benefit to the Group as expected in 2007, the Group will continue to expand its sales network and expected that aspartame will be the new growing area in 2008 and make contribution to the profit.

The collaboration with an international enterprise on medicinal intermediaries was well progressed. Through the efforts of both parties, quality of certain products has attained customer satisfaction and products are starting to sell customers. Some products have been progressed to the quality assurance and trial production stage. It is expected that the production scales will increase in 2008. It is also expected that the market of medicinal intermediaries will expand further and this project will bring growth potential and create economic value to the Group.

CHAIRMAN'S STATEMENT

The Group's plan for future development is to upgrade its product structure. In addition to existing food additive products, the Group is planning to produce high-value functional food additive and its derivative products. People are more health conscious nowadays and this drives the development of nutraceutical products. The Group has performed research on this area for a long time and planned to produce nutraceutical products which are for enhancing immunity and building body strength. The Group is currently performing preparation work on this area and expected that nutraceutical products will be a new growth area in the future.

(4) Acquisition

1. *Associate -*常州蘭陵制葯有限公司 *(Changzhou Lanling Pharmaceutical Production Co., Ltd. or "Lanling Pharm")*
   The Group acquired Lanling Pharm in 2006. Through the effort in 2007, Lanling Pharm became profitable. It will help the Group to expand its business in the bio-medicine area.

2. *Subsidiary –* 上海常茂生物化學工程有限公司 *(Shanghai Changmao Biochemical Engineering Company Limited or "Shanghai Changmao")*
   Having a presence in Shanghai is strategically important to the development of the Group. As such, the Group set up Shanghai Changmao in 2006. Shanghai Changmao has commenced operation and is currently engaged in promoting and selling new products of the Group. Shanghai Changmao will help exploring new market for the proposed new nutraceutical products. It will use new methods on promoting and marketing products with an aim to increase profitability of the Group. Shanghai Changmao will also be an "international window" of the Group which adopts international management system and will attract high capable overseas staff to enhance product mix, expand sales network and promote further growth of the Group.

3. *Subsidiary –* 上海醫學生命科學研究中心有限公司 *(Shanghai Medical Life Science Research Centre Limited or "Shanghai Medical Centre")*
   In addition to the chirotechnology centre, the Group has successfully acquired Shanghai Medical Centre to enhance its ability on research and innovation. It also paved the way for the Group's development on the bio-medicinal business. Shanghai Medical Centre is an associate of Shanghai Fudan University and therefore has great technical support. There are over 10 doctors in this centre and it is strong in research. It possesses product and technology patents with great prospect. The Group will consolidate the resources of the chirotechnology centre and Shanghai Medical Centre and will continue to perform research on high value added products in order to enrich the product mix and increase competitiveness.

(5) Management

Consumers are more concerned on food quality and safety. The Group has continuously adopted the ISO9001 and HACCP management system to control product quality. The increase use of DCS increased the level of automation in production. In addition, the new GMP production lines and safety measures create a satisfactory production environment and ensure that products are safe and of high quality. These factors enhanced customer confidence and created a high-quality brand image which will help the Group to increase market shares.

OUTLOOK

Looking into 2008, the economic growth of China will continue. There are many favourable factors for the Group's continuous growth. The Group will grasp its opportunities while it has to face the challenges brought about by market competition.

The latest trend in food additive industry is the nutritional and multi-functional food product. The development of the world food additive industry is becoming more health conscious and more complex. The food additive products of the Group will have a bright prospect. In 2008, the Group will continue to produce food additives as its core business. The Group will expand its production scale, enhance its cost advantage, increase its competitiveness, explore new markets and new application area; and on this basis, develop functional food additives and neutraceutical products, speed up the development and production process and create new growth area.

With the increase in demand for health products, the prospect of medicinal products will be very optimistic and there will be great potential for the bio-medicinal products. The Group will make use of the advantages of the strong research capability of the chirotechnology centre and Shanghai Medical Centre to extend its production chain by adhering to scientific and technological innovation. The Group will continue with the development of effective and profitable pharmaceutical intermediate products. The Group will extend into medicinal product market by using its brand awareness and international sales network. The extension into new business area will promote further growth of the Group and create best interest to the shareholders as well as making a positive contribution to human health.

The Board and I are confident in the future of the Group. Finally, I would like to express my thanks to the fellow members of the Board, all employees, customers and suppliers of the Group for all their hard work and efforts. At the same time I would like to thank the shareholders for their consistent support to the Group. The Group will continue to make efforts to promote the steady growth the Group and create a satisfactory return for the shareholders.

Rui Xin Sheng
Chairman

The PRC, 12 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Group recorded a turnover of approximately Rmb397,420,000 for the year ended 31 December 2007, representing an approximately 24% increase compared to that of the year ended 31 December 2006. The increase in turnover is mainly attributable to the increase in sales of L (+) –tartaric acid, the capacity of which has increased from 7,000 tonnes per annum to 10,000 tonnes per annum, and the commercial launch of aspartame in 2007.

Gross profit margin

The gross profit margin for the year ended 31 December 2007 was approximately 20% as compared to that of 32% recorded for 2006. The decrease in overall gross profit margin was mainly due to the increase in raw material prices in 2007, the impact of rapid appreciation of Rmb and the change in policy on refund of value added tax on export goods which was effective on 1 July 2007.

Expenses

The Group has a staff incentive scheme under which bonus will be paid to staff if the Group's net profit is above its target profit. Bonus under this scheme was Rmb4,703,000 for the year ended 31 December 2006. No bonus was paid in 2007 as the Group has not met the target profit. For details of the staff incentive scheme, please refer to the section headed "Employees" below. Excluding the bonus, selling and administrative expenses in 2007 slightly increased as compared to that of 2006 due to the continuous growth of business and production volume, the Group has recruited new staff, increased scale of the Group's research and development, and devoted more effort into marketing and promotion this year.

Taxation

The Company is entitled to a preferential Enterprise Income Tax rate of 15% for year ended 31 December 2007. The subsidiaries of the Group in Mainland China are subject to a tax rate of 25% but do not have assessable profit during the year. The overall effective tax rate for the year ended 31 December 2007 was 15% (2006: 9.4%). During the year ended 31 December 2006, the Company obtained approval from the tax bureau in Mainland China whereby it is granted a tax credit of approximately Rmb4,021,000 in respect of purchase of certain equipments manufactured in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. The turnover in 2007 increased by approximately 24% as compared to that of 2006. Export sales (including sales through import-export agents in the PRC) increased by approximately 30% as compared to that of last year while domestic sales increased by approximately 15% as compared to last year.

As expressed as a percentage of turnover, export sales (including sales through import-export agents in the PRC) accounted for approximately 60% (2006: 57%) of the Group's turnover while domestic sales in the PRC accounted for approximately 40% (2006: 43%) of turnover.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("USD"). Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the year, the Group has used forward contracts to hedge its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had total outstanding unsecured bank borrowings of Rmb178.5 million (2006: Rmb159 million) which were all repayable within one year. The average effective interest rate of all the outstanding bank loans as at 31 December 2007 is approximately 6.6% (2006: 5.8%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2007 and 2006, the Group did not have any committed borrowing facilities.

As at 31 December 2007, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb568,000. These capital commitments are mainly related to the expansion of production lines for the existing products in 2008. The Group intends to finance the capital commitments by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2007. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 39% (2006: 37%) as at 31 December 2007. As at 31 December 2007, the Group's bank balances and cash amounted to Rmb51,716,000 (2006: Rmb58,448,000). The Directors believe that the Group is in a healthy financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE OF THE COMPANY

The H shares of the Company ("H Shares") were listed on the GEM on 28 June 2002. There has been no change in the capital structure of the Company since that date.

The Group generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Group is generally placed at banks to earn interest income.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2007, the Group employed a total of 476 employees (2006: 395 employees). Employees are remunerated in accordance with the nature of the job and also on individual merit. Total amount of staff costs for the year ended 31 December 2007 was approximately Rmb21,709,000 (2006: Rmb22,091,000). Although number of employees increased, staff cost decreased mainly because there is no incentive bonus (2006: Rmb4,703,000) given to the staff for the year ended 31 December 2007. Under the staff incentive scheme for each of the three years ended 31 December 2007, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and minority interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb40 million (the "Target Profit"):

(a) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;

(b) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable to all the directors (other than Mr. Rui Xin Sheng and the independent non-executive directors) for the time being of the Company as a bonus for the relevant year; and

(c) a sum equivalent to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2007 and 2006.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

The Company has entered into an agreement during the year for the acquisition of 78% interest in Shanghai Medical Life Science Research Centre Limited, a limited liability company incorporated in the PRC principally engaged in the research and development of medicine and nutraceutical products. The registered capital of Shanghai Medical Life Science Research Centre Limited is Rmb15,384,600. The amount of investment by the Company is Rmb3,794,000.

During the year, the Company has increased its investment in the equity interest in its associate, Changzhou Lanling Pharmaceutical Production Co., Ltd. from 42% to 45.52%. The additional amount of investment is Rmb1,490,000.

Save as disclosed above, there are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2007.

CONTINGENT LIABILITIES

As at 31 December 2007 and 31 December 2006, the Group did not have any material contingent liabilities.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Director

Mr. Rui Xin Sheng (芮新生), aged 51, is the Chairman of the Board, the general manager and the compliance officer of the Company. He is a researcher and a senior engineer of the Company. He was one of the founders of the Company. Mr. Rui graduated from 江蘇石油化工學院 (Jiangsu Institute of Petrochemical Technology) ("JSIPT") with a bachelor degree in organic synthesis in 1982. He obtained an executive master of business administration in Nanjing University in 2005. He is the vice chairman of the Committee of Biochemical Engineering of the Chemical Industry and Engineering Society of China, the deputy managing director of 中國生物化工協會 (The Association of Biochemistry of China), the deputy managing director of Jiangsu Commission of Biotechnology and a part-time professor at Nanjing University of Technology. Owing to his significant achievement in the field of biochemistry, Mr. Rui received numerous awards including 常州市技術改造一等獎 (The First Class Award of Scientific Development and Technology Improvement in Changzhou) and 常州市科技進步二等獎 (The Second Prize of Changzhou City Scientific and Technological Achievement) in 1997. The concurrent production technology for the production of fumaric acid and malic acid (the "Concurrent Production Technology") invented by Mr. Rui, Ms. Leng Yi Xin and Mr. Jiang Jun Jie obtained patent in 1998. Other awards obtained by Mr. Rui include 常州市第四屆傑出科技人員 (The Fourth Annual Excellent Scientists of Changzhou City) in 1999, DuPont Innovation Award and 江蘇省有突出貢獻的中青年專家 (Youth Expert with Excellent Contribution in Jiangsu Province) in 2000, 國家科技進步一等獎 (The First Class Award of State Technological Achievement) in 2001, 江蘇省創新創業人材獎 (Innovative Entrepreneur of Jiangsu Province), 中國石油化學工業行業科技進步二等獎 (The Second Class Award of Oil Chemical Industry Technological Achievement in the PRC) in 2003 and 江蘇省科學技術進步一等獎 (The First Class Award of Jiangsu Province Technological Achievement) in 2005. He is currently a director and a board committee member of 常州曙光化工廠(Changzhou Shuguang Chemical Factory or "Shuguang Factory").

Non-executive Directors

Mr. Jiang Jun Jie (蔣俊杰), aged 41, is a non-executive Director. Mr. Jiang graduated from JSIPT in 1987 with a bachelor degree. He possesses over 20 years of working experience in the research and development of technology in the field of chemistry. Mr. Jiang is one of the inventors of the Concurrent Production Technology. Mr. Jiang published various theses. Mr. Jiang is a 中青年專家 (recognised youth expert) in Changzhou City in 2000 and obtained 江蘇省科學技術進步一等獎 (The First Class Award of Jiangsu Province Technological Achievement) in 2005. He is currently a director and a board committee member of Shuguang Factory. Mr. Jiang was an executive Director and deputy general manager of the Company. Mr. Jiang joined the Company in January 1993.

DIRECTORS (Continued)

Non-executive Directors (Continued)

Mr. Zeng Xian Biao (曾憲彪), aged 65, is a non-executive Director. Mr. Zeng graduated from 南京石油工業學校(Nanjing Petrochemistry School) in 1961. He has extensive experience engaging in research, development and production management in the field of chemistry. Mr. Zeng received various awards including 順酐2000t/a 技改省金牛獎 (The Golden Prize of Technological Improvement-Maleic Anhydride 2000t/a) from the State Economic Commission, 3000t/a 順酐重點技改先進個人 (Maleic Anhydride 3000t/a Technology Improvement), 市九五跨世紀奉獻獎 (Changzhou Contribution Award for the Ninth Five-year Period and the Millennium) and 省第二次合理化建議科技成果獎 (The Second Annual State and City Award for Technological Development). He is currently a director and a board committee member of Shuguang Factory. Mr. Zeng joined the Company in December 1992.

Mr. Yu Xiao Ping (虞小平), aged 52, is a non-executive Director. Mr. Yu graduated from East China Normal University with a bachelor degree in English in 1977. He holds director positions in various pharmaceutical and investment companies in the PRC. Besides his experience in trading of pharmaceutical products, he has experience in promoting and facilitating the inspection and approval from the FDA for various PRC pharmaceutical products, of which he became the executive agent for these pharmaceutical products and has established a trading business in the United States. Mr. Yu joined the Company in December 1992.

Ms. Leng Yi Xin (冷一欣), aged 46, is a non-executive Director. She graduated from the Organic Chemistry Department of JSIPT with a bachelor degree in 1982 and subsequently obtained a master degree in chemical engineering from Nanjing University of Technology in 1996 and obtained a doctorate in 2006. She is also a professor of the chemical engineering department of Jiangsu Polytechnic University. Ms. Leng has participated in various research projects and published more than 20 theses. As mentioned above, Ms. Leng is one of the inventors of the Concurrent Production Technology. Ms. Leng participated in a project relating to the synthesis of chlorinated rubber by solvent method in the PRC and such project was awarded 江蘇省科學技術三等獎 (The Third Class Award of Jiangsu Technological Achievement) and 常州市科學進步三等獎 (The Third Class Award of Changzhou City Technological Achievement) in 1999 and 1998 respectively. She obtained 技術發明二等獎 (The Second Class Award of Technological Invention) from China Petroleum and Chemical Industry Association in 2004. She also obtained 江蘇省科學技術進步一等獎 (The First Class Award of Jiangsu Province Technological Achievement) in 2005. She is the wife of Mr. Rui. She joined the Company in June 2001.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Non-executive Directors (Continued)

Mr. Wang Jian Ping (王建平), aged 46, is a non-executive Director, was graduated from Shanghai Jiao Tong University with a bachelor degree in refrigerating engineering in 1983 and subsequently obtained a master degree in thermal engineering from Shanghai Jiao Tong University in 1986. Mr. Wang is currently a deputy general manager of Shanghai Technology Investment Company Limited. Mr. Wang has been a director of the 704 Research Centre, the seventh institutre of the China Shipping Company and visiting scholar of the energy department in University of Leeds. Mr. Wang was appointed as a non-executive Director in June 2007.

Independent Non-executive Directors

Prof. Ouyang Ping Kai (歐陽平凱), aged 62, is an independent non-executive Director. He graduated from Tsinghua University with a bachelor degree in 1968 and subsequently obtained a master degree in Chemistry Research from the same university in 1981. From 1985 to 1987, he was a visiting scholar of the University of Waterloo, Ontario, Canada. Prof. Ouyang is an academician of the Chinese Academy of Engineering and the President of Nanjing University of Technology and instructed dozens of master students. He also holds memberships and positions in various science and academic institutions. Prof. Ouyang obtained various awards including 國家科技進一等獎 (The First Prize of the State Technological Achievement) in 2001, 科技進步獎 (Technology Achievement Award) from the Ho Leung Ho Lee Foundation, Dupont Innovation Award and several other awards of national level. Prof. Ouyang published more than 180 theses and two publications. Prof. Ouyang was appointed as an independent non-executive Director in June 2001.

Prof. Yang Sheng Li (楊勝利), aged 67, is an independent non-executive Director. Prof. Yang is a professor of Shanghai Research Center of Biotechnology Chinese Academy of Science. In 1997, he became the academician of the Chinese Academy of Engineering. Prof. Yang has long been engaging in research relating to genetic function and structure and genetic engineering. He instructed dozens of master students and doctorate students and published more than 80 theses. Prof. Yang received 科技進步一等獎 (The First Class Award of Technological Achievement) from the Science Institute of the PRC in 1988, 第二屆億利達科技獎 (The Second Prize of Yilide Technology) from the Science Institute of the PRC in 1989, and 先進工作者一等獎 (The First Prize of Innovative Worker) from the Committee of the State Defense Department. Prof. Yang was appointed as an independent non-executive Director in June 2001.

Ms. Wei Xin (衛新), aged 40, is an independent non-executive Director. Ms. Wei is a Certified Public Accountant in the PRC. She graduated from Soochow University in accountancy in 1989. She has over fifteen years of experience in auditing and accounting. Ms. Wei is currently the partner of a Certified Public Accounting firm in the PRC. Ms. Wei was appointed as an independent non-executive Director in September 2004.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Supervisors Nominated by Shareholders

Ms. Zhou Rui Juan (周瑞娟), aged 53, is the chairman of the Company's supervisory board and the director of the administration department of the Company. She graduated from Changzhou Light Industrial School specialising in corporate management in 1988. Ms. Zhou passed the State Examination for Assistant Accountant in 1997. She was a financial accountant and the vice chairman of the labour department of the Company. Ms. Zhou was recognised as an activist of the Labour Union and an advanced worker. Ms. Zhou currently is a supervisor of Shugang Factory. She joined the Company in January 1993.

Mr. Lu He Xing (陸和興), aged 63, is a supervisor of the Company (the "Supervisor"). Mr. Lu is recognised as an advanced manufacturer of the Bureau of Chemical Industry, a model worker of Changzhou and Jiangsu and one of the Ten Best Leaders from Changzhou City of Chemical Commission. Mr. Lu is currently the vice secretary of the Party Committee and the chairman of board of supervisors of Shuguang Factory. Mr. Lu joined the Company in December 1992.

Supervisor Nominated by Employees

Mr. Pan Chun (潘春), aged 38, is a Supervisor and a assistant general manager of the Company. He obtained a bachelor degree in applied chemistry from Nanjing University of Technology in 1993. Mr. Pan is responsible for the management of production, safety and environment protection department of the Company. Mr. Pan received 常州市技術改進一等獎 (The First Class Award of Changzhou Technological Achievement) in 1997. Mr. Pan joined the Company in August 1993.

Independent Supervisors Nominated by Shareholders

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

SUPERVISORS (Continued)

Independent Supervisors Nominated by Shareholders (Continued)

Prof. Jiang Yao Zhong (蔣耀忠), aged 71, graduated from the Chemistry department of Peking University in 1957. He has been the vice president of the 中國科學院成都分院 (Chengdu branch of the Chinese Academy of Sciences) during 1990 to 1994. He was also the president of 中國科學院成都有機化學研究所 (Chengdu Institute of Organic Chemistry, the Chinese Academy of Sciences) during 1992 to 1997 and the scientific consultant of the Government of Sichuan from 1988 to 1998. He is a researcher and an instructor of doctorate students. He is a committee member of 中國化學會 (Chemistry Society of China), a deputy director of 有機化學委員會 (Committee of the Organic Chemistry), and a foreign member of the American Chemical Society. Prof. Jiang was recognised as the 四川省學術和技術帶頭人 (Leader of Academy and Technology in Sichuan) in 1998 and awarded with 中國化學會有機合成創造獎 (Prize of Creation in Organic Synthesis by the Chemistry Society of China) in 2000. Prof. Jiang was appointed as an independent Supervisor in June 2004.

SENIOR MANAGEMENT

Ms. Zhou Rui Juan (周瑞娟), whose personal particulars are set out under the paragraph headed "Supervisors" in this section.

Mr. Pan Chun (潘春), whose personal particulars are set out under the paragraph headed "Supervisors" in this section.

Ms. Wan, Pui Ling Alice (溫珮玲), aged 36, is the financial controller, qualified accountant and company secretary of the Company. She has over ten years of experience in auditing, accounting and financial management in Hong Kong and the PRC. Ms. Wan holds a bachelor degree and a master of science degree from the Chinese University of Hong Kong, and is an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Wan joined the Company in June 2001.

Mr. Wan Yi Dong (萬屹東), aged 34, is the director of the Chirotechnology Centre. Mr. Wan is an professional engineer. He graduated from Zhejiang University in 1996 with a bachelor degree in biochemistry. In 2004, he obtained a master degree in business administration from Nanjing University of Science and Technology. He joined the Company in August 1996. He was engaged in the technology advancement of bio-enzyme and immobilized enzyme technology and has been involved in various projects of the Company in respect of improvement in production technology and new technology on new products. Mr. Wan has published various professional articles in professional chemical magazines. He obtained various awards including the 常州市科技進步一等獎 (The First Class Award of Changzhou City Technological Achievement) in 2001 and 中國石油和化學工業協會科技進步二等獎 (The Second Class Award of Oil Chemical Industry Technological Achievement in the PRC) in 2003.

SENIOR MANAGEMENT (Continued)

Mr. Lu A Xing (陸阿興), aged 39, is a manager of the sales and marketing department of the Company. He obtained a diploma from Changzhou Chemical Worker's School in 1988 and continued his studies at Changzhou Party School. Mr. Lu has over 15 years' experience in sales and marketing. Mr. Lu joined the Company in January 1993.

Ms. Chang Yu Hong (常育紅), aged 34, is a manager of the business development department of the Company. She graduated from Beijing Institute of Clothing Technology with a bachelor degree in fine chemistry in 1997. Ms. Chang joined the Company in July 1997.

Save as disclosed above, each of the Directors or Supervisors does not have any relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company (within the meaning of the GEM Listing Rules).

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Save as disclosed in the paragraph headed "Chairman and general manager (chief executive officer)" below, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2007.

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

THE BOARD

The major responsibilities of the Board include the formation of the Group's overall strategies, setting business plans and the supervision of the performance of the management. The Directors acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Board is also responsible for preparing a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other statutory requirements.

The Board comprises an executive Director, namely, Mr. Rui Xin Sheng, five non-executive Directors, namely, Mr. Jiang Jun Jie, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Ms. Leng Yi Xin and Mr. Wang Jian Ping and three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

CORPORATE GOVERNANCE

The Board meets regularly, and had met four times for the year ended 31 December 2007. Attendance of individual members of the Board meeting for the year ended 31 December 2007 is as follows:

	Name of Director	Attended/ Eligible to attend
Chairman (executive Director)	Rui Xin Sheng	4/4
Non-executive Director	Jiang Jun Jie *(Note)*	4/4
	Zeng Xian Biao	4/4
	Yu Xiao Ping	0/4
	Leng Yi Xin	4/4
	Lu Chong Zhu (resigned on 17 June 2007)	2/2
	Wang Jian Ping (appointed on 18 June 2007)	2/2
Independent Non-executive Directors	Ouyang Ping Kai	2/4
	Yang Sheng Li	2/4
	Wei Xin	4/4

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

Note: Mr. Jiang Jun Jie was an executive Director for the period from 1 January 2007 to 17 June 2007. He became a non-executive Director since 18 June 2007.

Chairman and general manger (chief executive officer)

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

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the year ended 31 December 2007.

CORPORATE GOVERNANCE

Appointment of Directors

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

Mr. Rui Xin Sheng has entered into a service agreement with the Company. All the other Directors have not entered into any service agreement with the Company. The terms of each Director is not more than three years and will be expired on 17 June 2010.

Independent Non-executive Directors

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

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee was established in March 2005 to ensure there are formal and transparent procedures for developing and overseeing the Company's policies on the remuneration of its directors and senior management. It is chaired by the Chairman, Mr. Rui Xin Sheng with three independent non-executive Directors, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin. The remuneration committee held one meeting in 2007 and the attendance rate was 100%.

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

Audit Committee

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

The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group, to review the Group's financial information and to review the audit plan, audit findings and independence of the auditors of the Company. The Audit Committee held four meetings for the year ended 31 December 2007 with attendance rate of 100%.

CORPORATE GOVERNANCE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including to review, inter alia, the Company's quarterly, interim and annual results released during the year ended 31 December 2007 and to recommend the Board the appointment of external auditor.

THE SUPERVISORY COMMITTEE

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

The supervisory committee comprises two supervisors nominated by shareholders, Ms. Zhou Rui Juan and Mr. Lu He Xing, a supervisor nominated by employees, Mr. Pan Chun and two independent supervisors nominated by shareholders, Prof. Gu Jian Xin and Prof. Jiang Yao Zhong. Each of Ms. Zhou Rui Juan and Mr. Pan Chun has entered into a service agreement with the Company. Prof. Gu Jian Xin and Prof. Jiang Yao Zhong have not entered into any service agreement with the Company. The terms of each supervisor is not more than three years and will be expired on 17 June 2010.

The supervisory committee held two meetings for the year ended 31 December 2007 with attendance rate of 100%.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2007, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's profit and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 42 and 43.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that the Group has a sound and effective internal control system. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's operation and performance by the Audit Committee and the Board. The internal control system is reviewed on an ongoing basis by the Board to ensure it is effective. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2007 is sound and effective. The Group does not have an internal audit function and the Board is of the view that there is currently no need for the Group to have this function.

AUDITOR'S REMUNERATION

PricewaterhouseCoopers have been re-appointed as the Company's international external auditor by the shareholders at the 2006 annual general meeting. They are primarily responsible for providing audit services in connection with the Company's annual financial statements.

During the year, the total remuneration in respect of audit services provided by the external auditor amounted to HK$820,000 (approximately equivalent to Rmb768,000).

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are the production and sale of organic acids. The activity of the subsidiaries are set out in note 19 to the consolidated financial statements.

An analysis of the Group's turnover for the year by geographic segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 44.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the distributable reserves of the Company were approximately Rmb143,865,000 (2006: Rmb128,044,000) as reported in the statutory financial statements prepared in accordance with the PRC Generally Accepted Accounting Principles.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company or the laws of the PRC, being the jurisdiction in which the Company was established, which provide the existing shareholders with pre-emptive rights to purchase new shares in any new issue of the Company according to their respective proportion of shareholding.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five years is set out on page 102 of the annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2007.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

Executive Directors	
Mr. Rui Xin Sheng	
Mr. Jiang Jun Jie	(resigned on 17 June 2007)
Non-executive Directors	
Mr. Jiang Jun Jie	(appointed on 18 June 2007)
Mr. Zeng Xian Biao	
Mr. Yu Xiao Ping	
Ms. Leng Yi Xin	
Mr. Lu Chong Zhu	(resigned on 17 June 2007)
Mr. Wang Jian Ping	(appointed on 18 June 2007)

Independent non-executive Directors
Prof. Ouyang Ping Kai
Prof. Yang Sheng Li
Ms. Wei Xin

Supervisors nominated by shareholders
Ms. Zhou Rui Juan
Mr. Lu He Xing

Supervisor nominated by employees
Mr. Pan Chun

Independent Supervisors nominated by shareholders
Prof. Gu Jian Xin
Prof. Jiang Yao Zhong

DIRECTORS AND SUPERVISORS (Continued)

In accordance with Article 97, 116 and 117 of the Company's Articles of Association, Directors and Supervisors nominated by shareholders shall be elected at the shareholders' general meeting for a term of three years. Supervisor who is a representative of employees shall be elected by the employees of the Company for a term of three years. A Director or Supervisor may serve consecutive terms if re-elected upon the expiration of the terms.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of Mr. Rui Xin Sheng, Ms. Zhou Rui Juan and Mr. Pan Chun has entered into a service agreement with the Company. All the other Directors and Supervisors have not entered into any service agreement with the Company. The terms of each of the Directors and Supervisors are not more than three years and will be expired on 17 June 2010.

Save as above, no Director or Supervisor has entered into any service contract with the Company which may not be terminated by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Apart from the Directors' and Supervisors' service contracts disclosed above, no contracts of significance in relation to the Group's business to which the Company was a party and in which a Director or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2007, the interests (including interests in shares and short positions) of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

Director	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian (Note (a))	2,500,000	1.14%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	1.14%	135,000,000	48.04%
Mr. Jiang Jun Jie	(Note (c))	–	–	(Note (c))	(Note (c))
Mr. Zeng Xian Biao	(Note (d))	–	–	(Note (d))	(Note (d))
Mr. Yu Xiao Ping	Interest of spouse and interest of controlled corporation (Note (e))	–	–	66,000,000	23.49%

REPORT OF THE DIRECTORS

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

Long positions in shares:

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

Notes:

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

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

(b) Ms. Leng is the registered holder and beneficial owner of 73,500 Class "A" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each. Ms. Leng is the registered holder and beneficial owner of 30% of the registered capital of Changzhou Xinsheng, which is the registered holder and beneficial owner of 2,500,000 Domestic Shares. Mr. Rui, a Director and the spouse of Ms. Leng, is also interested in HK Xinsheng Ltd and Changzhou Xinsheng, details of which are set out in Note (a) above.

(c) Mr. Jiang is the registered holder and beneficial owner of 600,000 shares of HK$0.01 each in Hong Kong Bio-chemical Advanced Technology Investment Company Limited ("HK Biochem Ltd"), which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK$0.01 each. Mr. Jiang is also the registered holder and beneficial owner of 15,000 Class "B" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each.

(d) Mr. Zeng is the registered holder and beneficial owner of 380,000 shares of HK$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK$0.01 each. Mr. Zeng is also the registered holder and beneficial owner of 2,000 Class "B" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each.

(e) Mr. Yu and his wife (who is not a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares.

(f) Prof. Ouyang is the registered holder and beneficial owner of 4,000 Class "B" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each.

(g) Prof. Yang is the registered holder and beneficial owner of 2,000 Class "B" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each.

(h) Ms. Zhou is the registered holder and beneficial owner of 220,000 shares of HK$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK$0.01 each.

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

(i) Mr. Lu is the registered holder and beneficial owner of 220,000 shares of HK$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK$0.01 each.

(j) Mr. Pan is the registered holder and beneficial owner of 2,000 Class "B" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each. He is also the registered holder and beneficial owner of 200,000 shares of HK$0.01 each in HK Biochem Ltd, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares. The total number of issued shares in HK Biochem Ltd is 6,750,000 shares of HK$0.01 each.

(k) Prof. Gu is the registered holder and beneficial owner of 2,000 Class "B" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each.

(l) Prof. Jiang is the registered holder and beneficial owner of 2,000 Class "B" shares of HK$1 each in HK Xinsheng Ltd, which is the registered holder and beneficial owner of 135,000,000 Foreign Shares. The issued share capital in HK Xinsheng Ltd comprises 170,000 Class "A" shares of HK$1 each and 100,000 Class "B" shares of HK$1 each.

Save as disclosed above, as at 31 December 2007, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which were required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the year was the Company or its subsidiaries a party to any arrangement (including share option scheme) to enable the Directors or Supervisors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

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

So far as known to the Directors, as at 31 December 2007, the followings, not being Directors, Supervisors or chief executives of the Company, have interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares	Number of H Shares	Percentage shareholding in the H Shares
常州曙光化工廠 (Changzhou Shuguang Chemical Factory)	Beneficial owner	154,000,000	70.32%	–	–	–	–
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	–	–	135,000,000	48.04%	–	–
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	–	–	67,500,000	24.02%	–	–
Union Top Development Limited	Interest of controlled corporation	–	–	67,500,000 (Note (a))	24.02%	–	–
Ms. Rakchanok Sae-lao	Interest of controlled corporation	–	–	67,500,000 (Note (b))	24.02%	–	–
Jomo Limited	Beneficial owner	–	–	66,000,000	23.49%	–	–
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	–	–	66,000,000 (Note (c))	23.49%	–	–
上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited)	Beneficial owner	62,500,000	28.54%	–	–	–	–

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

Long positions in shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares	Number of H Shares	Percentage shareholding in the H Shares
上海科技投資有限公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (d))	28.54%	–	–	–	–
Chervon Investment Limited	Beneficial owner	–	–	–	–	10,968,000	5.97%
Chervon Holdings Limited	Interest of controlled corporation	–	–	–	–	10,968,000 (Note (e))	5.97%
PS Holdings Limited	Interest of controlled corporation	–	–	–	–	10,968,000 (Note (f))	5.97%

Notes:

(a) Union Top Development Limited is the beneficial owner of 37.03% of the issued share capital of Hong Kong Bio-chemical Advanced Technology Investment Company Limited, which is the registered holder and beneficial owner of 67,500,000 Foreign Shares.

(b) Ms. Rakchanok Sae-lao is the beneficial owner of 100% of the issued share capital of Union Top Development Limited, which is the is the beneficial owner of 37.03% of the issued share capital of Hong Kong Bio-chemical Advanced Technology Investment Company Limited. Hong Kong Bio-chemical Advanced Technology Investment Company Limited is the registered holder and beneficial owner of 67,500,000 Foreign Shares.

(c) Ms. Lam Mau and her spouse, Mr. Yu Xiao Ping (who is a Director) taken together are interested in the entire issued capital of Jomo Limited which is the registered holder and beneficial owner of 66,000,000 Foreign Shares.

(d) Shanghai Technology Investment Company is the registered holder and beneficial owner of 49% of the issued share capital of Shanghai Technology Investment Company Limited, which is the registered holder and beneficial owner of 62,500,000 Domestic Shares.

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

(e) Chervon Holdings Limited is the beneficial owner of 85% of the issued share capital of Chervon Investment Limited, which is the beneficial owner of 10,968,000 H Shares.

(f) PS Holdings Limited is the beneficial owner of 57.44% of the issued share capital of Chervon Holdings Limited, which is the beneficial owner of 85% of the issued share capital of Chervon Investment Limited. Chervon Investments Limited is the beneficial owner of 10,968,000 H Shares.

Save as disclosed above, as at 31 December 2007, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, has interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

COMPETING BUSINESS

None of the Directors, Supervisors or management shareholders of the Company and their respective associate (as defined in the GEM Listing Rules) has an interest in a business which competes with the business of the Group.

EMOLUMENT POLICY

Employees are remunerated in accordance with the nature of the job and also on individual merit.

The emoluments of the Directors and Supervisors are determined by the Remuneration Committee, with reference to their respective contribution of time, effort and expertise on the Company's matters.

The Company has adopted a staff incentive bonus scheme, please refer to the paragraph headed "Employees" under the section headed "Management Discussion and Analysis" for details.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

	2007	2006
– the largest supplier	**13%**	11%
– five largest suppliers combined	**30%**	30%

Sales

	2007	2006
– the largest customer	**10%**	16%
– five largest customers combined	**40%**	38%

Save as disclosed in the paragraph "Connected Transactions" below, at no time during the year have the Directors, Supervisors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CONNECTED TRANSACTIONS

During the year, the Company entered into the following connected transactions with its shareholder, Shuguang Factory:

	2007	2006
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	**123**	88
Electricity charged by Shuguang Factory (note (b))	**805**	2,528
Water supply charged by Shuguang Factory (note (c))	**132**	334
Rental expenses to Shuguang Factory (note (d))	**–**	186
Transportation expenses charged by Shuguang Factory (note (e))	**598**	466
Processing fee charged by Shuguang Factory (note (f))	**683**	1,235
Sales commission charged by Shuguang Factory (note (f))	**139**	408

Notes:

(a) The Company purchased raw materials from Shuguang Factory. The price is determined with reference to the then prevailing market prices.

CONNECTED TRANSACTIONS (Continued)

(b) The Company leases certain land and building from Shuguang Factory. Electricity is supplied to the Company by 江蘇省常州市供電局 (Jiangsu Changzhou Electric Power Supply Bureau) through the network connected to Shuguang Factory. The monthly charges for electricity consumed is paid by the Company to Shuguang Factory by reference to the (i) total units of electricity consumed by the Company as measured by separate tariff meters; and (ii) the average tariff charged by Shuguang Factory, which is equal to the total electricity fee payable to Jiangsu Changzhou Electric Power Supply Bureau by Shuguang Factory divided by total units of electricity consumed by Shuguang Factory in the corresponding period. Jiangsu Changzhou Electric Power Supply Bureau charges Shuguang Factory tariff based on total units of electricity consumed by Shuguang Factory as shown on tariff meters installed by Jiangsu Changzhou Electric Power Supply Bureau and three different rates of tariff which are applicable in accordance with different time periods in a day.

(c) The Company leases certain land and building from Shuguang Factory. Water is supplied by 常州市自來水公司 (Changzhou Water Supply Company) through the network connected to Shuguang Factory based on the average water fee per tonne as paid by Shuguang Factory to the Changzhou Water Supply Company.

(d) Rental expenses to Shuguang Factory includes the rental for leasing of a land use right and a building. The Company and Shuguang Factory agreed to early terminate those rental agreements with effect from 1 January 2007.

(e) Transportation expenses to Shuguang Factory were based at fixed rates with reference to market price quoted from third parties.

(f) Shuguang Factory (i) acts as the selling agent for liquid form maleic anhydride of the Company; and (ii) processes the liquid form maleic anhydride of the Company into solid form maleic anhydride and then acts as the selling agent for the solid form maleic anhydride of the Company. Processing fee and sales commission to Shuguang Factory were based at fixed rates in accordance with the terms of the processing and sales agreements.

The Company had made announcements on 31 December 2004 and 18 May 2006 in respect of (i) the purchase of maleic anhydride and crude maleic anhydride from Shuguang Factory and the payment of electricity charge to Shuguang Factory and (ii) the payment of processing fee and sales commission to Shuguang Factory respectively. The Company has ceased to purchase maleic anhydride and crude maleic anhydride from Shuguang Factory in 2007.

In the opinion of the independent non-executive Directors, the connected transactions in respect of the payment of electricity charge, processing fee and sales commission to Shuguang Factory were entered into by the Company:

(i) in the ordinary and usual course of business of the Company;

CONNECTED TRANSACTIONS (Continued)

(ii) either on normal commercial terms or; if there were not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than terms available to and from (as the case may be) for independent third parties;

(iii) in accordance with the relevant agreements governing the transactions; and

(iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In the opinion of the independent non-executive Directors, the Company should continue with the agreements for these connected transactions.

In accordance with rule 20.38 of the GEM Listing Rules, the Board engaged the auditor of the Company to perform certain factual finding procedures on the above connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed procedures to the Board.

SHARE CAPITAL STRUCTURE

As at 31 December 2007, the category of the issued shares of the Company is as follows:

	No. of Shares
H Shares (Note (a))	183,700,000
Domestic Shares (Note (b))	219,000,000
Foreign Shares (Note (c))	281,000,000
	683,700,000

Notes:

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

(b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which was credited as fully paid up in Rmb and issued to the promoters of the Company.

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

SHARE CAPITAL STRUCTURE (Continued)

Although the 到境外上市公司章程必備條款 (the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (which definitions have been adopted in the Articles of Association of the Company), the rights attached to Foreign Shares (which are subject to certain restrictions on transfer and may become H Shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission and the Stock Exchange) have not yet been expressly dealt with under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Foreign Shares do not contravene any PRC laws or regulations.

At present, there are no applicable PRC laws and regulations governing the rights attached to the Foreign Shares. Jingtian & Gongcheng, the legal adviser to the Company as to PRC Law, have advised the Company that until new laws or regulations are introduced in this respect, holders of Foreign Shares shall have the same rights and obligations as those of the holders of Domestic Shares (in particular, in respect of the right to attend and vote in the general meetings and class meetings and to receive notice of such meetings in the same manner applicable to holders of Domestic Shares), except that holders of Foreign Shares shall enjoy the following rights:

(a) to receive dividends declared by the Company in foreign currencies;

(b) in the event of the winding up of the Company, to participate in the distribution of surplus assets (if any) of the Company in foreign currencies and transfer such assets out of PRC, subject however to the applicable foreign exchange control regulations;

(c) disputes between holders of Domestic Shares and Foreign Shares may upon agreement between them may be resolved by way of arbitration and in case no such agreement is reached, any of the disputing parties could submit the dispute to the courts with competent jurisdiction for determination. These methods of dispute resolution apply equally to disputes between holders of Foreign Shares and overseas listed foreign shares; and

(d) upon all necessary approvals from the relevant regulatory authorities in the PRC and the Stock Exchange being obtained, the Foreign Shares may be converted into overseas listed foreign shares and shall thereafter carry the same rights and obligations attaching to overseas listed foreign shares.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in notes 2.19(a) and 13 to the consolidated financial statements.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 12 March 2008

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2007, the supervisory committee of Changmao Biochemical Engineering Company Limited (the "Supervisory Committee"), exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of trustworthiness, honestly carried out the duties of supervisors and worked cautiously and diligently, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company for their accountability to the shareholders.

During the year, the major work performed by the Supervisory Committee included the attendance of the Board meetings; reviewing the report of the Directors and the reserve appropriation proposal prepared to be submitted by the Board for the shareholders' approval at the forthcoming annual general meeting; strictly and effectively monitored that whether the policies and decisions made by the management of the Company had conformed with the state laws and regulations of the PRC and the Articles of Association of the Company or safeguarded the interest of the shareholders. The Supervisory Committee has also reviewed the performance of the Directors, general manager and senior management in the daily operation by various means, seriously examined the Company's financial affairs and its connected transactions.

After the examination, the Supervisory Committee concluded that:

1. the report of the Directors and the reserve appropriation proposal prepared to be submitted by the Board for the shareholders' approval at the forthcoming annual general meeting are in accordance with the relevant laws and regulations and the Articles of Association of the Company;

2. the Directors, general manager and other senior management of the Company have strictly followed the principles of trustworthiness, worked diligently and responsibly, and discharged their duties for the best interest of the Company. The Supervisory Committee has not discovered that any Directors, general manager and other senior management of the Company have abused their powers, damaged the interest of the Company or the benefits of the shareholders and employees nor contravened any laws and regulations or the Articles of Association of the Company;

3. the consolidated financial statements of the Group for the year ended 31 December 2007, which have been audited by PricewaterhouseCoopers, reflected truly and fairly the operating results and financial position of the Company and its subsidiaries. The connected transactions were in compliance with the GEM Listing Rules and were fair and reasonable and had not infringed upon the interest of the Company and the shareholders.

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee takes this opportunity to thank the shareholders, Directors and all the employees of the Company for their supports in the past year!

By order of the Supervisory Committee

Zhou Rui Juan
Chairman of the Supervisory Committee

The PRC, 12 March 2008

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHANGMAO BIOCHEMICAL ENGINEERING COMPANY LIMITED
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Changmao Biochemical Engineering Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 101, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 March 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 Rmb'000	2006 Rmb'000
Turnover	5	397,420	321,440
Cost of sales		(319,555)	(217,228)
Gross profit		77,865	104,212
Other gains	6	2,888	6,374
Selling expenses		(7,105)	(7,015)
Administrative expenses		(23,264)	(23,884)
Operating profit		50,384	79,687
Finance costs, net	8	(10,489)	(5,219)
Share of profit/(loss) of an associate	20	801	(123)
Profit before taxation		40,696	74,345
Taxation	9	(6,078)	(6,987)
Profit for the year		34,618	67,358
Attributable to:			
Equity holders of the Company		34,648	67,358
Minority interest		(30)	–
		34,618	67,358
Dividends	11	–	15,041
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	12	Rmb0.051	Rmb0.099

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 Rmb'000	2006 Rmb'000
ASSETS			
Non-current assets			
Patents	15	10,369	6,278
Property, plant and equipment	16	211,751	145,604
Land use rights	17	24,530	25,056
Construction in progress	18	83,773	136,539
Investment in an associate	20	6,833	4,465
Deferred income tax assets	30	72	–
		337,328	317,942
Current assets			
Inventories	21	110,252	83,662
Trade and bills receivables	22	47,444	33,064
Amount due from a shareholder	23	–	128
Other receivables and prepayments		9,881	9,163
Derivative financial instruments	24	109	–
Bank balances and cash	25	51,716	58,448
		219,402	184,465
Total assets		556,730	502,407
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	26	68,370	68,370
Reserves	27	270,033	250,426
		338,403	318,796
Minority interest in equity		1,040	–
Total equity		339,443	318,796

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 Rmb'000	2006 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	30	710	–
Current liabilities			
Amount due to a shareholder	23	1,310	–
Trade payables	28	18,435	6,978
Other payables and accrued charges		16,423	14,292
Taxation payable		1,909	3,341
Bank borrowings	29	178,500	159,000
		216,577	183,611
Total liabilities		217,287	183,611
Total equity and liabilities		556,730	502,407
Net current assets		2,825	854
Total assets less current liabilities		340,153	318,796

Rui Xin Sheng
Director

Jiang Jun Jie
Director

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 Rmb'000	2006 Rmb'000
ASSETS			
Non-current assets			
Patents	15	5,611	6,278
Property, plant and equipment	16	203,944	139,625
Land use rights	17	10,580	10,821
Construction in progress	18	83,773	136,539
Investments in subsidiaries	19	23,794	20,000
Investment in an associate	20	5,690	4,200
		333,392	317,463
Current assets			
Inventories	21	110,149	83,662
Trade and bills receivables	22	47,246	33,064
Amount due from a shareholder	23	–	128
Amount due from a subsidiary	19	1,402	500
Other receivables and prepayments		9,603	9,085
Derivative financial instruments	24	109	–
Bank balances and cash	25	51,281	58,240
		219,790	184,679
Total assets		553,182	502,142
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	26	68,370	68,370
Reserves	27	269,057	250,161
Total equity		337,427	318,531

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 Rmb'000	2006 Rmb'000
LIABILITIES			
Current liabilities			
Amount due to a shareholder	23	1,310	–
Trade payables	28	18,435	6,978
Other payables and accrued charges		15,601	14,292
Taxation payable		1,909	3,341
Bank borrowings	29	178,500	159,000
		215,755	183,611
Total equity and liabilities		553,182	502,142
Net current assets		4,035	1,068
Total assets less current liabilities		337,427	318,531

Rui Xin Sheng
Director

Jiang Jun Jie
Director

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

		Attributable to equity holders of the Company					
		Share capital	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total**
	Note	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2006		68,370	101,448	104,182	274,000	–	274,000
Transfer of profit to statutory reserve	27	–	10,290	(10,290)	–	–	–
Profit for the year		–	–	67,358	67,358	–	67,358
Final dividend for the year ended 31 December 2005		–	–	(22,562)	(22,562)	–	(22,562)
Balance at 31 December 2006		68,370	111,738	138,688	318,796	–	318,796
Balance at 1 January 2007		68,370	111,738	138,688	318,796	–	318,796
Transfer of profit to statutory reserve	27	–	6,320	(6,320)	–	–	–
Minority interest arising on business combination	33	–	–	–	–	1,070	1,070
Profit for the year		–	–	34,648	34,648	(30)	34,618
Final dividend for the year ended 31 December 2006		–	–	(15,041)	(15,041)	–	(15,041)
Balance at 31 December 2007		68,370	118,058	151,975	338,403	1,040	339,443

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 Rmb'000	2006 Rmb'000
Cash flows from operating activities			
Cash generated from operations	31(a)	38,437	76,582
Interest paid		(11,074)	(5,638)
PRC income tax paid		(7,561)	(7,228)
Net cash generated from operating activities		19,802	63,716
Cash flows from investing activities			
Withdrawal of short-term bank deposit		1,000	–
Acquisition of a subsidiary, net of cash acquired	33	(3,677)	–
Acquisition of an associate		–	(4,200)
Addition of equity interest in associate		(1,490)	–
Purchase of property, plant and equipment		(991)	(7,591)
Prepaid operating lease payments for land use rights		–	(14,235)
Additions of construction in progress		(25,292)	(108,631)
Proceeds from sale of property, plant and equipment		–	2,126
Interest received		457	310
Net cash used in investing activities		(29,993)	(132,221)
Cash flows from financing activities			
New bank borrowings	31(b)	218,500	155,500
Repayments of bank borrowings	31(b)	(199,000)	(34,500)
Dividends paid	31(b)	(15,041)	(22,562)
Repayments of amount due to a shareholder		–	(1,011)
Net cash generated from financing activities		4,459	97,427
Net (decrease)/increase in cash and cash equivalents		(5,732)	28,922
Cash and cash equivalents at 1 January		57,448	28,526
Cash and cash equivalents at 31 December	25	51,716	57,448

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The address of the Company's registered office is Western Chemical Area, Jiangbian Developing Zone, Changzhou City, Jiangsu Province, 213033, The PRC.

These consolidated financial statements are presented in thousand units of Renminbi (Rmb'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 12 March 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

(a) *Standards, amendments and interpretations effective for year 2007*

- HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital Disclosures", introduce new disclosures relating to financial instruments but do not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) *Standards, amendments and interpretations effective for year 2007 (Continued)*

- HK(IFRIC) – Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's financial statements.

(b) *Interpretations effective for year 2007 but not relevant to the Group's operations*

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies";
- HK(IFRIC) – Int 8, "Scope of HKFRS 2"; and
- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

(c) *Standards and amendments to existing standards that are not yet effective for year 2007 and have not been early adopted by the Group*

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 23 (Revised), "Borrowing costs" (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Since the Group has chosen to capitalise borrowing costs relating to qualifying assets as described in Note 8, HKAS 23 (Revised) is not expected to have any impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(c) *Standards and amendments to existing standards that are not yet effective for year 2007 and have not been early adopted by the Group (Continued)*

- HKFRS 8, "Operating segments" (effective from 1 January 2009). It replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. It is not expected to have material impact on the Group's financial statements, as the present operating segments were already identified on the basis of internal reports reviewed by decision maker.

- HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). It requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

(d) *Interpretations to existing standards that are not yet effective for year 2007 and not relevant to the Group's operations*

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods but are not relevant to the Group's operations:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions" (effective from 1 March 2007). It provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. HK(IFRIC) – Int 11 is not relevant to the Group's operations because there are no share-based transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(d) *Interpretations to existing standards that are not yet effective for year 2007 and not relevant to the Group's operations (Continued)*

- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1 January 2008). It applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008). It clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). It provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC) – Int 14 is not relevant to the Group's operations because none of the Group's companies operate a defined benefit pension scheme.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) *Subsidiaries (Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement as negative goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting and is initially recognised at cost. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(c) Associates (Continued)

The Group's share of its associate's post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in the associate are recognised in the consolidated income statement.

In the Company's balance sheet the investment in an associate is stated at cost less provision for impairment losses. The results of the associate are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the Company's functional and presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

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

2.5 Patents

Patents are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Patents are amortised using the straight-line method over their estimated useful lives as follows:

Acid patent	15 years
Nutraceutical patent	19 years

Where an indication of impairment exists, the carrying amounts of the patents are assessed and written down immediately to their recoverable amounts.

2.6 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2.7 Land use rights

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

2.8 Construction in progress

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

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

2.9 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of investments in subsidiaries, associate and non-financial assets

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

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates its forward foreign exchange contracts entered as derivatives at fair value through profit or loss and they are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the income statement within 'other gains/losses, net'.

2.12 Government grants

A government grant is recognised at its fair value where 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 costs are deferred and recognised in the income statement over the period necessary to match them with the related costs that they are intended to compensate, otherwise grants with no future related costs are recognised as income in the period in which they become receivable.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditures. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

2.15 Cash and cash equivalents

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

2.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associate, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employees benefits

(a) Pension obligations

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments in Mainland China for its PRC based employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Group. Contributions to these plans are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employees benefits (Continued)

(a) *Pension obligations (Continued)*

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

(b) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset when the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.22 Revenue recognition

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

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

2.23 Operating leases

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

2.24 Borrowing costs

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

All other borrowing costs are charged to the income statement during the financial period in which they are incurred.

2.25 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the Board of Directors. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Foreign exchange risk

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("USD"). Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposures should the need arises. During the year, the Group has used forward contracts to hedge its foreign currency exposure in USD.

At 31 December 2007, if Rmb had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would have been approximately Rmb1,262,000 (2006: Rmb582,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, and USD-denominated bank deposits.

(b) Credit risk

The carrying amounts of cash and cash equivalents, trade receivables and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

Substantially all of the Group's cash and cash equivalents are deposited in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has no policy to limit the amount of credit exposure to any financial institution. Management does not expect any losses from non-performance by these banks.

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers. The Directors consider the Group does not have a significant concentration of credit risk. No single customer accounted for more than 15% of the Group's total revenues during the year.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

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

As at 31 December 2007, all of the Group's trade payables, other payables and accrued charges and bank borrowings were all due for settlement contractually within 1 year.

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which are disclosed in Note 25. The Group's exposure to changes in interest rates is mainly attributable to its short-term bank borrowings which carry interest at floating rates and expose the Group to cash flow interest-rate risk, details of which are disclosed in Note 29. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2007, if the interest rates on borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately Rmb79,000 lower/higher, mainly as a result of higher/lower interest expenses on bank borrowings.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

The Group monitors capital on the basis of the liabilities-to-assets ratio. This ratio is calculated as total liabilities divided by total assets. The Group aims to maintain the ratio at a reasonable level.

The liabilities-to-assets ratio at 31 December 2007 was as follows:

	2007 Rmb'000	2006 Rmb'000
Total liabilities	217,287	183,611
Total assets	556,730	502,407
Liabilities-to-assets ratio	39.0%	36.5%

3.3 Fair value estimation

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

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

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Useful lives of property, plant and equipment

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

(b) Patents

Management determines the estimated useful lives and the related amortisation charges for the Group's patents. Management will revise the amortisation charge where the useful life is different to previously estimated, or it will write-off or write-down the carrying value of the patents to their recoverable amounts where there are impairments of the assets.

(c) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.10. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates. Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

5 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of organic acids. Turnover recognised during the year is as follows:

	2007 Rmb'000	2006 Rmb'000
Turnover		
Sales of goods	397,420	321,440

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

	2007 Rmb'000	2006 Rmb'000
Mainland China	186,329	171,322
Europe	66,864	46,894
Asia Pacific	84,042	46,445
America	52,315	49,494
Others	7,870	7,285
	397,420	321,440

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

The analysis of turnover by geographic segment is based on the country in which the customer is located. No analysis of contribution by geographic segment has been presented as the ratio of profit to turnover achieved for individual segment is not substantially out of line with the Group's overall ratio of profit to turnover.

No analysis of the segment information by business segment has been presented as the Group has been engaged in the production and sale of organic acids only. Substantially all of its assets, liabilities and capital expenditure for the year were located or utilised in Mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 OTHER GAINS

	2007 Rmb'000	2006 Rmb'000
Sales of scrap materials	1,598	1,651
Government grants and subsidies	754	2,723
Fair value gains on derivative financial instruments	109	–
Negative goodwill on acquisition of an associate	–	388
Negative goodwill on addition of equity interest in associate	77	–
Gain on disposal of property, plant and equipment	–	1,608
Others	350	4
	2,888	6,374

7 EXPENSES BY NATURE

	2007 Rmb'000	2006 Rmb'000
Cost of inventories sold	229,840	160,470
Write-downs of inventories to net realisable value	–	1,018
Amortisation of patents recorded in administrative expenses (Note 15)	709	666
Amortisation of land use rights recorded in administrative expenses (Note 17)	526	241
Auditors' remuneration	768	780
Depreciation (Note 16)	15,095	12,436
Net exchange losses	2,695	1,127
Operating leases in respect of land and buildings	344	448
(Write-backs of impairment)/impairment of trade receivables (Note 22(f))	(36)	54
Research and development costs	1,867	2,104
Staff costs (including emoluments of Directors and Supervisors) (Note 13)	21,709	22,091
Other expenses	76,407	46,692
Total cost of sales, selling expenses and administrative expenses	349,924	248,127

8 FINANCE COSTS, NET

	2007 Rmb'000	2006 Rmb'000
Interest on bank borrowings – wholly repayable within five years	11,129	5,832
Less: Interest capitalised (note)	(183)	(303)
	10,946	5,529
Interest income on bank deposits	(457)	(310)
Net finance costs	10,489	5,219

Note: A capitalisation rate of 6.3% (2006: 5.8%) was used, representing the borrowing cost of the loans used to finance the construction project.

9 TAXATION

PRC Enterprise Income Tax ("EIT") is provided on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being located in the New Technology Industrial Development Experimental Zone in Changzhou and registered as a New and High Technology Enterprise, is entitled to preferential EIT rate. Upon renewal of the 技術密集型知識及密集型企業証書 (The Certificate of Technology-intensive and Knowledge-intensive Enterprise) in November 2005, the Company is subject to a preferential EIT rate of 15% up to the financial year ended 31 December 2007. The subsidiaries of the Group in Mainland China are subject to a tax rate of 25% but do not have assessable profit during the year.

The amount of taxation charged to consolidated income statement represents:

	2007 Rmb'000	2006 Rmb'000
Current income tax		
– Provision for EIT	5,902	11,008
– Tax credit (note)	–	(4,021)
Under-provision in prior year	227	–
Deferred income tax (Note 30)	(51)	–
	6,078	6,987

Note: During the year ended 31 December 2006, the Company obtained approval from the tax bureau in Mainland China whereby it is granted a tax credit of approximately Rmb4,021,000 in respect of purchase of certain equipments manufactured in Mainland China.

9 TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated entities as follows:

	2007 Rmb'000	2006 Rmb'000
Profit before taxation	40,696	74,345
Adjustment: share of (profit)/loss of an associate	(801)	123
	39,895	74,468
Calculated at the tax rates applicable to results of the respective consolidated entities	5,935	11,170
Income not subject to tax	(177)	(317)
Expenses not deductible for tax purposes	1	155
Tax losses for which no deferred income tax asset was recognised	92	–
Under-provision in prior year	227	–
Tax credit	–	(4,021)
Taxation	6,078	6,987

10 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately Rmb33,937,000 (2006: Rmb67,093,000).

11 DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2007.

	2007 Rmb'000	2006 Rmb'000
Final, proposed, of Nil (2006: Rmb0.022) per share	–	15,041

12 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to the equity holders of the Company of Rmb34,648,000 (2006: Rmb67,358,000) and the 683,700,000 (2006: 683,700,000) shares in issue during the year.

The Company has no dilutive potential shares in issue during the year.

13 STAFF COSTS

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

	2007 Rmb'000	2006 Rmb'000
Salaries, wages and related welfare	17,131	18,632
Social security costs	2,323	1,584
Contribution to defined contribution retirement schemes (note)	2,255	1,875
	21,709	22,091

Note: The Group is required to participate in defined contribution retirement schemes organised by the relevant local government authorities for its PRC based employees. Contributions to the retirement schemes are payable at a rate of 21% of the total salaries and allowances of the PRC based employees, subject to a ceiling, and the Group has no further retirement benefit obligations to all its existing and future retired PRC based employees.

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the Directors of the Company for the year ended 31 December 2007 is set out as follows:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Executive director					
Mr. Rui Xin Sheng	320	496	–	14	830
Mr. Jiang Jun Jie (i)	25	28	–	–	53
Non-executive director					
Mr. Zeng Xian Biao	50	–	–	–	50
Mr. Yu Xiao Ping	50	–	–	–	50
Mr. Lu Chong Zhu (ii)	12	27	–	–	39
Ms. Leng Yi Xin	50	–	–	–	50
Mr. Wang Jian Ping (iii)	37	–	–	–	37
Mr. Jiang Jun Jie (i)	38	–	–	–	38
Independent non-executive director					
Prof. Ouyang Ping Kai	50	–	–	–	50
Prof. Yang Sheng Li	50	–	–	–	50
Ms. Wei Xin	50	–	–	–	50

Notes:

(i) Resigned as an executive director on 17 June 2007 and appointed as a non-executive director on 18 June 2007.

(ii) Resigned on 17 June 2007.

(iii) Appointed on 18 June 2007.

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

(a) (Continued)

The remuneration of each of the Directors of the Company for the year ended 31 December 2006 is set out as follows:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Executive director					
Mr. Rui Xin Sheng	320	494	1,568	13	2,395
Mr. Jiang Jun Jie	100	164	523	13	800
Non-executive director					
Mr. Zeng Xian Biao	50	–	261	–	311
Mr. Yu Xiao Ping	50	–	261	–	311
Mr. Lu Chong Zhu	50	–	261	–	311
Ms. Leng Yi Xin	50	–	261	–	311
Independent non-executive director					
Prof. Ouyang Ping Kai	50	–	–	–	50
Prof. Yang Sheng Li	50	–	–	–	50
Ms. Wei Xin	50	–	–	–	50

None of the Directors waived any emoluments during the years ended 31 December 2007 and 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) The remuneration of each of the Supervisors of the Company for the year ended 31 December 2007 is set out as follows:

Name of Supervisor	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Juan	15	65	–	10	90
Mr. Lu He Xing	6	–	–	–	6
Mr. Pan Chun	6	114	–	10	130
Prof. Gu Jian Xin	15	–	–	–	15
Prof. Jiang Yao Zhong	15	–	–	–	15

The remuneration of each of the Supervisors of the Company for the year ended 31 December 2006 is set out as follows:

Name of Supervisor	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit contributions	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Ms. Zhou Rui Juan	15	32	89	9	145
Mr. Lu He Xing	6	–	–	–	6
Mr. Pan Chun	6	41	79	9	135
Prof. Gu Jian Xin	15	–	–	–	15
Prof. Jiang Yao Zhong	15	–	–	–	15

None of the Supervisors waived any emoluments during the years ended 31 December 2007 and 2006.

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

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

	2007	2006
Directors	1	4
Supervisors	1	–
Employees	3	1
	5	5

Details of the emoluments paid and payable to the three employees (2006: one employee) mentioned above, each of whose emoluments was less than HK$1,000,000, are as follows:

	2007 Rmb'000	2006 Rmb'000
Basic salaries, allowances and benefits in kind	1,317	719
Discretionary bonus	–	119
Retirement benefit contributions	27	12
	1,344	850

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

15 PATENTS

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net book amount, at 1 January	6,278	6,944	6,278	6,944
Acquisition of a subsidiary (Note 33)	4,800	–	–	–
Amortisation charge (Note 7)	(709)	(666)	(667)	(666)
Net book amount, at 31 December	10,369	6,278	5,611	6,278

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost	14,800	10,000	10,000	10,000
Accumulated amortisation	(4,431)	(3,722)	(4,389)	(3,722)
Net book amount, at 31 December	10,369	6,278	5,611	6,278

16 PROPERTY, PLANT AND EQUIPMENT

	Group			
	Buildings	**Plant and machinery**	**Equipment and motor vehicles**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2006				
Cost	40,527	84,505	8,499	133,531
Accumulated depreciation	(6,761)	(21,745)	(3,901)	(32,407)
Net book amount	33,766	62,760	4,598	101,124
Year ended 31 December 2006				
Opening net book amount	33,766	62,760	4,598	101,124
Additions	7,591	–	–	7,591
Transfer from construction in progress (Note 18)	18,237	28,936	2,670	49,843
Disposals	(478)	(40)	–	(518)
Depreciation (Note 7)	(2,252)	(8,718)	(1,466)	(12,436)
Closing net book amount	56,864	82,938	5,802	145,604
At 31 December 2006				
Cost	65,492	113,399	11,168	190,059
Accumulated depreciation	(8,628)	(30,461)	(5,366)	(44,455)
Net book amount	56,864	82,938	5,802	145,604
Year ended 31 December 2007				
Opening net book amount	56,864	82,938	5,802	145,604
Acquisition of a subsidiary (Note 33)	–	178	704	882
Additions	984	–	7	991
Transfer from construction in progress (Note 18)	169	73,368	5,832	79,369
Depreciation (Note 7)	(2,683)	(10,821)	(1,591)	(15,095)
Closing net book amount	55,334	145,663	10,754	211,751
At 31 December 2007				
Cost	66,645	186,945	17,711	271,301
Accumulated depreciation	(11,311)	(41,282)	(6,957)	(59,550)
Net book amount	55,334	145,663	10,754	211,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Company			
	Buildings	**Plant and machinery**	**Equipment and motor vehicles**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2006				
Cost	40,527	84,505	8,499	133,531
Accumulated depreciation	(6,761)	(21,745)	(3,901)	(32,407)
Net book amount	33,766	62,760	4,598	101,124
Year ended 31 December 2006				
Opening net book amount	33,766	62,760	4,598	101,124
Additions	1,612	–	–	1,612
Transfer from construction in progress (Note 18)	18,237	28,936	2,670	49,843
Disposals	(478)	(40)	–	(518)
Depreciation	(2,252)	(8,718)	(1,466)	(12,436)
Closing net book amount	50,885	82,938	5,802	139,625
At 31 December 2006				
Cost	59,513	113,399	11,168	184,080
Accumulated depreciation	(8,628)	(30,461)	(5,366)	(44,455)
Net book amount	50,885	82,938	5,802	139,625
Year ended 31 December 2007				
Opening net book amount	50,885	82,938	5,802	139,625
Transfer from construction in progress (Note 18)	169	73,368	5,832	79,369
Depreciation	(2,683)	(10,807)	(1,560)	(15,050)
Closing net book amount	48,371	145,499	10,074	203,944
At 31 December 2007				
Cost	59,682	186,767	17,000	263,449
Accumulated depreciation	(11,311)	(41,268)	(6,926)	(59,505)
Net book amount	48,371	145,499	10,074	203,944

17 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land use rights on three pieces of land situated in Mainland China under lease term of 50 years.

	Group		Company	
	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
Net book amount, at 1 January	25,056	11,062	10,821	11,062
Additions	–	14,235	–	–
Amortisation charge (Note 7)	(526)	(241)	(241)	(241)
Net book amount, at 31 December	24,530	25,056	10,580	10,821

	Group		Company	
	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
At cost	26,275	26,275	12,040	12,040
Accumulated amortisation	(1,745)	(1,219)	(1,460)	(1,219)
Net book amount, at 31 December	24,530	25,056	10,580	10,821

18 CONSTRUCTION IN PROGRESS

	Group and Company	
	2007 Rmb'000	2006 Rmb'000
At 1 January	136,539	75,652
Additions	26,603	110,730
Transfer to property, plant and equipment (Note 16)	(79,369)	(49,843)
At 31 December	83,773	136,539

19 INVESTMENTS IN AND AMOUNT DUE FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	2007 Rmb'000	2006 Rmb'000
Unlisted equity investments, at cost	23,794	20,000

Details of the subsidiaries at 31 December 2007 are as follows:

Name	Place of establishment, operations and kind of legal entity	Particulars of registered capital	Interest directly held	Principal activities
上海常茂生物化學工程有限公司 (Shanghai Changmao Biochemical Engineering Company Limited)	PRC, limited liability company	Rmb20,000,000	100%	Trading of organic acids and property holding
上海醫學生命科學研究中心有限公司 (Shanghai Medical Life Science Research Centre Limited)	PRC, limited liability company	Rmb15,384,600	78%	Research and development of medicine and nutraceutical products

(b) Amount due from a subsidiary

The amount due from a subsidiary is unsecured, interest free and does not have fixed repayment terms.

The carrying value of the amount due from a subsidiary approximates its fair value and is denominated in Renminbi. The maximum exposure to credit risk at 31 December 2007 is the fair value of the amount.

20 INVESTMENT IN AN ASSOCIATE

(a) The Group

	2007 Rmb'000	2006 Rmb'000
At 1 January	4,465	–
Acquisition of an associate		
– cost of acquisition	–	4,200
– negative goodwill	–	388
Acquisition of additional equity interest in associate		
– cost of acquisition	1,490	–
– negative goodwill	77	–
Share of profit/(loss)	801	(123)
At 31 December	6,833	4,465

The Group's interest in its associate at 31 December 2007 and the assets, liabilities and results of the associate attributable to the Group are as follows:

Name	Particulars of registered capital held	Country of establishment	Assets Rmb'000	Liabilities Rmb'000	Revenues Rmb'000	Net profit/ (loss) Rmb'000	Interest directly held %
2007:							
常州蘭陵制葯有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.)	Rmb5,690,000 unlisted	PRC	48,172	41,339	25,465	801	45.52
2006:							
常州蘭陵制葯有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.)	Rmb4,200,000 unlisted	PRC	42,065	37,600	5,568	(123)	42

20 INVESTMENT IN AN ASSOCIATE (Continued)

(b) The Company

	2007 Rmb'000	2006 Rmb'000
Unlisted equity investment, at cost	5,690	4,200

(c) There are no contingent liabilities relating to the Group's investment in the associate, and no contingent liabilities of the associate itself.

21 INVENTORIES

	Group		Company	
	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
Raw materials	30,570	27,162	30,467	27,162
Work-in-progress	6,544	12,002	6,544	12,002
Finished goods	73,138	44,498	73,138	44,498
	110,252	83,662	110,149	83,662

22 TRADE AND BILLS RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables (note (a))	47,444	27,880	47,246	27,880
Bills receivables (note (b))	–	5,184	–	5,184
	47,444	33,064	47,246	33,064

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

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
0 to 3 months	45,305	27,631	45,107	27,631
4 to 6 months	1,981	47	1,981	47
Over 6 months	158	202	158	202
	47,444	27,880	47,246	27,880

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

(c) As at 31 December 2007, trade receivables of approximately Rmb7,352,000 (2006: Rmb5,003,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	Group and Company	
	2007	2006
	Rmb'000	Rmb'000
Up to 3 months	5,341	4,941
4 to 6 months	1,907	47
Over 6 months	104	15
	7,352	5,003

(d) The credit quality of trade and bills receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

22 TRADE AND BILLS RECEIVABLES (Continued)

(e) As at 31 December 2007, trade receivables of approximately Rmb84,000 (2006: Rmb236,000) were impaired. The individual impaired receivables mainly relate to customers which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. These receivables are all aged over 6 months.

(f) Movements on the provision for impairment of trade receivables are as follows:

	Group and Company	
	2007	2006
	Rmb'000	Rmb'000
At 1 January	66	12
Provision for receivable impairment (Note 7)	–	54
Unused amounts reversed (Note 7)	(36)	–
At 31 December	30	66

(g) The carrying amounts of trade and bills receivables approximate their fair values and are denominated in the following currencies:

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
RMB	14,169	18,887	13,971	18,887
USD	29,693	13,688	29,693	13,688
EUR	3,582	489	3,582	489
	47,444	33,064	47,246	33,064

(h) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

23 AMOUNT DUE TO/FROM A SHAREHOLDER

The amount due to/from a shareholder is unsecured, interest free and repayable on demand and the amount payable/receivable at 31 December 2007 and 2006, respectively, is trading balance only (also see Note 34(iii)).

24 DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company	
	2007	2006
	Rmb'000	Rmb'000
Forward foreign exchange contracts – held for trading	109	–

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2007 are approximately Rmb44,092,000 (2006: Nil). The remaining maturities of these contracts are less than 12 months.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

The credit quality of derivative assets has been assessed by reference to historical information about the counterparty default rates. The existing counterparty does not have defaults in the past.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 BANK BALANCES AND CASH

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash and cash equivalents	51,716	57,448	51,281	57,240
Short-term bank deposit with an initial term of more than three months	–	1,000	–	1,000
	51,716	58,448	51,281	58,240

The maximum exposure to credit risk at the reporting date is the carrying value of the bank balances and cash in the balance sheet.

The credit quality of bank balances and cash has been assessed by reference to external credit ratings (if available) or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Denominated in:				
– RMB	41,231	44,189	40,796	43,981
– USD	10,432	13,684	10,432	13,684
– HKD	52	124	52	124
– EUR	1	451	1	451
	51,716	58,448	51,281	58,240

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposit as at 31 December 2006 earned interest at an effective interest rate of 2.1% per annum.

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

26 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2007 and 2006	683,700,000	68,370

As at 31 December 2007 and 2006, the share capital of the Company composed of 219 million domestic shares, 281 million Promoter foreign shares and 183.7 million H shares. The H shares rank pari passu with the domestic shares and Promoter foreign shares in all aspects and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and trade in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES

Group

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2006	87,159	9,526	4,763	104,182	205,630
Transfer of profit to statutory reserve	–	6,860	3,430	(10,290)	–
Profit for the year	–	–	–	67,358	67,358
Final dividend for the year ended 31 December 2005	–	–	–	(22,562)	(22,562)
At 31 December 2006	87,159	16,386	8,193	138,688	250,426
Representing:					
2006 proposed final dividend				15,041	
Others				123,647	
				138,688	

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2007	87,159	16,386	8,193	138,688	250,426
Transfer of profit to statutory reserve	–	6,320	–	(6,320)	–
Transfer of reserve	–	8,193	(8,193)	–	–
Profit for the year	–	–	–	34,648	34,648
Final dividend for the year ended 31 December 2006	–	–	–	(15,041)	(15,041)
At 31 December 2007	87,159	30,899	–	151,975	270,033

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RESERVES (Continued)

Company

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2006	87,159	9,526	4,763	104,182	205,630
Transfer of profit to statutory reserve	–	6,860	3,430	(10,290)	–
Profit for the year	–	–	–	67,093	67,093
Final dividend for the year ended 31 December 2005	–	–	–	(22,562)	(22,562)
At 31 December 2006	87,159	16,386	8,193	138,423	250,161
Representing:					
2006 proposed final dividend				15,041	
Others				123,382	
				138,423	

	Share premium Rmb'000	Statutory common reserve Rmb'000	Statutory public welfare fund Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2007	87,159	16,386	8,193	138,423	250,161
Transfer of profit to statutory reserve	–	6,320	–	(6,320)	–
Transfer of reserve	–	8,193	(8,193)	–	–
Profit for the year	–	–	–	33,937	33,937
Final dividend for the year ended 31 December 2006	–	–	–	(15,041)	(15,041)
At 31 December 2007	87,159	30,899	–	150,999	269,057

27 RESERVES (Continued)

(a) Statutory common reserve

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

Statutory common reserve can be used to make good previous years' losses, if any, to expand the business operations of the Company and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital of the Company. For the year ended 31 December 2007, the Board of Directors proposed the transfer of approximately Rmb3,429,000 (2006: Rmb6,320,000) to the statutory common reserve, being 10% of the current year's net profit determined in accordance with the PRC accounting rules and regulations, subject to the shareholders' approval at the forthcoming annual general meeting. The proposed transfer will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

(b) Statutory public welfare fund

According to Cai Qi (2006) No. 67, a circular on accounting treatment following the implementation of Company Law issued by the Ministry of Finance of the PRC, statutory public welfare fund is no longer mandatory in annual distribution plan of net profit starting from 1 January 2006.

During the year ended 31 December 2007, the shareholders approved in the annual general meeting to (i) amend the Company's Articles of Association that transfer to statutory public welfare fund is no longer required, and (ii) transfer the balance of the statutory public welfare fund as at 31 December 2006 to statutory common reserve.

28 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Group and Company	
	2007	2006
	Rmb'000	Rmb'000
0 to 6 months	18,385	6,889
7 to 12 months	20	13
Over 12 months	30	76
	18,435	6,978

The carrying amounts of trade payables approximate their fair values and are all denominated in Renminbi.

29 BANK BORROWINGS

Bank borrowings are analysed as follows:

	Group and Company	
	2007	2006
	Rmb'000	Rmb'000
Non-current		
Unsecured, long-term bank borrowings wholly repayable within five years	–	13,500
Less: Current portion of long-term bank borrowings	–	(13,500)
	–	–
Current		
Unsecured, short-term bank borrowings	178,500	145,500
Current portion of long-term bank borrowings as shown above	–	13,500
	178,500	159,000
Total borrowings	178,500	159,000

29 BANK BORROWINGS (Continued)

The maturity of borrowings is as follows:

	Group and Company	
	2007 Rmb'000	2006 Rmb'000
Within 1 year	178,500	159,000

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

As at 31 December 2007, the effective interest rates of the bank borrowings were as follows:

	Group and Company	
	2007	2006
Long-term bank borrowings, at fixed rate	–	5.8%
Short-term bank borrowings, at floating rate (2006: fixed rate)	6.6%	5.8%

30 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2007 Rmb'000	2006 Rmb'000
Deferred tax assets to be recovered within 12 months	(72)	–
Deferred tax liabilities to be settled after more than 12 months	710	–
Deferred tax liabilities – net	638	–

30 DEFERRED INCOME TAX (Continued)

The gross movement on the deferred income tax account is as follows:

	Group	
	2007	2006
	Rmb'000	Rmb'000
Beginning of the year	–	–
Acquisition of subsidiary (Note 33)	689	–
Credited to the income statement (Note 9)	(51)	–
End of the year	638	–

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities – Group:

	Accelerated tax depreciation Rmb'000
At 1 January 2006 and 2007	–
Acquisition of subsidiary (Note 33)	689
Charged to the income statement	21
At 31 December 2007	710

Deferred tax assets – Group:

	Decelerated tax depreciation Rmb'000
At 1 January 2006 and 2007	–
Credited to the income statement	(72)
At 31 December 2007	(72)

30 DEFERRED INCOME TAX (Continued)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately Rmb1,934,000 (2006: Nil) in respect of losses amounting to approximately Rmb7,736,000 (2006:Nil) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	Group	
	2007	2006
	Rmb'000	Rmb'000
2008	1,770	–
2009	1,917	–
2010	1,359	–
2011	1,655	–
2012	1,035	–
	7,736	–

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2007 Rmb'000	2006 Rmb'000
Profit before taxation	40,696	74,345
Interest income	(457)	(310)
Interest expense	10,946	5,529
Depreciation	15,095	12,436
Amortisation of patents	709	666
Amortisation of land use rights	526	241
Gain on disposal of property, plant and equipment	–	(1,608)
(Write-backs of impairment)/impairment of trade receivables	(36)	54
Write-downs of inventories to net realisable value	–	1,018
Fair value gains on derivative financial instruments	(109)	–
Negative goodwill on acquisition of an associate	–	(388)
Negative goodwill on addition of equity interest in associate	(77)	–
Share of (profit)/loss of an associate	(801)	123
	66,492	92,106
Changes in working capital:		
Increase in inventories	(26,487)	(36,605)
(Increase)/decrease in trade and bills receivables, other receivables and prepayments	(14,795)	23,434
Increase/(decrease) in trade payables, other payables and accrued charges	11,789	(951)
Increase/(decrease) in amount due to a shareholder	1,438	(1,402)
Net cash generated from operations	38,437	76,582

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank borrowings		Dividends payable	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January	159,000	38,000	–	–
New bank borrowings	218,500	155,500	–	–
Repayments of bank borrowings	(199,000)	(34,500)	–	–
2006 final dividend	–	–	15,041	–
2005 final dividend	–	–	–	22,562
Dividends paid	–	–	(15,041)	(22,562)
Balance at 31 December	178,500	159,000	–	–

32 COMMITMENTS

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

	Group and Company	
	2007	2006
	Rmb'000	Rmb'000
Authorised but not contracted for	–	–
Contracted but not provided for	568	7,186
	568	7,186

32 COMMITMENTS (Continued)

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2007, the Group and the Company had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Group and Company	
	2007	2006
	Rmb'000	Rmb'000
Not later than one year	305	171
Later than one year and not later than five years	153	102
Later than five years	–	986
	458	1,259

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

33 BUSINESS COMBINATION – GROUP

On 1 November 2007, the Group acquired 78% of the registered capital of 上海醫學生命科學研究中心有限公司 (Shanghai Medical Life Science Research Centre Limited) which specialises in research and development of medicine and nutraceutical products. The acquired business did not contribute revenues and incurred net loss of approximately Rmb138,000 to the Group for the period from 1 November 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, there would have been no change to the Group's turnover; but the Group's profit for the year before minority interest would have been approximately Rmb33,900,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and patents had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	Rmb'000
Purchase consideration – cash paid	3,794
Fair value of net assets acquired – shown as below	(3,794)
Goodwill	–

33 BUSINESS COMBINATION – GROUP (Continued)

The assets and liabilities as of 1 November 2007 arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	Rmb'000	Rmb'000
Patents (Note 15)	4,800	2,335
Property, plant and equipment (Note 16)	882	592
Inventories	103	103
Other receivables and prepayments	267	267
Bank balances and cash	117	117
Other payables and accrued charges	(616)	(616)
	5,553	2,798
Deferred tax liabilities (Note 30)	(689)	–
Net assets	4,864	2,798
Minority interest (22%)	(1,070)	
Net assets acquired	3,794	
Purchase consideration settled in cash		3,794
Cash and cash equivalents in subsidiary acquired		(117)
Cash outflow on acquisition		3,677

34 RELATED PARTY TRANSACTIONS

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

(i) Name and relationship with related parties

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

34 RELATED PARTY TRANSACTIONS (Continued)

(ii) Transactions with related parties – Group

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

	2007 Rmb'000	2006 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	123	88
Electricity charged by Shuguang Factory (note (b))	805	2,528
Water supply charged by Shuguang Factory (note (b))	132	334
Rental expenses to Shuguang Factory (note (c))	–	186
Transportation expenses charged by Shuguang Factory (note (d))	598	466
Processing fee charged by Shuguang Factory (note (e))	683	1,235
Sales commission charged by Shuguang Factory (note (e))	139	408

(a) In the opinion of the Directors, the purchases were determined with reference to the then prevailing market prices and the prices charged by Shuguang Factory to third parties.

(b) The electricity and water supply are charged by Shuguang Factory on a cost reimbursement basis.

(c) Rental expenses to Shuguang Factory were based at fixed amounts in accordance with the terms of the lease agreements.

(d) Transportation expenses to Shuguang Factory were based at fixed rates with reference to market price quoted from third parties.

(e) Processing fee and sales commission to Shuguang Factory were based at fixed rates in accordance with the terms of the processing and sales agreements.

34 RELATED PARTY TRANSACTIONS (Continued)

(iii) Balances with related parties – Group and Company

	2007 Rmb'000	2006 Rmb'000
Prepayment for purchase of raw materials from Shuguang Factory	–	128
Purchase of raw materials and services payable to Shuguang Factory	(1,310)	–
Amount due (to)/from a shareholder (Note 23)	(1,310)	128

The balance with the shareholder is unsecured, interest free and repayable on demand.

During the year ended 31 December 2007, the maximum balance due from Shuguang Factory amounted to approximately Rmb128,000.

(iv) Key management compensation – Group

	2007 Rmb'000	2006 Rmb'000
Salaries and other short-term employee benefits	816	3,168
Retirement benefit contributions	14	26
	830	3,194

FIVE YEAR SUMMARY

	2003 Rmb'000	2004 Rmb'000	2005 Rmb'000	2006 Rmb'000	2007 Rmb'000
Consolidated results					
Turnover	144,632	200,984	299,006	321,440	397,420
Operating profit	23,161	42,209	82,348	79,687	50,384
Finance costs, net	(370)	(900)	(1,659)	(5,219)	(10,489)
Share of (loss)/profit of an associate	–	–	–	(123)	801
Profit before taxation	22,791	41,309	80,689	74,345	40,696
Taxation	(1,861)	(4,128)	(12,102)	(6,987)	(6,078)
Profit for the year	20,930	37,181	68,587	67,358	34,618
Attributable to:					
Equity holders of the Company	20,930	37,181	68,587	67,358	34,648
Minority interest	–	–	–	–	(30)
Dividends	8,204	15,041	22,562	15,041	–
Consolidated assets and liabilities					
Total non-current assets	131,202	144,320	194,782	317,942	337,328
Total current assets	103,647	129,046	143,316	184,465	219,402
Total current libabilities	(43,372)	(52,912)	(55,098)	(183,611)	(216,577)
Net current assets	60,275	76,134	88,218	854	2,825
Total assets less current liabilities	191,477	220,454	283,000	318,796	340,153
Total non-current liabilities	–	–	(9,000)	–	(710)
Net assets	191,477	220,454	274,000	318,796	339,443
Earnings per share					
– basic and diluted	Rmb0.031	Rmb0.054	Rmb0.100	Rmb0.099	Rmb0.051

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2007 annual general meeting ("AGM") of Changmao Biochemical Engineering Company Limited (the "Company") will be held at Training Room A, Joint Professional Centre, Unit 1, G/F, The Center, 99 Queen's Road Central, Hong Kong on 8 May 2008, at 10:00 a.m. for the following purposes:

As ordinary resolution:

1. To consider and approve the Report of the Directors for the year ended 31 December 2007;

2. To consider and approve the Report of the Supervisory Committee for the year ended 31 December 2007;

3. To consider and approve the audited financial statements of the Company and independent auditor's report for the year ended 31 December 2007;

4. To consider and approve the appropriation to statutory common reserve for the year ended 31 December 2007;

5. To consider the re-appointment of 江蘇公証會計師事務所有限公司 (Jiangsu Gongzheng Certified Public Accountants Co., Ltd.) as the People's Republic of China ("PRC") auditor of the Company for the year 2008 and PricewaterhouseCoopers as the international auditor of the Company for the year 2008 and to authorise the Board to fix their remuneration;

6. To transact any other business.

As special resolution:

1. To consider and pass the following resolution as a special resolution:

   (a) "**THAT** subject to the limitations imposed by (c) and (d) below and in accordance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), the Company Law of the PRC, and other applicable laws and regulations (in each case as amended from time to time), a general unconditional mandate be and is hereby granted to the board of directors to exercise once or more during the "Relevant Period" (as defined below) all the powers of the Company to allot and issue new shares on such terms and conditions the board of directors may determine and that, in the exercise of their powers to allot and issue shares, the authority of the board of directors shall include (without limitation):

      (i) the determination of the class and number of the shares to be alloted;

(ii) the determination of the issue price of the new shares;

(iii) the determination of the opening and closing dates of the issue of new shares;

(iv) the determination of the class and number of new shares (if any) to be issued to the existing shareholders;

(v) to make or grant offers, agreements and options which might require the exercise of such powers; and

(vi) in the case of an offer or issue of shares to the shareholders of the Company, excluding shareholders who are residents outside the PRC or the Hong Kong Special Administrative Region, on account of prohibitions or requirements under overseas laws or regulations or for some other reasons which the board of directors consider expedient;

(b) upon the exercise of the powers granted under paragraph (a), the board of directors of the Company may during the "Relevant Period" make or grant offers, agreements and options which might require the shares relating to the exercise of the authority there under being allotted and issued after the expiry of the "Relevant Period";

(c) the aggregate amount of the Foreign Shares, Domestic Shares and/or overseas listed foreign shares ("H Shares") to be allotted or conditionally or unconditionally agreed to be allotted (whether pursuant to the exercise of options or otherwise) by the board of directors of the Company pursuant to the authority granted under paragraph (a) above (excluding any shares which may be allotted upon the conversion of the common reserve（公積金）into capital in accordance with the Company Law of the PRC or the Articles of Association of the Company) shall not exceed twenty per cent (20%) of the amount of the Foreign Shares, Domestic Shares and/or H Shares of the Company separately in issue as at the date of passing of this Resolution;

(d) the board of directors of the Company in exercising the powers granted under paragraph (a) above shall (i) comply with the Company Law of the PRC, other applicable laws and regulations of the PRC, and the GEM Listing Rules (in each case, as amended from time to time) and (ii) be subject to the approvals of the China Securities Regulatory Commission and relevant authorities of the PRC;

(e) for the purposes of this Resolution: "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the date on which the powers granted by this Resolution is revoked or varied by a special resolution of the Company in general meeting;

(f) the board of directors shall, subject to the relevant approvals of the relevant authorities and the exercise of the power granted under paragraph (a) above in accordance with the Company Law and other applicable laws and regulations of the PRC, increase the Company's registered capital corresponding to the relevant number of shares allotted upon the exercise of the powers granted under paragraph (a) of this Resolution, provided that the registered capital of the Company shall not exceed 120% of the amount of registered capital of the Company as at the date of passing of this Resolution;

(g) the board of directors be and they are hereby authorised to amend, as they may deem appropriate and necessary, relevant articles of the Articles of Association of the Company to reflect the change in the share capital structure of the Company in the event of an exercise of the powers granted under paragraph (a) to allot and issue new shares. (see Note 5 below)

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 20 March 2008

Notes:

1. The H share register of shareholders of the Company will be closed from 8 April 2008 to 8 May 2008 (both days inclusive), during which time no transfer of H shares will be effected. The holders of Domestic Share(s), Foreign Share(s) or H share(s) whose names appear on the register of members of the Company at the close of business on 7 April 2008 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 7 April 2008.

2. Any holder of Domestic Share(s), Foreign Share(s) or H share(s) entitled to attend and vote at the AGM convened by the above notice is entitled to appoint one or more proxies to attend and vote at the AGM on his behalf. A proxy needs not be a holder of Domestic Share(s), Foreign Share(s) or H share(s) of the Company.

NOTICE OF ANNUAL GENERAL MEETING

3. A voting proxy form for the AGM is enclosed with the annual report. In order to be valid, the voting proxy form together with the power of attorney (if any) or other document of authority (if any), under which it is signed or a notarily certified copy of the power of attorney or other document of authority must be delivered, in the case of holders of Domestic Share(s) or Foreign Share(s), to the Company's principal place of business in Hong Kong at Room 54, 5/F, New Henry House, 10 Ice House Street, Central, Hong Kong, in the case of holders of H share(s), to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.

4. Holders of Domestic Share(s), Foreign Share(s) or H share(s) who intend to attend the AGM should complete (without prejudice to their right of attendance) the enclosed reply slip for the AGM and return it, in the case of holders of Domestic Share(s) or Foreign Share(s), to the Company's principal place of business in Hong Kong at Room 54, 5/F, New Henry House, 10 Ice House Street, Central, Hong Kong, in the case of holders of H share(s), to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 17 April 2008. The reply slip may be delivered by hand, by post or by fax to the number (852) 2865 0990.

5. The purpose of having special resolution number 1 is to grant a general power to the board of directors to allot and issue new shares subject to applicable laws, regulations and rules.

6. The AGM is expected to take half a day. Shareholders or their proxies attending the meeting should bear their own lodging and traveling costs.