CMBEC

ANNUAL REPORT 2008

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)

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This report, for which the directors of Changmao Biochemical Engineering Company Limited (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules") for the purposes of giving information with regard to Changmao Biochemical Engineering Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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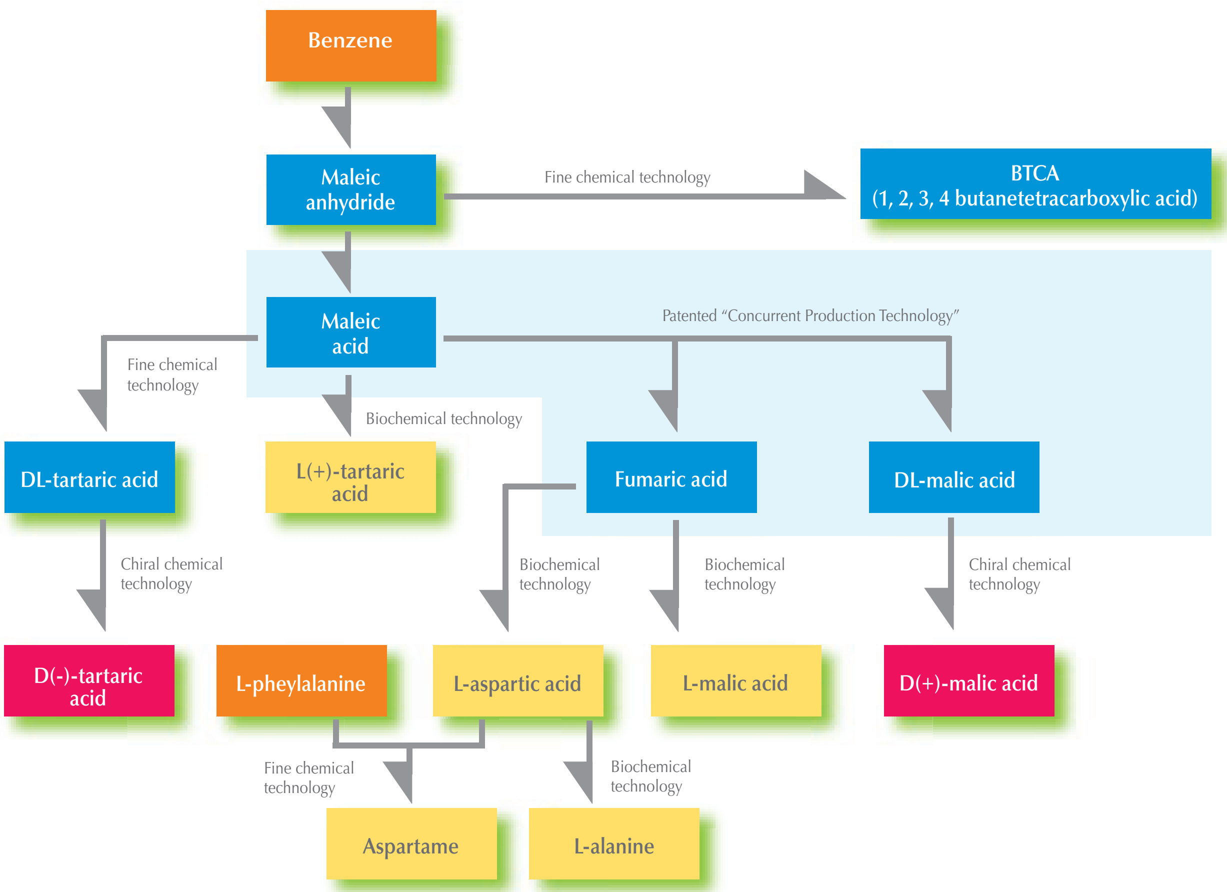
CORPORATE PROFILE

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

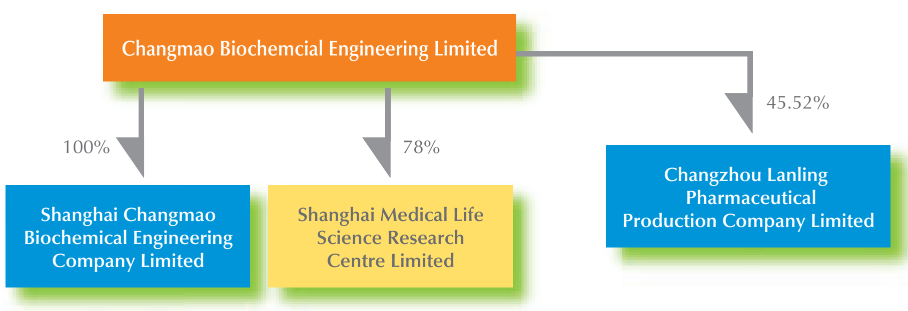


CORPORATE PROFILE

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 科技進步二等獎 (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 江蘇省名牌產品 (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 have two research and development centres, the Jiangsu Biochemical Chirotechnology Research Centre (the "Chirotechnology Centre") base in Changzhou, and the Shanghai Medical Life Scheme Research Centre Limited ("Shanghai Medical Life Science Research 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 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

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

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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
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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 2008.

BUSINESS OVERVIEW

In 2008, the Group's operation and production were stable with a steady growth in sales income. Though the current financial crisis had an impact on the global economy, it had a relatively small effect on the Group whose businesses maintained a satisfactory performance. During the year, the Group focused on increasing the efficiency of the production lines, increasing the production volume and reducing the wastage rate. It has refined its production and operating process, optimized its production technology and has made breakthroughs in cost reduction. It also applied flexible sales strategies to continuously increase its market share. Core products such as tartaric acid and malic acid performed extremely well, which boosted a steady growth of the Group.

A. New markets

The global economy experienced a slowdown in the second half of 2008. The Group launched a series of addressing strategies in light of the market trend, including product structure adjustment, sales team establishment and market-driven development. It also integrated its production chain and reduced its risk progressively, both of which achieved a good result.

The Group continued to make a lot of effort in expanding its new markets in Australia, the United States and Europe in order to enhance the market status of its products in the world marketplace. In 2008, tartaric acid has made use of its advantages of having FDA certificate and HACCP food safety management system certification to make a successful development in new markets and to further expand its coverage around the world, which made an outstanding contribution to economic benefits. Meanwhile, the Company vigorously developed new applications to increase the demand for tartaric acid and the progress was

CHAIRMAN'S STATEMENT

encouraging. To cope with the market demand, the Group made investment in setting up new production lines in order to increase the output of tartaric acid and meet customers' demand.

Malic acid was very much favoured by customers in 2008, which speeded up its penetration into domestic and overseas markets and led to inadequate supply in several occasions. To further reduce cost, the Group made full use of the advantage of combining its mature production technology with new production lines to consolidate and re-allocate the resources of the production lines of malic acid and fumaric acid and completed the reconstruction and expansion project of malic acid and fumaric acid, which finally achieved concurrent production. The coordination between the combined production lines significantly enhanced production technology and effectively reduced resources consumption, which in turn increased its overall competitiveness.

The business development of the new product aspartame had a strong momentum in the first half of 2008, with a higher market acceptance and growth potential. Since the third quarter, aspartame market had been dampened by the slowdown of global economy and fluctuation in raw material prices. The Group carried out various adjustment plans to cater to the market, which included strengthening management, optimizing technology, and maintaining each production specification at a higher level which is comparable to international standard. Aspartame had passed strict examination by a number of internationally well-known enterprises, with whom preliminary business relationships were established. We believe that, with our developed markets, advanced production advantage, good production environment, quality brands and unlimited potential opportunities in the market, aspartame will be well equipped to generate greater economic benefits in the future.

B. Project construction

Upon the completion of the second phase of the production plant, the production process of all the production lines became stable and effective. The Group made use of the production strength and focused on increasing the efficiency of the production lines and reducing the wastage rate, which enhanced production efficiency and created a high quality

CHAIRMAN'S STATEMENT

image of its brand name. During the year, the Group invested in environmental projects which substantially reduced the volume of waste water discharge from the workshops and implemented waste water recycling. The Group will keep up the results that it had achieved and expect an increase in its production capacity and a further reduction in cost.

C. **New products**
In 2008, through the long-term collaboration with a well-known business partner in Japan, most of the new products under the medicinal intermediaries project have attained customer satisfaction, which will broaden the Group's profit margins and become a new focus for economic growth. In 2009, both parties will continue to capitalize on their resources advantages and lay a solid foundation for in-depth cooperation. Along with an increasingly demand for health products, the medicinal market boasts a very optimistic prospect and the medicinal intermediaries project will surely bring about more growth potential for the Group and generate greater economic benefits.

D. **Group management**
The Group has continuously adopted the ISO9001 and HACCP management systems to control product quality. It enthusiastically puts GMP into practice to ensure quality control and to perfect its production management, which enables its production standard to occupy a leading position in the world. In 2008, the Group further promotes the general awareness of energy saving, waste reduction and environmental protection to create a better working atmosphere which is to cultivate a culture of economized enterprise and strengthen its social responsibility. At the same time, the Group makes a vigorous progress in perfecting its financial and management structure and system, establishing a foundation for sustained and solid business development, providing customers with quality services and maximizing returns to the shareholders.

FUTURE AND PROSPECT

The current economic situation is full of uncertainty, thus the Group will face even more pressure in 2009. The Group is actively taking measures to cope with the increasingly complex external environment. Currently, the world is flooded with too many negative influences, but the overall climate in China, which is to maintain stable and relatively fast economic development, will not change. We are of the conviction that we can surely turn pressure into motivation, and crisis into opportunities through careful evaluation of situation, positive response, new ways of thinking and solid work.

Looking ahead, 2009 will be a year of opportunities and challenges. The Group will carry out work around the following areas:

A. **Product upgrading through product structure adjustment**
Innovation in technology is a key element to improve competitiveness and for continuing development. The Group therefore will make a lot of effort in technology innovation. It will consolidate its existing research resources and manpower to create a reasonable product

CHAIRMAN'S STATEMENT

structure by way of launching competitive new product group in an organized way through technological advancement. Through the Group's chirotechnology research centre and the Shanghai Medical Life Science Research Centre to enhance its research ability with an aim to actively develop new products and extend its production chain. The Group will make use of the production platform of its associate, Changzhou Lanling Pharmaceutical Production Company Limited to enter into biomedical domain, an area with huge growth potential, step by step, thus inject vitality into the Group's product structure and increase its profitability. Meanwhile, with formal launch of the Group's nutraceutical business, Shanghai Changmao, as a main force to develop the nutraceutical market, will break the traditional sales and marketing modes in the market and zealously identify new profit margins so as to promote rapid growth of the business.

1. *To transform from low value-added products to high value-added ones and natural food additives*
   Benefiting from steady and sustained growth of the food industry, the food additive industry is also in the process of steady and rapid development, leading to an increasingly prominent position boasted by food additives. Safe and poison-free natural food additives are becoming increasingly favored by consumers who are more health conscious with higher living standard. The Group will focus on the transformation from low value-added products to high value-added ones and natural food additives, with an aim to gain a leading position in the domain, which is full of vigor and vitality.

2. *To make use of research ability to actively launch new products and continuously extend production chain*
   Through the Group's chirotechnology research centre and the Shanghai Medical Life Science Research Centre to enhance its research ability with an aim to consolidate its existing research resources and manpower. The Group will adhere to innovation in technology to extend its production chain and continuously develop new products with good prospect and profitability. Through faster pace of launching new products, the Group will drive its business to a newer and broader horizon in 2009 and embark on a new journey of profit making.

3. *By developing new nutraceutical business, Shanghai Changmao will market its products to end-users*
   Currently, countries around the world are actively seeking proper plans that can improve living environment, sustain growth and even promote health. As a result of which, nutraceutical is in great demand in many places. It can therefore be expected that the room of growth for functional food additives and nutraceutical is enormous. In line with the trend toward nutritious and multi-functional food, the Group will do its utmost to speed up new product development. As a main force to develop the nutraceutical market, Shanghai Changmao will open up the market through innovative

CHAIRMAN'S STATEMENT

sales and marketing modes, marketing products to end-users and developing a brand new domain in human health market.

B. Establishment of sales channel and expansion of sales network

The Group has an outstanding sales team. Under the exceptional world economic situation, the Group will continuously upgrade all-round quality of its sales personnel and enhance the overall standard of the sales team. With its outstanding sales team and its strategy on collaboration with international enterprise, the Group will endeavour to expand its sales network and apply effective sales strategy in 2009, actively explore new markets and new application for food additives products and strengthen customer services to ensure increased orders from both existing and new customers.

C. Upgrading of personnel quality and enhancement of corporate management standard

The pace of corporate development is determined by personnel quality. Under today's exceptional economic environment, an outstanding corporate management team is particularly needed. The Group will put its business strength into full play in 2009 by strengthening team building, optimizing personnel structure, enhancing personnel quality and reinforcing professional skills, and will realize all-rounded, balanced and coordinated development through fine management.

D. Product branding and establishment of brand reputation

Quality builds a brand name, which in turn wins the market. Under the precondition of carrying forward proprietary innovation, the Group will emphasize product quality and brand name to continuously enhance product reputation, recognition and goodwill in 2009 with an aim to zealously build brand effect, promote corporate culture, explore product market and drive corporate development unto a new level.

Based on the above directions, the Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application area. At the same time, the Group will capitalize on its production and research strength to develop new functional food additives, natural food additives, medicinal intermediaries and nutraceutical products based on the existing technologies. The Group will continue to extend its production chain and create new growth area and pursue best interests for its shareholders. The Group is confidence in its future.

Rui Xin Sheng
Chairman

The PRC, 18 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Group recorded a turnover of approximately Rmb418,426,000 for the year ended 31 December 2008, representing an approximately 5% increase compared to that for the year ended 31 December 2007. The increase in turnover was mainly attributable to the increase in sales of L(+)–tartaric acid and malic acid.

Gross profit margin

The gross profit margin for the year ended 31 December 2008 was approximately 22% as compared to that of 20% recorded for 2007. The overall gross profit margin was affected by various factors: the raw material price changed rapidly in 2008. It was at a high level for the first three quarters and down to a lower level in the forth quarter. The policy on refund of value added tax on export goods which was effective on 1 July 2007 made a full year impact to the Group which results in an overall lower average value added tax refund rate in 2008. The rapid appreciation of Renminbi also affected the gross profit margin of the Group. The Group continued to increase production volume and reduce production cost by reducing energy usage and wastage and improve production technology. As a result, gross profit margin in 2008 has been improved.

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 for 2008 under this scheme was Rmb1,019,000 (2007: Nil). For details of the staff incentive scheme, please refer to the paragraph headed "Employees" below. Excluding the bonus, selling and administrative expenses in 2008 increased as compared to that of 2007 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 CIT rate of 15% for year ended 31 December 2008. Other subsidiaries of the Group in Mainland China are subject to a tax rate of 25%. The main reason for taxation charge in 2008 lower than that of 2007 was that during the year, the Company obtained an approval from the tax bureau in Mainland China whereby it was granted a tax credit of approximately Rmb3,079,000 in respect of purchase of certain equipment manufactured in Mainland China.

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. The turnover in 2008 increased by approximately 5% as compared to that of 2007. As expressed as a percentage of turnover, export sales (including sales through import-export agents in the PRC) accounted for approximately 66% (2007: 60%) of the Group's turnover while domestic sales in the PRC accounted for approximately 34% (2007: 40%) of turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

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 are 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") and Euro. 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 certain of its foreign currency exposure in USD and Euro.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had total outstanding unsecured bank borrowings of Rmb 144.5 million (2007: Rmb178.5 million) which were all repayable within one year. The average effective interest rate of all the outstanding bank loans as at 31 December 2008 was approximately 6.0% (2007: 6.6%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2008 and 2007, the Group did not have any committed borrowing facilities.

As at 31 December 2008, the Group did not have capital commitments for property, plant and equipment.

The Group did not have any charge on its assets during the year ended 31 December 2008. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 32.9% (2007: 39.0%) as at 31 December 2008. As at 31 December 2008, the Group's cash and cash equivalents amounted to Rmb63,137,000 (2007: Rmb51,510,000). The Directors believe that the Group is in a healthy financial position.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2008, the Group employed a total of 503 employees (2007: 476 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 2008 was approximately Rmb27,351,000 (2007: Rmb21,709,000). Staff cost increased mainly because of the increase in number of staff and salary increment. In addition, the amount of bonus under the staff incentive scheme was Rmb1,019,000 for the year ended 31 December 2008 (2007: Nil). Under the staff incentive scheme for each of the three years ending 31 December 2010, 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 Rmb 40 million (the "Target Profit"):

(a) a sum equivalents 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 equivalents to 5% of the amount in excess of the Target Profit will be payable to the assistant general manager and 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 equivalents 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 2008 and 2007.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

There are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2008.

CONTINGENT LIABILITIES

As at 31 December 2008 and 31 December 2007, 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 52, 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, 江蘇省創新創業人才獎 (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 Petrol 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"). Mr. Rui is the spouse of Ms. Leng Yi Xin (a non-executive Director).

Non-executive Directors

Mr. Jiang Jun Jie (蔣俊杰), aged 42, 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Non-executive Directors (Continued)

Mr. Zeng Xian Biao (曾憲彪), aged 66, 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 53, 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 47, 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 47, 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 63, 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 68, 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 41, 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 54, 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 manager 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 64, 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 39, 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 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 51, 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 Dawn 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS (Continued)

Independent Supervisors Nominated by Shareholders (Continued)

Prof. Jiang Yao Zhong (蔣耀忠), aged 72, 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 37, is the financial controller 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 35, 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 Petrol Chemical Industry Technological Achievement in the PRC) in 2003.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (Continued)

Mr. Lu A Xing (陸阿興), aged 40, is a manager of the sales 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.

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 2008.

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 (Chairman), 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 2008. Attendance of individual members of the Board meeting for the year ended 31 December 2008 is as follows:

	Name of Director	**Attended/ Eligible to attend**
Chairman (executive Director)	Rui Xin Sheng	4/4
Non-executive Directors	Jiang Jun Jie	4/4
	Zeng Xian Biao	4/4
	Yu Xiao Ping	1/4
	Leng Yi Xin	4/4
	Wang Jian Ping	4/4
Independent Non-executive Directors	Ouyang Ping Kai	1/4
	Yang Sheng Li	1/4
	Wei Xin	4/4

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

Chairman and general manger (chief executive officer)
Code provision A.2.1 of Appendix 15 to the GEM Listing Rules stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Rui Xin Sheng, the chairman of the Board, also acts as the general manager (chief executive officer) of the Company. Since Mr. Rui Xin Sheng is well aware of the 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 2008.

CORPORATE GOVERNANCE

Appointments 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 2008 to assess the performance of the executive director and review the policy for the remuneration of the executive director. 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 2008 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 2008 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. Mr. Lu He Xing, 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 2008 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 2008, 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 its reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 40 and 41.

CORPORATE GOVERNANCE

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 2008 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 2007 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$863,000 (approximately equivalent to Rmb760,000) (2007: 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 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are the production and sale of organic acids. The activities 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 42.

The Directors recommend the payment of a final dividend of Rmb0.015 (inclusive of tax) per share for the year ended 31 December 2008, totalling approximately Rmb10,256,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to Rmb290,000 (2007: Rmb140,000).

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 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the distributable reserves of the Company were approximately Rmb183,771,000 (2007: Rmb143,865,000) 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 provides 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 101 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 2008.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

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

REPORT OF THE DIRECTORS

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.

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

As at 31 December 2008, 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 promote 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.

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)

(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 2008, 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.

REPORT OF THE DIRECTORS

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

So far as known to the Directors, as at 31 December 2008, 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
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%	–	–

REPORT OF THE DIRECTORS

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

Long positions in shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Percentage shareholding in the Domestic Shares	Number of Foreign Shares	Percentage shareholding in the Foreign Shares
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (d))	28.54%	–	–

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 62.3% 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.

Save as disclosed above, as at 31 December 2008, 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.

REPORT OF THE DIRECTORS

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

	2008	2007
– the largest supplier	**10%**	13%
– five largest suppliers combined	**39%**	30%

Sales

	2008	2007
– the largest customer	**11%**	10%
– five largest customers combined	**45%**	40%

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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

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

	2008	2007
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	**33**	123
Electricity fees charged by Shuguang Factory (note (b))	**–**	805
Water supply fees charged by Shuguang Factory (note (c))	**–**	132
Transportation expenses charged by the subsidiary of Shuguang Factory (note (d))	**439**	598
Processing fee charged by Shuguang Factory (note (e))	**–**	683
Sales commission charged by Shuguang Factory (note (e))	**–**	139

Notes:

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

(b) The Company leased certain land and building from Shuguang Factory. Electricity was 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 was 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 charged 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 leased certain land and building from Shuguang Factory. Water was 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) Transportation expenses to the subsidiary of Shuguang Factory were based at fixed rates with reference to market price quoted from third parties.

(e) Shuguang Factory (i) acted as the selling agent for liquid form maleic anhydride of the Company; and (ii) processed the liquid form maleic anhydride of the Company into solid form maleic anhydride and then acted 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.

REPORT OF THE DIRECTORS

ALTERNATIONS TO THE ARTICLES OF ASSOCIATION

A resolution in respect of the alternations to the Articles of Association if certain conditions were met was passed at the extraordinary general meeting of the Company that held on 18 December 2008. The relevant PRC government authority has approved only the alternations to Article 1 and Article 3 of the Articles of Association. Accordingly, no alternation is made to Article 12 of the Articles of Association. Please refer to the circular dated 27 October 2008 issued by the Company for details of the alternations to the Articles of Association.

SHARE CAPITAL STRUCTURE

As at 31 December 2008, 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 were 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 were 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 were credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

Although the 到境外上市公司章程必備條款 (the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (which definitions have been adopted in the Articles of Association of the Company), the rights attached to 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.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE (Continued)

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.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in notes 2.18(a) and 13 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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, 18 March 2009

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2008, 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;

REPORT OF THE SUPERVISORY COMMITTEE

3. the consolidated financial statements of the Group for the year ended 31 December 2008, 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.

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, 18 March 2009

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
Facsimile (852) 2810 9888

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 42 to 100, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 other 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.

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

INDEPENDENT AUDITOR'S REPORT

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 2008 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, 18 March 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Rmb'000	2007 Rmb'000
Turnover	5	418,426	397,420
Cost of sales		(328,423)	(319,555)
Gross profit		90,003	77,865
Other income	6	9,289	2,352
Other losses, net	6	(7,497)	(2,159)
Selling expenses		(7,644)	(7,105)
Administrative expenses		(26,039)	(20,569)
Operating profit		58,112	50,384
Finance costs, net	8	(11,414)	(10,489)
Share of profit of an associate	20	2,349	801
Profit before income tax		49,047	40,696
Income tax expense	9	(3,413)	(6,078)
Profit for the year	10	45,634	34,618
Attributable to:			
Equity holders of the Company		45,929	34,648
Minority interest		(295)	(30)
		45,634	34,618
Dividends	11	10,256	–
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	12	Rmb0.067	Rmb0.051

The notes on pages 49 to 100 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 Rmb'000	2007 Rmb'000
ASSETS			
Non-current assets			
Patents	15	9,450	10,369
Property, plant and equipment	16	232,348	211,751
Land use rights	17	24,005	24,530
Construction in progress	18	59,479	83,773
Investment in an associate	20	9,182	6,833
Deferred income tax assets	30	532	72
		334,996	337,328
Current assets			
Inventories	21	130,373	110,252
Trade receivables	22	33,134	47,444
Other receivables and prepayments		8,259	9,881
Derivative financial instruments	23	–	109
Pledged bank balances	24	4,258	206
Cash and cash equivalents	24	63,137	51,510
		239,161	219,402
Total assets		574,157	556,730
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	68,370	68,370
Reserves	26	315,962	270,033
		384,332	338,403
Minority interest		745	1,040
Total equity		385,077	339,443

The notes on pages 49 to 100 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 Rmb'000	2007 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	30	833	710
Current liabilities			
Amount due to a shareholder	27 & 33	1,312	1,310
Trade and bills payables	28	24,040	18,435
Other payables and accrued charges		16,131	16,423
Derivative financial instruments	23	867	–
Taxation payable		1,397	1,909
Bank borrowings	29	144,500	178,500
		188,247	216,577
Total liabilities		189,080	217,287
Total equity and liabilities		574,157	556,730
Net current assets		50,914	2,825
Total assets less current liabilities		385,910	340,153

Rui Xin Sheng
Director

Jiang Jun Jie
Director

The notes on pages 49 to 100 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 Rmb'000	2007 Rmb'000
ASSETS			
Non-current assets			
Patents	15	4,944	5,611
Property, plant and equipment	16	224,165	203,944
Land use rights	17	10,339	10,580
Construction in progress	18	59,479	83,773
Investments in subsidiaries	19	23,794	23,794
Investment in an associate	20	5,690	5,690
Deferred income tax assets	30	390	–
		328,801	333,392
Current assets			
Inventories	21	130,270	110,149
Trade receivables	22	32,759	47,246
Amount due from a subsidiary	19	2,004	1,402
Other receivables and prepayments		8,251	9,603
Derivative financial instruments	23	–	109
Pledged bank balances	24	4,258	206
Cash and cash equivalents	24	62,181	51,075
		239,723	219,790
Total assets		568,524	553,182
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	68,370	68,370
Reserves	26	313,230	269,057
Total equity		381,600	337,427

The notes on pages 49 to 100 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 Rmb'000	2007 Rmb'000
LIABILITIES			
Current liabilities			
Amount due to a shareholder	27 & 33	1,312	1,310
Trade and bills payables	28	24,040	18,435
Other payables and accrued charges		14,813	15,601
Derivative financial instruments	23	867	–
Taxation payable		1,392	1,909
Bank borrowings	29	144,500	178,500
		186,924	215,755
Total equity and liabilities		568,524	553,182
Net current assets		52,799	4,035
Total assets less current liabilities		381,600	337,427

Rui Xin Sheng
Director

Jiang Jun Jie
Director

The notes on pages 49 to 100 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

		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 2007		68,370	111,738	138,688	318,796	–	318,796
Transfer of profit to statutory reserve	26	–	6,320	(6,320)	–	–	–
Minority interest arising on business combination		–	–	–	–	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
Balance at 1 January 2008		68,370	118,058	151,975	338,403	1,040	339,443
Transfer of profit to statutory reserve	26	–	7,830	(7,830)	–	–	–
Profit for the year		–	–	45,929	45,929	(295)	45,634
Balance at 31 December 2008		68,370	125,888	190,074	384,332	745	385,077

The notes on pages 49 to 100 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Rmb'000	2007 Rmb'000
Cash flows from operating activities			
Cash generated from operations	31(a)	90,562	38,437
Interest paid		(11,922)	(11,074)
Income tax paid		(4,262)	(7,561)
Net cash generated from operating activities		74,378	19,802
Cash flows from investing activities			
Withdrawal of short-term bank deposit		–	1,000
Acquisition of a subsidiary, net of cash acquired		–	(3,677)
Addition of equity interest in the associate		–	(1,490)
Increase in pledge bank balances		(4,052)	(206)
Purchase of property, plant and equipment		(718)	(991)
Additions of construction in progress		(24,607)	(25,292)
Proceeds from sale of property, plant and equipment		188	–
Interest received		438	457
Net cash used in investing activities		(28,751)	(30,199)
Cash flows from financing activities			
New bank borrowings	31(b)	178,500	218,500
Repayments of bank borrowings	31(b)	(212,500)	(199,000)
Dividends paid	31(b)	–	(15,041)
Net cash (used in)/generated from financing activities		(34,000)	4,459
Net increase/(decrease) in cash and cash equivalents		11,627	(5,938)
Cash and cash equivalents at 1 January		51,510	57,448
Cash and cash equivalents at 31 December	24	63,137	51,510

The notes on pages 49 to 100 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 (the "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 No.1228 Chang Jiang Bei Road, New North Zone, Changzhou City, Jiangsu Province, 213034, The PRC.

These consolidated financial statements are presented in thousand units of Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2009.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Amendments and interpretations effective in 2008

- HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- HK(IFRIC) – Int 11, HKFRS 2 – 'Group and treasury share transactions' 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. This interpretation does not have an impact on the Group's financial statements as the Group does not have any share-based transaction.

- HK(IFRIC) – Int 14, HKAS 19 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction', 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. This interpretation does not have any impact on the Group's financial statements, as none of the Group's companies operate a defined benefit pension scheme.

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- HK(IFRIC) – Int 12, 'Service Concession arrangements'

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective 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. The Directors anticipate that the adoption of these standards and interpretations to existing standards will have no material impact on the Group's financial statements.

- HKFRS 8, 'Operating segments', (effective from 1 January 2009).
- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).
- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009).
- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).
- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- Hong Kong Institute of Certified Public Accountants ("HKICPA")'s improvements to HKFRS published in October 2008

  - o HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009).

  - o HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).

  - o HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7 'Financial Instruments: Disclosure') (effective from 1 January 2009).

  - o HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).

  - o HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).

  - o HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

  - o HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009).

  - o minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations 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 are not relevant to the Group's operations:

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).
- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009)
- HKICPA's improvements to HKFRS published in October 2008
  - o HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009).
  - o HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
  - o HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
  - o HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).
  - o HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
  - o HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

  - o HKAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).

  - o HKAS 38 (Amendment), 'Intangible assets'(effective from 1 January 2009).

  - o HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009).

  - o HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 consolidated 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 consolidated 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 investment in 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 the Group's 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 or valuation where items are remeasured. 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 consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains' net.

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 consolidated income statement during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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

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 consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Assets that have an indefinite useful life, for example goodwill, 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.

2.10 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 consolidated 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 consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.11 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 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 consolidated 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 consolidated income statement.

2.13 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 consolidated income statement within 'other gains/losses, net'.

2.14 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.

2.15 Trade payables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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 PRC. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 asset is realised or the deferred tax liability is settled.

Deferred income 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.

2.17 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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 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.

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.

2.19 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)

2.20 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.

2.21 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.

2.22 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 consolidated income statement on a straight-line basis over the period of the lease.

2.23 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 consolidated income statement during the financial period in which they are incurred.

2.24 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 foreign currency 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") and Euro. Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposures should the need arises. During the year, the Group used forward contracts to hedge its foreign currency exposure in USD and Euro.

At 31 December 2008, 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 Rmb1,257,000 (2007: Rmb1,262,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, and USD-denominated bank deposits.

At 31 December 2008, if Rmb had weakened/strengthened by 5% against Euro with all other variables held constant, post-tax profit for the year would have been approximately Rmb230,000 (2007: Rmb152,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables, and Euro-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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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, taking into account its financial position, past experience and other factors. The Directors consider the Group does not have a significant concentration of credit risk. No single customer accounted for more than 11% of the Group's total revenues during the year.

(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 funds generated from operations and short-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 2008 and 2007, all of the Group's trade and bills 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 cash and cash equivalents, details of which are disclosed in Note 24. The Group's exposure to changes in interest rates is mainly attributable to its short-term bank borrowings. Management intends to draw short-term bank loans so as to increase flexibility in financing.

Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Borrowing issued at variable rates expose the Group to cash flow interest-rate risk. The Group will review whether bank loans bearing fixed or floating rates should be drawn from time to time with reference to the trend of changes in interest rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk (Continued)

At 31 December 2008, 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 Rmb116,000 (2007: 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.

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 2008 was as follows:

	2008 Rmb'000	2007 Rmb'000
Total liabilities	189,080	217,287
Total assets	574,157	556,730
Liabilities-to-assets ratio	32.9%	39.0%

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 amount due to a shareholder, trade and bills 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

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment, other than construction-in-progress, with reference to the estimated periods that the Group intends to derive future economic benefits from use of these assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will adjust the depreciation charge where useful lives or residual values are different with 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) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Provisions are made for inventories where events or changes in circumstances indicate that the balances may not be realised. The identification of obsolescence requires the use of judgement and estimates. Where the estimate is different from the original amount, such difference will impact carrying value of inventories and net realisable value for the periods in which such estimate is changed. As at 31 December 2008, inventories of approximately Rmb37,000,000 of the Group were aged over 181 days (2007: Rmb2,500,000). A major portion of such inventories relate to a new product, which has continuous sales and new orders received subsequent to 31 December 2008. As such, management considers that no provision is needed to be made for this new product. In addition, management has assessed the realisability of these inventories and considers that the provision for inventories impairment is adequate and reasonable in the current year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Impairment of non-financial assets

Non-financial assets including property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair values less cost to sell. These calculations require the use of judgements and estimates.

Management judgement is required in asset impairment review particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset is less than the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) whether appropriate key assumptions are applied in preparing cash flow projections including using an appropriate discount rate. Changing the assumptions selected by management in the impairment assessment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to charge an impairment loss to the income statement.

In recent years, more plant and equipment of the Group have been established for the production of certain new products. Impairment review on these plant and equipment has been carried out by management and they consider that these plant and equipment are not impaired.

(e) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(f) Income taxes and deferred tax

The Group is subject to income taxes in mainland China. Judgement is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

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:

	2008 Rmb'000	2007 Rmb'000
Turnover		
Sales of goods	418,426	397,420

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

	2008 Rmb'000	2007 Rmb'000
Mainland China	156,637	186,329
Europe	100,974	66,864
Asia Pacific	101,758	84,042
America	52,727	52,315
Others	6,330	7,870
	418,426	397,420

5 TURNOVER AND SEGMENT INFORMATION (Continued)

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.

6 OTHER INCOME AND OTHER LOSSES, NET

	2008 Rmb'000	2007 Rmb'000
Other income		
Sales of scrap materials	1,229	1,598
Government grants	8,060	754
	9,289	2,352

The government grant was recognised and received for relocation of the factory premises of the Company in 2008.

	2008 Rmb'000	2007 Rmb'000
Other losses, net		
Loss on disposal of property, plant and equipment	(3,121)	–
Fair value (losses)/ gains on derivative financial instruments	(976)	109
Negative goodwill on addition of equity interest in an associate	–	77
Net exchange loss	(3,468)	(2,695)
Others	68	350
	(7,497)	(2,159)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2008 Rmb'000	2007 Rmb'000
Cost of inventories sold (including write-down of inventory to net realisable value of Rmb2,386,000 (2007: nil))	203,507	229,840
Amortisation of patents (Note 15)	919	709
Amortisation of land use rights (Note 17)	525	526
Auditors' remuneration	760	768
Depreciation (Note 16)	22,742	15,095
Operating leases in respect of land and buildings	470	344
Provision for impairment/(write-back of impairment) of trade receivables (Note 22(e))	229	(36)
Research and development costs	822	626
Staff costs (including emoluments of Directors and Supervisors) (Note 13)	27,351	21,709
Other expenses	104,781	77,648
Total cost of sales, selling expenses and administrative expenses	362,106	347,229

8 FINANCE COSTS, NET

	2008 Rmb'000	2007 Rmb'000
Interest on bank borrowings – wholly repayable within five years	11,852	11,129
Less: Interest capitalised (note)	–	(183)
	11,852	10,946
Interest income on bank deposits	(438)	(457)
Net finance costs	11,414	10,489

Note: A capitalisation rate of 6.3% was used for the year ended 31 December 2007, representing the borrowing cost of the loans used to finance the construction project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INCOME TAX EXPENSE

PRC Company Income Tax ("CIT") 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 registered as a New and High Technology Enterprise in 2008, is entitled to preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a tax rate of 25%.

The amount of taxation charged to consolidated income statement represents:

	2008 Rmb'000	2007 Rmb'000
Current income tax		
– Provision for CIT	6,959	5,902
– Tax credit (note)	(3,079)	–
(Over)/under-provision in prior year	(130)	227
Deferred income tax (Note 30)	(337)	(51)
	3,413	6,078

Note: During the year ended 31 December 2008, the Company obtained an approval from the tax bureau in Mainland China whereby it was granted a tax credit of approximately Rmb3,079,000 in respect of purchase of certain equipment manufactured in Mainland China.

9 INCOME TAX EXPENSE (Continued)

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

	2008 Rmb'000	2007 Rmb'000
Profit before income tax	49,047	40,696
Adjustment: share of profit of an associate	(2,349)	(801)
	46,698	39,895
Calculated at the tax rates applicable to results of the respective consolidated entities	6,883	5,935
Income not subject to tax	(839)	(177)
Expenses not deductible for tax purposes	346	1
Tax losses for which no deferred income tax asset was recognised	428	92
(Over)/under-provision in prior year	(130)	227
Tax credit	(3,079)	–
Others	(196)	–
Income tax expense	3,413	6,078

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 Rmb44,173,000 (2007: Rmb33,937,000).

11 DIVIDENDS

The directors recommend the payment of a final dividend of Rmb0.015 per share, totalling Rmb10,256,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 8 May 2009. These financial statements do not reflect this dividend payable.

	2008 Rmb'000	2007 Rmb'000
Final, proposed, of Rmb0.015 (2007: Nil) per share	10,256	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to the equity holders of the Company of Rmb45,929,000 (2007: Rmb34,648,000) and 683,700,000 (2007: 683,700,000) shares in issue during the year.

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

13 STAFF COSTS

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

	2008 Rmb'000	2007 Rmb'000
Salaries, wages and related welfare	21,929	17,131
Social security costs	2,797	2,323
Contribution to defined contribution retirement schemes (note)	2,625	2,255
	27,351	21,709

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2008 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	497	340	15	1,172
Non-executive directors					
Mr. Zeng Xian Biao	50	–	57	–	107
Mr. Yu Xiao Ping	50	–	57	–	107
Ms. Leng Yi Xin	50	–	57	–	107
Mr. Wang Jian Ping	50	–	57	–	107
Mr. Jiang Jun Jie	50	–	57	–	107
Independent non-executive directors					
Prof. Ouyang Ping Kai	50	–	–	–	50
Prof. Yang Sheng Li	50	–	–	–	50
Ms. Wei Xin	50	–	–	–	50

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 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 directors					
Mr. Rui Xin Sheng	320	496	–	14	830
Mr. Jiang Jun Jie (i)	25	28	–	–	53
Non-executive directors					
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 directors					
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.

None of the Directors waived any emoluments during the years ended 31 December 2008 and 2007.

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 2008 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	66	–	11	92
Mr. Lu He Xing	6	–	–	–	6
Mr. Pan Chun	6	232	57	13	308
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 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

None of the Supervisors waived any emoluments during the years ended 31 December 2008 and 2007.

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:

	2008	2007
Director	1	1
Supervisor	1	1
Employees	3	3
	5	5

Details of the emoluments paid and payable to the three employees (2007: three employees) mentioned above, each of whose emoluments was less than HK$1,000,000, are as follows:

	2008 Rmb'000	2007 Rmb'000
Basic salaries, allowances and benefits in kind	956	1,317
Discretionary bonus	28	–
Retirement benefit contributions	27	27
	1,011	1,344

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PATENTS

	Group		Company	
	2008	2007	2008	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net book amount, at 1 January	10,369	6,278	5,611	6,278
Acquisition of a subsidiary	-	4,800	-	-
Amortisation charge (Note 7)	(919)	(709)	(667)	(667)
Net book amount, at 31 December	9,450	10,369	4,944	5,611

	Group		Company	
	2008	2007	2008	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost	14,800	14,800	10,000	10,000
Accumulated amortisation	(5,350)	(4,431)	(5,056)	(4,389)
Net book amount, at 31 December	9,450	10,369	4,944	5,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2007				
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	–	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
Year ended 31 December 2008				
Opening net book amount	55,334	145,663	10,754	211,751
Additions	160	254	304	718
Transfer from construction in progress (Note 18)	27,100	17,913	917	45,930
Disposals	(1,472)	(1,693)	(144)	(3,309)
Depreciation (Note 7)	(2,696)	(17,438)	(2,608)	(22,742)
Closing net book amount	78,426	144,699	9,223	232,348
At 31 December 2008				
Cost	91,391	200,345	18,418	310,154
Accumulated depreciation	(12,965)	(55,646)	(9,195)	(77,806)
Net book amount	78,426	144,699	9,223	232,348

Depreciation expense of Rmb20,921,000 (2007: Rmb13,619,000) and Rmb1,821,000 (2007: Rmb1,476,000) have been charged in "cost of sales" and "administrative expenses" respectively.

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 2007				
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
Year ended 31 December 2008				
Opening net book amount	48,371	145,499	10,074	203,944
Transfer from construction in progress (Note 18)	27,100	17,913	917	45,930
Disposals	(1,472)	(1,693)	(144)	(3,309)
Depreciation	(2,650)	(17,347)	(2,403)	(22,400)
Closing net book amount	71,349	144,372	8,444	224,165
At 31 December 2008				
Cost	84,268	199,169	16,822	300,259
Accumulated depreciation	(12,919)	(54,797)	(8,378)	(76,094)
Net book amount	71,349	144,372	8,444	224,165

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 located in Mainland China under lease term of 50 years.

	Group		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Net book amount, at 1 January	24,530	25,056	10,580	10,821
Amortisation charge (Note 7)	(525)	(526)	(241)	(241)
Net book amount, at 31 December	24,005	24,530	10,339	10,580

	Group		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
At cost	26,275	26,275	12,040	12,040
Accumulated amortisation	(2,270)	(1,745)	(1,701)	(1,460)
Net book amount, at 31 December	24,005	24,530	10,339	10,580

18 CONSTRUCTION IN PROGRESS

	Group and Company	
	2008 Rmb'000	2007 Rmb'000
At 1 January	83,773	136,539
Additions	21,636	26,603
Transfer to property, plant and equipment (Note 16)	(45,930)	(79,369)
At 31 December	59,479	83,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN AND AMOUNT DUE FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	2008 Rmb'000	2007 Rmb'000
Unlisted equity investments, at cost	23,794	23,794

Details of the subsidiaries at 31 December 2008 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 in Mainland China
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 in Mainland China

(b) Amount due from a subsidiary

The amount due from a subsidiary is unsecured, interest free, repayable on demand and denominated in Rmb.

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 2008 is the fair value of the amount.

20 INVESTMENT IN AN ASSOCIATE

(a) The Group

	2008 Rmb'000	2007 Rmb'000
At 1 January	6,833	4,465
Acquisition of additional equity interest in the associate		
– cost of acquisition	–	1,490
– negative goodwill	–	77
Share of profit	2,349	801
At 31 December	9,182	6,833

The Group's interest in its associate at 31 December 2008 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 Rmb'000	Interest directly held %
2008:							
常州蘭陵制葯有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.)	Rmb5,690,000 unlisted	PRC	40,610	31,428	25,051	2,349	45.52
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 INVESTMENT IN AN ASSOCIATE (Continued)

(b) The Company

	2008 Rmb'000	2007 Rmb'000
Unlisted equity investment, at cost	5,690	5,690

(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	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Raw materials	18,100	30,570	17,997	30,467
Work-in-progress	5,969	6,544	5,969	6,544
Finished goods	106,304	73,138	106,304	73,138
	130,373	110,252	130,270	110,149

22 TRADE RECEIVABLES

(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	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
0 to 3 months	31,883	45,305	31,508	45,107
4 to 6 months	629	1,981	629	1,981
Over 6 months	881	188	881	188
	33,393	47,474	33,018	47,276
Less: Provision for impairment of trade receiveables	(259)	(30)	(259)	(30)
	33,134	47,444	32,759	47,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 TRADE RECEIVABLES (Continued)

(b) As at 31 December 2008, trade receivables of approximately Rmb2,137,000 (2007: Rmb7,352,000) 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	
	2008	2007
	Rmb'000	Rmb'000
Up to 3 months	886	5,341
4 to 6 months	629	1,907
Over 6 months	622	104
	2,137	7,352

(c) The credit quality of trade 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.

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

	Group		Company	
	2008	2007	2008	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
RMB	10,258	14,199	9,883	14,001
USD	20,830	29,693	20,830	29,693
EUR	2,305	3,582	2,305	3,582
	33,393	47,474	33,018	47,276
Less: Provision for impairment of trade receivables	(259)	(30)	(259)	(30)
	33,134	47,444	32,759	47,246

22 TRADE RECEIVABLES (Continued)

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

	Group and Company	
	2008 Rmb'000	2007 Rmb'000
At 1 January	30	66
Provision for impairment/(write-backs of impairment) of trade receivables	229	(36)
At 31 December	259	30

(f) 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 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2008, derivative financial instruments represented foreign exchange forward contracts that were not qualified for hedge accounting under the requirement of HKAS 39. These contracts were used to sell USD and Euro for Rmb.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 are approximately Rmb30,690,000 (2007: Rmb44,092,000). These foreign exchange forward contracts held for trading are expected to be settled within the 12 months.

24 PLEDGED BANK BALANCES AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Pledged bank balances	4,258	206	4,258	206
Cash and cash equivalents	63,137	51,510	62,181	51,075
Total	67,395	51,716	66,439	51,281

24 PLEDGED BANK BALANCES AND CASH AND CASH EQUIVALENTS (Continued)

	Group		Company	
	2008	2007	2008	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Denominated in:				
– RMB	55,504	41,231	54,548	40,796
– USD	8,739	10,432	8,739	10,432
– HKD	49	52	49	52
– EUR	3,103	1	3,103	1
	67,395	51,716	66,439	51,281

Cash at banks earns interest at floating rates based on daily bank deposit rates.

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.

25 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2008 and 2007	683,700,000	68,370

As at 31 December 2008 and 2007, the share capital of the Company comprised 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 by legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 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 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

	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 2008	87,159	30,899	–	151,975	270,033
Transfer of profit to statutory reserve	–	7,830	–	(7,830)	–
Profit for the year	–	–	–	45,929	45,929
At 31 December 2008	87,159	38,729	–	190,074	315,962
Representing:					
2008 proposed final dividend				10,256	
Others				179,818	
				190,074	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 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 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

	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 2008	87,159	30,899	–	150,999	269,057
Transfer of profit to statutory reserve	–	7,830	–	(7,830)	–
Profit for the year	–	–	–	44,173	44,173
At 31 December 2008	87,159	38,729	–	187,342	313,230
Representing:					
2008 proposed final dividend				10,256	
Others				177,086	
				187,342	

26 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.

(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.

27 AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest free, repayable on demand and denominated in Rmb.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 TRADE AND BILLS PAYABLES

	Group and Company	
	2008	2007
	Rmb'000	Rmb'000
Trade payables (Note (a))	18,814	18,435
Bills payable (Note (b))	5,226	–
	24,040	18,435

(a) The ageing analysis of trade payables is as follows:

	Group and Company	
	2008	2007
	Rmb'000	Rmb'000
0 to 6 months	18,594	18,385
7 to 12 months	195	20
Over 12 months	25	30
	18,814	18,435

(b) The maturity dates of bills payable are normally within 6 months.

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

29 BANK BORROWINGS

Bank borrowings are analysed as follows:

	Group and Company	
	2008	2007
	Rmb'000	Rmb'000
Unsecured, short-term bank borrowings	144,500	178,500

The maturity of borrowings is as follows:

	Group and Company	
	2008	2007
	Rmb'000	Rmb'000
Within 1 year	144,500	178,500

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

As at 31 December 2008, the effective interest rates of the bank borrowings were as follows:

	Group and Company	
	2008	2007
Short-term bank borrowings, at fixed rate	6.5%	–
Short-term bank borrowings, at floating rate	5.5%	6.6%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Deferred tax assets to be recovered within 12 months	(532)	(72)	(390)	–
Deferred tax liabilities to be settled after more than 12 months	833	710	–	–
Deferred tax liabilities/(assets) – net	301	638	(390)	–

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

	Group		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
At 1 January	638	–	–	–
Acquisition of subsidiary	–	689	–	–
Credited to the income statement (Note 9)	(337)	(51)	(390)	–
At 31 December	301	638	(390)	–

30 DEFERRED INCOME TAX (Continued)

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

Deferred tax assets:

	Group			Company
	Decelerated tax depreciation Rmb'000	Provisions Rmb'000	Total Rmb'000	Provisions Rmb'000
At 1 January 2007	–	–	–	–
Credited to the income statement	(72)	–	(72)	–
At 31 December 2007	(72)	–	(72)	–
Credited to the income statement	(70)	(390)	(460)	(390)
At 31 December 2008	(142)	(390)	(532)	(390)

Deferred tax liabilities – Group:

	Fair value gain on patents Rmb'000
At 1 January 2007	–
Acquisition of subsidiary	689
Charged to consolidated income statement	21
At 31 December 2007	710
Charged to consolidated income statement	123
At 31 December 2008	833

30 DEFERRED INCOME TAX (Continued)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately Rmb1,508,000 (2007: Rmb1,934,000) in respect of losses amounting to approximately Rmb7,677,000 (2007:Rmb7,736,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	Group	
	2008	2007
	Rmb'000	Rmb'000
2008	–	1,770
2009	1,917	1,917
2010	1,359	1,359
2011	1,655	1,655
2012	1,035	1,035
2013	1,711	–
	7,677	7,736

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2008 Rmb'000	2007 Rmb'000
Profit before income tax	49,047	40,696
Adjustments for:		
Interest income	(438)	(457)
Interest expense	11,852	10,946
Depreciation	22,742	15,095
Amortisation of patents	919	709
Amortisation of land use rights	525	526
Loss on disposal of property, plant and equipment	3,121	–
Write-down of inventories to net realisable value	2,386	–
Provision for impairment/(write-back of impairment) of trade receivables	229	(36)
Fair value losses/(gains) on derivative financial instruments	976	(109)
Negative goodwill on addition of equity interest in an associate	–	(77)
Share of profit of an associate	(2,349)	(801)
	89,010	66,492
Changes in working capital:		
Inventories	(22,507)	(26,487)
Trade receivables, other receivables and prepayments	15,703	(14,795)
Trade and bills payables, other payables and accrued charges	8,354	11,789
Amount due to a shareholder	2	1,438
Cash generated from operations	90,562	38,437

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank borrowings		Dividends payable	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
At 1 January	178,500	159,000	–	–
New bank borrowings	178,500	218,500	–	–
Repayments of bank borrowings	(212,500)	(199,000)	–	–
2006 final dividend	–	–	–	15,041
Dividends paid	–	–	–	(15,041)
At 31 December	144,500	178,500	–	–

32 COMMITMENTS

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

	Group and Company	
	2008 Rmb'000	2007 Rmb'000
Authorised but not contracted for	–	–
Contracted but not provided for	–	568
	–	568

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2008, 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	
	2008 Rmb'000	2007 Rmb'000
Not later than one year	144	305
Later than one year and not later than five years	–	153
	144	458

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if they have the ability, directly or indirectly, to control the other 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.

(ii) Transactions with related parties – Group and Company

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

	2008 Rmb'000	2007 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	33	123
Electricity fees charged by Shuguang Factory (note (b))	–	805
Water supply fees charged by Shuguang Factory (note (b))	–	132
Transportation expenses charged by the subsidiary of Shuguang Factory (note (c))	439	598
Processing fees charged by Shuguang Factory (note (d))	–	683
Sales commission charged by Shuguang Factory (note (d))	–	139

(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 fees are charged by Shuguang Factory on a cost reimbursement basis.

(c) Transportation expenses to the subsidiary of Shuguang Factory were based on fixed rates with reference to market price quoted from third parties.

(d) Processing fees and sales commission to Shuguang Factory were based on fixed rates in accordance with the terms of the processing and sales agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 RELATED PARTY TRANSACTIONS (Continued)

(iii) Balances with related parties – Group and Company

	2008 Rmb'000	2007 Rmb'000
Amount due to a shareholder – Purchase of raw materials and services provided by Shuguang Factory (Note 27)	1,312	1,310

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

(iv) Key management compensation – Group

	2008 Rmb'000	2007 Rmb'000
Salaries and other short-term employee benefits	1,157	816
Retirement benefit contributions	15	14
	1,172	830

FIVE YEAR SUMMARY

	2004 Rmb'000	2005 Rmb'000	2006 Rmb'000	2007 Rmb'000	2008 Rmb'000
Consolidated results					
Turnover	200,984	299,006	321,440	397,420	418,426
Operating profit	42,209	82,348	79,687	50,384	58,112
Finance costs, net	(900)	(1,659)	(5,219)	(10,489)	(11,414)
Share of (loss)/profit of an associate	–	–	(123)	801	2,349
Profit before income tax	41,309	80,689	74,345	40,696	49,047
Income tax expense	(4,128)	(12,102)	(6,987)	(6,078)	(3,413)
Profit for the year	37,181	68,587	67,358	34,618	45,634
Attributable to:					
Equity holders of the Company	37,181	68,587	67,358	34,648	45,929
Minority interest	–	–	–	(30)	(295)
Dividends	15,041	22,562	15,041	–	10,256
Consolidated assets and liabilities					
Total non-current assets	144,320	194,782	317,942	337,328	334,996
Total current assets	129,046	143,316	184,465	219,402	239,161
Total current liabilities	(52,912)	(55,098)	(183,611)	(216,577)	(188,247)
Net current assets	76,134	88,218	854	2,825	50,914
Total assets less current liabilities	220,454	283,000	318,796	340,153	385,910
Total non-current liabilities	–	(9,000)	–	(710)	(833)
Net assets	220,454	274,000	318,796	339,443	385,077
Earnings per share					
– basic and diluted	Rmb0.054	Rmb0.100	Rmb0.099	Rmb0.051	Rmb0.067

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2008 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 2009, at 10:30 a.m. for the following purposes:

As ordinary resolution:

1. To consider and approve the Report of the Directors for the year ended 31 December 2008;

2. To consider and approve the Report of the Supervisory Committee for the year ended 31 December 2008;

3. To consider and approve the audited financial statements of the Company and independent auditor's report for the year ended 31 December 2008;

4. To consider and approve the final dividend distribution proposal for the year ended 31 December 2008;

5. To consider and approve the appropriation to statutory common reserve for the year ended 31 December 2008;

6. To consider the re-appointment of 江蘇公証會計師事務所有限公司 (Jiangsu Gongzheng Certified Public Accountants Co., Ltd.) as the People's Republic of China ("PRC") auditor of the Company for the year 2009 and PricewaterhouseCoopers as the international auditor of the Company for the year 2009 and to authorise the Board to fix their remuneration;

7. 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 allotted;

NOTICE OF ANNUAL GENERAL MEETING

(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

NOTICE OF ANNUAL GENERAL MEETING

(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 2009

Notes:

1. The H share register of shareholders of the Company will be closed from 7 April 2009 to 8 May 2009 (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 6 April 2009 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 6 April 2009.

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 2009. 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.