ANNUAL REPORT 2009

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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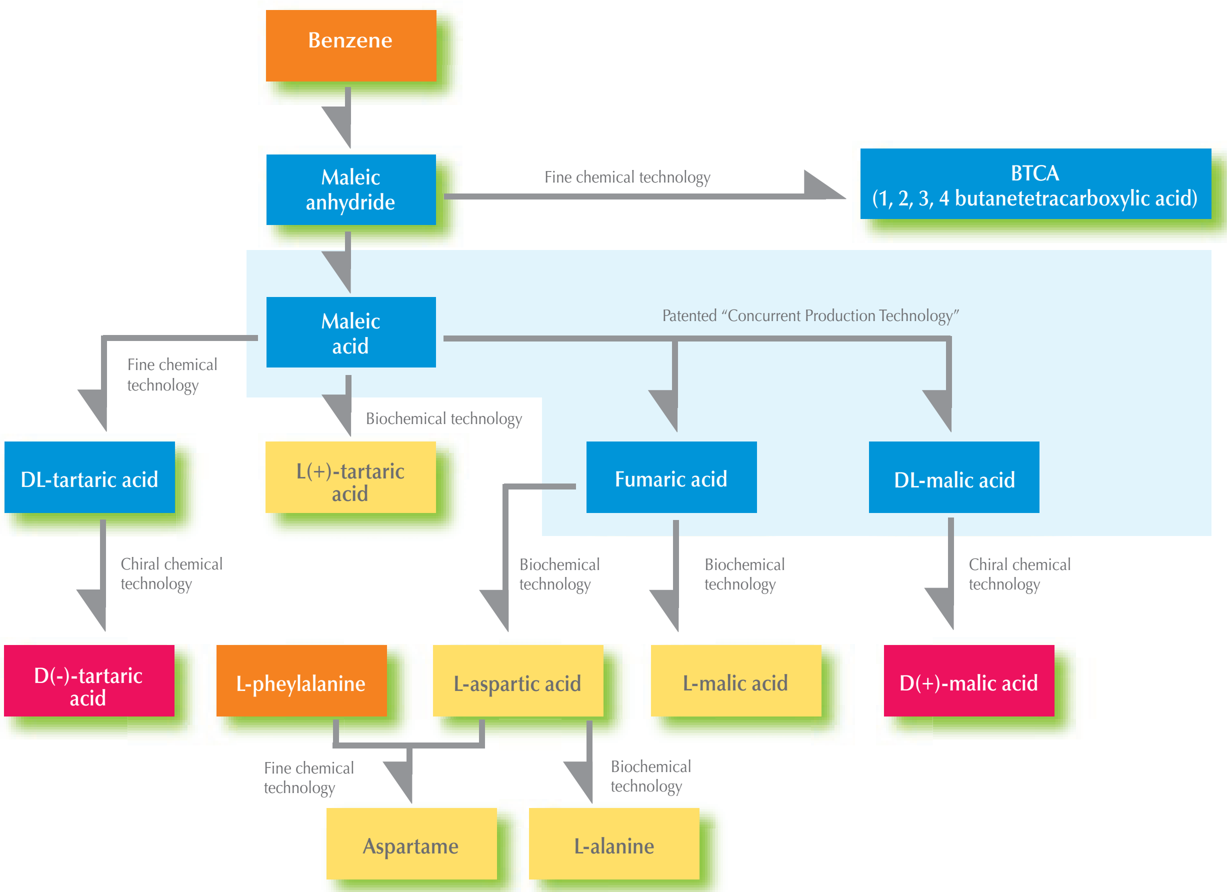
CORPORATE PROFILE

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

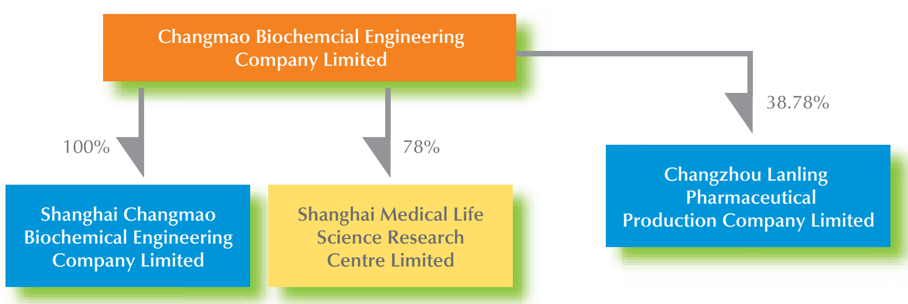


CORPORATE PROFILE

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 has two research and development centres, the Jiangsu Biochemical Chirotechnology Research Centre (the "Chirotechnology Centre") base in Changzhou, and the Shanghai Medical Life Science 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

LEGAL ADDRESS
No. 1228 Chang Jiang Bei Road
New North Zone
Changzhou City
Jiangsu Province, 213034
The PRC

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

PRINCIPAL BANKERS
Bank of China
Changzhou Branch, the PRC

Industrial and Commercial Bank of China
Changzhou Branch, the PRC

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

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants

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

GEM STOCK CODE
8208

CHAIRMAN'S STATEMENT

To the shareholders,

On behalf of the board of directors of the Company (the "Board"), I am pleased to present the annual report of the Company for the year ended 31 December 2009. In 2009, under the concerted efforts of the Board and all staff, the Group's production and operation were stable while its research and development, international collaboration projects and management condition generally developed in a proactive and healthy direction.

RESULTS FOR THE YEAR

The Group recorded a turnover of Rmb385,302,000 and a net profit of Rmb43,203,000 for the year ended 31 December 2009. Affected by the global financial crisis, the Group faced some difficulties on its sales to Europe and US markets which led to decline in turnover and further shrinkage in profit margin. However, the Group focused on increasing the efficiency of the production lines, increasing the production volume and reducing the wastage rate to give full play of its strength of production of scale. It has also optimized its production technology to reduce consumption of raw materials and effectively control its production costs that increased the gross margin of its products for an improved profit margin. Meantime, the Group was able to actively grasp opportunities for market development, analyze the market trend, explore new sales channels, create business opportunities and increase orders at home and abroad. In addition, the Group has seized the opportunity from the revision of export tax refund policy in China. The Group has timely released the operational pressure with the adjustment on export tax refund rate of its major products. The tax refund rate of the Group's major products increased from 5% to 9%, some even up to 13%, thereby enhancing competitiveness of the Group's products.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

In 2009, the Group's operation and production were stable with a slight decrease in its net profit as compared with that of last year due to the influence on sales caused by the global financial crisis. Confronted with such circumstances, the Group united as one and endeavored to turn the pressure to motive and seek new ways for development so as to minimize external impacts. In 2009, the Group witnessed the production capacity of its newly built production lines improved, sales channels opened up one by one, international cooperation progressed well as scheduled and management level enhanced constantly.

(I) Production and Projects

The Group made full use of its fine production technology and advanced equipment to effectively control its production cost and reduce raw material consumption that expanded the profit margin on the one hand; while on the other hand, to intensify quality control and improve product quality further to cater to the new development trend of natural food additives. The production volume of all products maintained a steady growth as compared to that of same period last year, among them the sales volume of aspartame increased by 1.5 times. The construction of the production expansion project in relation to aspartame commenced in early May, 2009 and completed at the end of 2009, which increased the production capacity from 1,000 tons per year to 2,000 tons per year and is expected to generate greater economic effectiveness for the Group in 2010.

(II) New Markets

In 2009, facing competition with big brands at home and abroad, the Group's outstanding sales team took initiative to revise the sales strategy, exploring new sales market and new application arena for core products and to continuously promote brand recognition and awareness. In 2009, the newly built production line of powder tartaric acid was put into steady production to meet demand of the market, the exploration of new application arena for cement, gypsum and the like yielded marked results, the expansion to markets in India and the United States progressed in full speed, and the markets in Russia, Africa and some others untilled by the Group recorded growing sales. Malic acid that was in inadequate supply saw its sales volume increased by 25%, and that of aspartame increased by 1.5 times.

(III) New Products

With its innovation on technology, the Group strives to develop the "natural four carbon series edible organic acid" to cope with people's increasing admiration on natural, nutrition, health and environmental protection. This project is a "National 863 project" and a project under "Fund for transform of results from scientific technology in Jinangsu Province" (江蘇省科技成果轉化專項資金項目), which uses natural and reproducible resources such as sweet corns and beans to replace the non-reproducible petrochemical resources to produce high value-added natural four-carbon series food additives. Safe and environmental friendly, it can satisfy people's need for natural and healthy food and help protect peoples' health, bound to bring economic contribution to the Group some other time.

CHAIRMAN'S STATEMENT

(IV) Development of Subsidiary and Associated Company

1. *Changzhou Lanling Pharmaceutical Production Co., Ltd. (referred hereafter as "Lanling Pharmaceutical")*

   In 2009, Lanling Pharmaceutical conducted a capital increase and share enlargement, in which the Company additionally invested approximate Rmb5,246,000 in Lanling Pharmaceutical. As the ratio of new shares subscribed by the Company was lower than its original shareholding ratio, the Company's interests in Lanling Pharmaceutical were diluted from 45.52% to 38.78%. After the share enlargement, Lanling Pharmaceutical had its financial position strengthened and development improved. Share of profit from an associate by the Group for the year ended 31 December 2009 amounted to Rmb 3,538,000, which increased by 51% as compared to that of last year. The Group will make use of the production platform of Lanling Pharmaceutical to expand into the biomedical domain, an area with huge growth potential, step by step, thus inject vitality into the Group's product structure and increase its profitability.

2. *Shanghai Changmao Biochemical Engineering Company Limited (referred hereafter as "Shanghai Changmao")*

   In line with the trend toward nutritious and multi-functional food, Shanghai Changmao 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 sales and marketing modes, marketing products to end-users and promote business growth.

(V) 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 2009, the Group also implemented an operational standard system and improved its management system standard by formulating management standard, technology standard and work standard to foster an outstanding corporate team spirit as well as corporate culture that facilitates corporate normalized management and maximizes corporate effectiveness.

CHAIRMAN'S STATEMENT

FUTURE AND PROSPECT

The international and domestic economic situation is filled with increasing uncertainties in 2010 and the competition in the industry has all the time been fierce. As such, the Group will fortify further its ability to adapt market change; make use of its advantage in production with economy of scale, strong research and sales ability; increase its pace on adjusting its product mix; and explore new markets continuously to seize new development opportunities.

A. Product upgrading through product structure optimization

Innovation in technology is a key element to improve competitiveness and for continuing development. The Group therefore will make a lot of effect in technology innovation. It will consolidate its existing research resources and manpower to extend its production chain, create a reasonable product structure and upgrading its products by way of launching competitive new product group in an organised way through its advantage on research and development, promote product development from low value-added products to high value-added ones and natural food additives. It will also explore nutraceutical product business, focus on core products, make use of advantage of scale production and expand into the biomedical domain, which will create new growing points for the Group.

B. Intensifying market exploration effort through expansion of sales network

The pace of corporate development is determined by personnel quality. Under the environment of the financial crisis, an outstanding corporate management team is particularly needed. The Group will put its business strength into full play 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. The Group will actively bring in new model of sales and try to explore new customers through electronic commercial platform with an aim to enlarge sales network and increase sales.

C. Perfecting talent structure system and enhancing corporate management standard

Based on the need of the development strategy, the Group will focus on innovating human resource management, accelerate the implementation of talent development process, and optimize personnel structure to strengthen team building. It will also adopt an operational standard system and improve its management system standard to vitalize corporate development and coordinate the Group's sustainable development.

D. Persisting in 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 2010 with an aim to zealously build brand effect, promote corporate culture, explore product market and drive corporate development unto a new level.

CHAIRMAN'S STATEMENT

There will be opportunities and challenges in the future. 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.

Rui Xin Sheng
Chairman

The PRC, 16 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit margin

The Group recorded a turnover of Rmb385,302,000 for the year ended 31 December 2009, which has decreased by 8% as compared to that for the year ended 31 December 2008. As the Group was affected by the global financial crisis, product price and raw material price decreased as compared to last year. However, the sales volume of major products increased by more than 10% as compared to last year. Through the refinement in production technology, the Group had effectively controlled its production cost, which increased the profit margin. Also, the Group was benefited from the revised tax refund policy in China. Gross profit margin of the Group for the year ended 31 December 2009 was 23%, which was slightly higher that recorded in 2008.

Expenses

Selling and administrative expenses in 2009 increased as compared to that of 2008 due to the continuous growth of business and production volume, the Group has increased scale of the Group's research and development, and devoted more effort into marketing and promotion this year.

Income tax

The Company is entitled to a preferential CIT rate of 15% for year ended 31 December 2009. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%. The main reason for tax charge in 2009 higher than that of 2008 was that 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 in 2008.

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. As expressed as a percentage of turnover, export sales (including sales through import-export agents in the PRC) accounted for approximately 62% (2008: 66%) of the Group's turnover while domestic sales in the PRC accounted for approximately 38% (2008: 34%) of turnover.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure 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 currency exposures, primarily with respect to United States Dollars ("USD"). Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the year, the Group has used forward contracts to hedge certain of its foreign currency exposure in USD.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had total outstanding unsecured bank borrowings of Rmb130 million (2008: Rmb144.5 million) which were all repayable within one year. The average effective interest rate of all the outstanding bank loans as at 31 December 2009 was approximately 5.1% (2008: 6.0%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2009 and 2008, the Group did not have any committed borrowing facilities.

As at 31 December 2009, the Group had an outstanding commitment amounting to Rmb64,680,000 in respect of the repurchase of its shares from a shareholder. For details, please refer to the paragraph headed "Capital Structure of the Company" below.

As at 31 December 2009, 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 2009. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 31.0% (2008: 32.9%) as at 31 December 2009. As at 31 December 2009, the Group's cash and cash equivalents amounted to Rmb76,132,000 (2008: Rmb63,137,000). 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.

On 8 September 2009, the Company entered into the Repurchase Agreement (the "Repurchase Agreement") with a shareholder, Changzhou Shuguang Chemical Factory (常州曙光化工廠 or "Shuguang Factory"), pursuant to which, the Company has conditionally agreed to repurchase and Shuguang Factory has conditionally agreed to sell 154,000,000 domestic shares (the "Repurchased Shares") of the Company, being Shuguang Factory's entire interest in the Company and 22.52% of the entire issued capital of the Company, at a consideration of Rmb86,240,000. The Repurchased Shares will be cancelled after completion of the transaction. The Repurchase Agreement and the transactions contemplated thereunder were approved by the independent shareholders in attendance in person or by proxy at the extraordinary general meeting and at the relevant class meetings held on 8 December 2009.

On 25 December 2009, the Company paid the first instalment of Rmb21,560,000 to Shuguang Factory in accordance with the Repurchase Agreement and subject to the completion of the procedures of the Share Repurchase, the Company expects to settle the remaining portion of the consideration in 2010. Upon completion, the share capital will be reduced accordingly and the excess of the consideration paid over the nominal value of the Repurchased Shares will also be accounted for as a reduction of the equity of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

For details of the transaction, please refer to the circular dated 23 October 2009 and the announcements dated 11 September 2009 and 8 December 2009 respectively issued by the Company.

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

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2009, the Group employed a total of 505 employees (2008: 503 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 2009 was approximately Rmb29,557,000 (2008: Rmb27,351,000). Staff cost increased mainly because of the salary increment. Amount of bonus under the staff incentive scheme was Rmb551,000 for the year ended 31 December 2009 (2008: Rmb1,019,000). 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 deputy 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 2009 and 2008.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

In 2009, the Company's associate, Lanling Pharmaceutical, issued new shares to enlarge its share capital, in which the Company subscribed part of the shares and additionally invested approximate Rmb5,246,000 in Lanling Pharmaceutical. As the ratio of new shares subscribed by the Company was lower than its original shareholding ratio, the Company's interests in Lanling Pharmaceutical were diluted from 45.52% to 38.78%.

Save for the above, there are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2009.

CONTINGENT LIABILITIES

As at 31 December 2009 and 31 December 2008, 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 53, 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 43, 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 67, 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 54, 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 48, 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 48, 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 64, 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 69, 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 Ministry of Science and Technology of the PRC. Prof. Yang was appointed as an independent non-executive Director in June 2001.

Ms. Wei Xin (衛新), aged 42, 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 55, 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 65, 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 40, is a Supervisor and a deputy general manager of the Company. He obtained a bachelor degree in applied chemistry from Nanjing University of Technology in 1993. Mr. Pan is recognised as a senior engineer by the Jiangsu Provincial Personel Department (江蘇省人事廳). 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 52, 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 73, 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 38, 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 36, is the director of the Chirotechnology Centre of the Company. Mr. Wan is recognised as an engineer by the Bureau of Personel of Chang Zhou Municipality (常州市人事局). 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 41, 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 2009.

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 six times for the year ended 31 December 2009. Attendance of individual members of the Board meeting for the year ended 31 December 2009 is as follows:

	Name of Director	**Attended/ Eligible to attend**
Chairman (executive Director)	Rui Xin Sheng	6/6
Non-executive Directors	Jiang Jun Jie	6/6
	Zeng Xian Biao	5/6
	Yu Xiao Ping	5/6
	Leng Yi Xin	6/6
	Wang Jian Ping	6/6
Independent Non-executive Directors	Ouyang Ping Kai	2/6
	Yang Sheng Li	2/6
	Wei Xin	6/6

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 5.46 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 2009.

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 2009 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 are 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 2009 with attendance rate of 100%.

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 2009 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 2009 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 2009, 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 41 and 42.

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 2009 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 2008 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) (2008: HK$863,000 (approximately equivalent to Rmb760,000)).

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 2009.

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 statement of comprehensive income on page 43.

No interim dividend was declared during the year (2008: Nil) and the Directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Rmb0.015 per share).

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 Rmb150,000 (2008: Rmb290,000).

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 2009, the distributable reserves of the Company were approximately Rmb209,297,000 (2008: Rmb183,771,000) 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 100 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 2009.

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 (Resigned on 8 March 2010)
Prof. Jiang Yao Zhong

DIRECTORS AND SUPERVISORS (Continued)

The terms of each of the Directors and Supervisor will be expired on 17 June 2010. 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 and the connected transaction in respect of the repurchase of its shares from Shuguang Factory as disclosed in the section headed "Connected Transaction" below, 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 2009, 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) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 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	Approximate Percentage shareholding in the Domestic Shares (Note (m))	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (n))
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	Approximate Percentage shareholding in the Domestic Shares (Note (m))	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Noe (n))
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.

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)

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

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

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

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

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

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

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

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

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

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

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

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

(m) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 31 December 2009.

(n) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, 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) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

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

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

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

So far as known to the Directors, as at 31 December 2009, the followings, not being a Director, Supervisor or chief executive of the Company, had 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 or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of Domestic Shares	Approximate Percentage shareholding in the Domestic Shares (Note (e))	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (f))
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%

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 (Note (e))	Number of Foreign Shares	Percentage shareholding in the Foreign Shares (Note (f))
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%	–	–
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.

(e) The percentage is calculated based on the 219,000,000 Domestic Shares in issue as at 31 December 2009.

(f) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 December 2009.

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)

Save as disclosed above, as at 31 December 2009, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had 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 or were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MANAGEMENT CONTRACTS

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

COMPETING BUSINESS

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

EMOLUMENT POLICY

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

	2009	2008
– the largest supplier	**11%**	10%
– five largest suppliers combined	**34%**	39%

Sales

	2009	2008
– the largest customer	**8%**	11%
– five largest customers combined	**28%**	45%

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

CONNECTED TRANSACTIONS

(1) Continuing Connected Transactions

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

	2009 **Rmb'000**	2008 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	**7**	33
Transportation expenses charged by the subsidiary of Shuguang Factory (note (b))	**372**	439

Notes:

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

(2) Connected Transaction

On 8 September 2009, the Company entered into the Repurchase Agreement with a shareholder, Shuguang Factory, pursuant to which, the Company has conditionally agreed to repurchase and Shuguang Factory has conditionally agreed to sell 154,000,000 domestic shares of the Company, being Shuguang Factory's entire interest in the Company and 22.52% of the entire issued capital of the Company, at a consideration of Rmb86,240,000. The Repurchased Shares will be cancelled after completion of the transaction.

Each of Mr. Rui Xin Sheng, Ms. Leng Yi Xin, Mr. Jiang Jun Jie, Mr. Zeng Xian Biao and Mr. Yu Xiao Ping, being Director, is interested in the Share Repurchase transaction.

The Repurchase Agreement and the transactions contemplated thereunder were approved by the Independent Shareholders in attendance in person or by proxy at the extraordinary general meeting and at the relevant class meetings held on 8 December 2009.

On 25 December 2009, the Company paid the first instalment of Rmb21,560,000 to Shuguang Factory in accordance with the Repurchase Agreement and subject to the completion of the procedures of the Share Repurchase, the Company expects to settle the remaining portion of the consideration in 2010.

For details of the transaction, please refer to the circular dated 23 October 2009 and the announcements dated 11 September 2009 and 8 December 2009 respectively issued by the Company.

SHARE CAPITAL STRUCTURE

As at 31 December 2009, 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

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE (Continued)

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.

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;

SHARE CAPITAL STRUCTURE (Continued)

(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 2.17(a) and 13 to the consolidated financial statements.

AUDITOR

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

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 16 March 2010

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2009, 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 2009, 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, 16 March 2010

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 43 to 99, which comprise the consolidated and company balance sheets as at 31 December 2009, the consolidated statement of comprehensive income, 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.

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 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, 16 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 Rmb'000	2008 Rmb'000
Turnover	5	385,302	418,426
Cost of sales	7	(295,961)	(328,423)
Gross profit		89,341	90,003
Other income	6	10,951	9,289
Other losses, net	6	(173)	(7,497)
Selling expenses	7	(8,127)	(7,644)
Administrative expenses	7	(38,970)	(26,039)
Operating profit		53,022	58,112
Finance costs, net	8	(6,619)	(11,414)
Share of profit of an associate	20	3,538	2,349
Profit before income tax		49,941	49,047
Income tax expense	9	(7,074)	(3,413)
Profit and total comprehensive income for the year	10	42,867	45,634
Attributable to:			
Equity holders of the Company		43,203	45,929
Minority interest		(336)	(295)
		42,867	45,634
Dividends	11	–	10,256
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	12	Rmb0.063	Rmb0.067

The notes on pages 50 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 Rmb'000	2008 Rmb'000
ASSETS			
Non-current assets			
Patents	15	8,530	9,450
Property, plant and equipment	16	253,743	232,348
Land use rights	17	23,479	24,005
Construction in progress	18	33,468	59,479
Investment in an associate	20	17,966	9,182
Deferred income tax assets	31	1,733	532
		338,919	334,996
Current assets			
Inventories	21	101,975	130,373
Trade receivables	22	46,456	33,134
Other receivables and prepayments		13,556	8,259
Amount due from a shareholder	23 & 34	21,560	–
Pledged bank balances	24	6,856	4,258
Cash and cash equivalents	24	76,132	63,137
		266,535	239,161
Total assets		605,454	574,157
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	68,370	68,370
Reserves	26	348,909	315,962
		417,279	384,332
Minority interest		409	745
Total equity		417,688	385,077

The notes on pages 50 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 Rmb'000	2008 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	31	957	833
Current liabilities			
Amount due to a shareholder	27 & 34	3	1,312
Trade and bills payables	28	28,955	24,040
Other payables and accrued charges		26,098	16,131
Derivative financial instruments	29	46	867
Income tax payable		1,707	1,397
Bank borrowings	30	130,000	144,500
		186,809	188,247
Total liabilities		187,766	189,080
Total equity and liabilities		605,454	574,157
Net current assets		79,726	50,914
Total assets less current liabilities		418,645	385,910

Rui Xin Sheng
Director

Jiang Jun Jie
Director

The notes on pages 50 to 99 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 Rmb'000	2008 Rmb'000
ASSETS			
Non-current assets			
Patents	15	4,278	4,944
Property, plant and equipment	16	245,954	224,165
Land use rights	17	10,099	10,339
Construction in progress	18	33,468	59,479
Investments in subsidiaries	19	23,794	23,794
Investment in an associate	20	10,936	5,690
Deferred income tax assets	31	1,541	390
		330,070	328,801
Current assets			
Inventories	21	101,811	130,270
Trade receivables	22	46,456	32,759
Amount due from a subsidiary	19	1,327	2,004
Other receivables and prepayments		13,551	8,251
Amount due from a shareholder	23 & 34	21,560	–
Pledged bank balances	24	6,856	4,258
Cash and cash equivalents	24	73,595	62,181
		265,156	239,723
Total assets		595,226	568,524
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	68,370	68,370
Reserves	26	344,349	313,230
Total equity		412,719	381,600

The notes on pages 50 to 99 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009 Rmb'000	2008 Rmb'000
LIABILITIES			
Current liabilities			
Amount due to a shareholder	27 & 34	3	1,312
Trade and bills payables	28	28,955	24,040
Other payables and accrued charges		21,796	14,813
Derivative financial instruments	29	46	867
Income tax payable		1,707	1,392
Bank borrowings	30	130,000	144,500
		182,507	186,924
Total equity and liabilities		595,226	568,524
Net current assets		82,649	52,799
Total assets less current liabilities		412,719	381,600

Rui Xin Sheng
Director

Jiang Jun Jie
Director

The notes on pages 50 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

		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 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 and total comprehensive income 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
Balance at 1 January 2009		68,370	125,888	190,074	384,332	745	385,077
Transfer of profit to statutory reserve	26	–	3,976	(3,976)	–	–	–
Profit and total comprehensive income for the year		–	–	43,203	43,203	(336)	42,867
Final dividend for the year ended 31 December 2008		–	–	(10,256)	(10,256)	–	(10,256)
Balance at 31 December 2009		68,370	129,864	219,045	417,279	409	417,688

The notes on pages 50 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 Rmb'000	2008 Rmb'000
Cash flows from operating activities			
Cash generated from operations	32(a)	102,454	90,562
Interest paid		(6,939)	(11,922)
Income tax paid		(7,841)	(4,262)
Net cash generated from operating activities		87,674	74,378
Cash flows from investing activities			
Purchase of property, plant and equipment		(136)	(718)
Additions of construction in progress		(20,647)	(24,607)
Proceeds from sale of property, plant and equipment		–	188
Additional capital contribution to an associate		(5,246)	–
Increase in pledge bank balances		(2,598)	(4,052)
Interest received		264	438
Net cash used in investing activities		(28,363)	(28,751)
Cash flows from financing activities			
New bank borrowings	32(b)	181,500	178,500
Repayment of bank borrowings	32(b)	(196,000)	(212,500)
Dividends paid	32(b)	(10,256)	–
Instalment payment to a shareholder for repurchase of shares	32(b)	(21,560)	–
Net cash used in financing activities		(46,316)	(34,000)
Net increase in cash and cash equivalents		12,995	11,627
Cash and cash equivalents at 1 January		63,137	51,510
Cash and cash equivalents at 31 December	24	76,132	63,137

The notes on pages 50 to 99 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 ("Rmb"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 16 March 2010.

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)

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as at 1 January 2009:

- HKFRS 7, 'Financial instruments – Disclosures' (amendment) (effective from 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKFRS 2 (amendment), 'Share-based payment' (effective from 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group did not have any share-based payment, therefore the amendment does not have a material impact on the Group's or Company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures *(Continued)*

(a) New and amended standards adopted by the Group (Continued)

- HKAS 23 (revised), 'Borrowing costs' (effective from 1 January 2009). In respect of borrowing costs relating to qualifying assets, the Group's accounting policy has always been to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset when such event arise. The revised standard does not have any impact on the Group's financial statements.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Since the Group has reported the segment information in a manner that is consistent with the internal reporting provided to the chief operating decision-maker previously, the HKFRS 8 does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective for current year financial statements and have not been early adopted by the Group

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective from 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets to be classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective for current year financial statements and have not been early adopted by the Group (Continued)

- HKAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

- HKFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- HKAS 38 (amendment), 'Intangible assets' (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in May 2009 and the Group and Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective for current year financial statements and have not been early adopted by the Group (Continued)

- HKFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, 'Scope of HKFRS 2', and HK(IFRIC)-Int 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2009.

(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.

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 statement of comprehensive income as negative goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(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 statement of comprehensive income. 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.

The Group's share of its associate's post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, 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 statement of comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 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, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions 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 statement of comprehensive income, 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 statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other (losses)/gains, net'.

2.4 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 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 statement of comprehensive income during the financial period in which they are incurred.

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

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

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 statement of comprehensive income.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Land use rights are amortised using the straight-line method over their estimated useful 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Construction in progress

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

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

2.8 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.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Inventories

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

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the 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 statement of comprehensive income. 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 statement of comprehensive income.

2.12 Cash and cash equivalents

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

2.13 Trade payables

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

2.14 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 values. 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 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 statement of comprehensive income within 'other gains/losses, net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax of the Company and its subsidiaries. Tax is recognised and recorded under tax expense in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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 statement of comprehensive income over the period of the borrowings using the effective interest method.

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

2.17 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 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.

2.19 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.

2.20 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 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 statement of comprehensive income on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 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 statement of comprehensive income during the financial period in which they are incurred.

2.23 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 currency exposures, primarily with respect to United States Dollars ("USD"). Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposures should the need arises. During the year, the Group used forward contracts to hedge its foreign currency exposure in USD.

At 31 December 2009, 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 Rmb1,684,000 (2008: Rmb1,257,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables and USD-denominated bank deposits.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk*

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

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

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers, 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 2009 and 2008, 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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.

At 31 December 2009, 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 Rmb264,000 (2008: Rmb116,000) lower/higher, mainly as a result of higher/lower interest expense 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, repurchase shares from shareholders 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

The liabilities-to-assets ratio at 31 December 2009 was as follows:

	2009 Rmb'000	2008 Rmb'000
Total liabilities	187,766	189,080
Total assets	605,454	574,157
Liabilities-to-assets ratio	31.0%	32.9%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 31 December 2009, the Group has several foreign exchange forward contracts of carrying amounts Rmb46,000, which were measured by level 2 of the fair value measurement hierarchy.

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 the carrying value of inventories and net realisable value for the periods in which such estimate is changed. In addition, management has assessed the realisability of the 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 investment in and amount due from subsidiaries

The Company makes provision for impairment of investment in subsidiaries based on an assessment of the future economic benefits of the investment which will flow to the Company and the collectibility of the amount due from subsidiaries. The identification of provisions requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of investment in subsidiaries and amount due from subsidiaries in the period in which such estimate has been changed.

(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.

(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.

(g) 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.

Significant judgement is required in determining the capitalisation of the research and development costs. Development costs that are recognised as assets are 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.

5 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of organic acids. The Board of Directors is identified as the chief operating decision-maker and the Board of Directors considers that there is only one reportable segment.

	2009 Rmb'000	2008 Rmb'000
Turnover		
Sales of goods	385,302	418,426

An analysis of the Group's turnover by geographic location is as follows:

	2009 Rmb'000	2008 Rmb'000
Mainland China	167,459	156,637
Europe	97,431	100,974
Asia Pacific	72,567	101,758
America	35,497	52,727
Others	12,348	6,330
	385,302	418,426

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

Substantially all of the Group's assets and liabilities were located in Mainland China.

6 OTHER INCOME AND OTHER LOSSES, NET

	2009 Rmb'000	2008 Rmb'000
Other income		
Sales of scrap materials	854	1,229
Government grants	10,097	8,060
	10,951	9,289

The government grants recognised are primarily related to amounts received for relocation of the factory premises of the Company.

	2009 Rmb'000	2008 Rmb'000
Other losses, net		
Loss on disposal of property, plant and equipment	(19)	(3,121)
Fair value gains/(losses) on derivative financial instruments	821	(976)
Net exchange loss	(977)	(3,468)
Others	2	68
	(173)	(7,497)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2009 Rmb'000	2008 Rmb'000
Cost of inventories sold (including write-down of inventories to net realisable value of Rmb7,224,000 (2008: Rmb2,386,000))	184,621	203,507
Amortisation of patents (Note 15)	920	919
Amortisation of land use rights (Note 17)	526	525
Auditors' remuneration	760	760
Depreciation (Note 16)	25,565	22,742
Operating rentals in respect of land and buildings	468	470
Provision for impairment of trade receivables (Note 22(e))	35	229
Research and development costs	9,785	822
Staff costs (including emoluments of Directors and Supervisors) (Note 13)	29,557	27,351
Other expenses	90,821	104,781
Total cost of sales, selling expenses and administrative expenses	343,058	362,106

Included in research and development costs in 2009 are mainly expenditures incurred for the formulation, design, evaluation and application of various forms of natural organic acids for commercial use. Management assessed that those internal projects are in the research and initial development stage, and did not recognise any of those expenditure as an asset.

8 FINANCE COSTS, NET

	2009 Rmb'000	2008 Rmb'000
Interest on bank borrowings – wholly repayable within five years	6,883	11,852
Interest income on bank deposits	(264)	(438)
Net finance costs	6,619	11,414

9 INCOME TAX EXPENSE

PRC Corporate Income Tax ("CIT") is provided for 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 since 2008, is entitled to a preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

The amount of income tax charged to consolidated statement of comprehensive income represents:

	2009 Rmb'000	2008 Rmb'000
Current income tax		
– Provision for CIT	7,582	6,959
– Tax credit	–	(3,079)
Under/(over)-provision in prior year	569	(130)
Deferred income tax (Note 31)	(1,077)	(337)
	7,074	3,413

The tax 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:

	2009 Rmb'000	2008 Rmb'000
Profit before income tax	49,941	49,047
Adjustment: share of profit of an associate	(3,538)	(2,349)
	46,403	46,698
Calculated at the tax rates applicable to results of the respective consolidated entities	6,687	6,883
Income not subject to tax	(1,671)	(839)
Expenses not deductible for tax purposes	1,363	346
Tax losses for which no deferred income tax asset was recognised	633	428
Under/(over)-provision in prior year	569	(130)
Tax credit	–	(3,079)
Others	(507)	(196)
Income tax expense	7,074	3,413

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Rmb41,375,000 (2008: Rmb44,173,000).

11 DIVIDENDS

No interim dividend was declared during the year (2008: Nil) and the directors do not recommend the payment of a final dividend for the year ended 31 December 2009.

	2009 Rmb'000	2008 Rmb'000
Final, proposed, of Nil (2008: Rmb0.015) per share	–	10,256

12 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to the equity holders of the Company of Rmb43,203,000 (2008: Rmb45,929,000) and 683,700,000 (2008: 683,700,000) shares in issue during the year.

The Company had no dilutive potential shares in issue during the year (2008: Nil).

13 STAFF COSTS

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

	2009 Rmb'000	2008 Rmb'000
Salaries, wages and related welfare	23,465	21,929
Social security costs	3,139	2,797
Contribution to defined contribution retirement schemes (note)	2,953	2,625
	29,557	27,351

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% (2008: 21%) of the total salaries and allowances of the PRC based employees, subject to a ceiling, and the Group has no further retirement benefit obligations to all its existing and future retired PRC based employees.

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the Directors of the Company for the year ended 31 December 2009 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	500	184	19	1,023
Non-executive director					
Mr. Zeng Xian Biao	50	–	31	–	81
Mr. Yu Xiao Ping	50	–	31	–	81
Ms. Leng Yi Xin	50	–	31	–	81
Mr. Wang Jian Ping	50	–	31	–	81
Mr. Jiang Jun Jie	50	–	31	–	81
Independent non-executive director					
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 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 director					
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 director					
Prof. Ouyang Ping Kai	50	–	–	–	50
Prof. Yang Sheng Li	50	–	–	–	50
Ms. Wei Xin	50	–	–	–	50

None of the Directors waived any emoluments during the years ended 31 December 2009 and 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) The remuneration of each of the Supervisors of the Company for the year ended 31 December 2009 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	71	–	13	99
Mr. Lu He Xing	6	–	–	–	6
Mr. Pan Chun	6	270	31	19	326
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 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

None of the Supervisors waived any emoluments during the years ended 31 December 2009 and 2008.

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:

	2009	2008
Director	1	1
Supervisor	2	1
Employees	2	3
	5	5

Details of the emoluments paid and payable to the two employees (2008: three employees) mentioned above, each of whose emoluments was less than HK$1,000,000, are as follows:

	2009 Rmb'000	2008 Rmb'000
Basic salaries, allowances and benefits in kind	788	956
Discretionary bonus	15	28
Retirement benefit contributions	22	27
	825	1,011

(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	
	2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000
Net book amount, at 1 January	9,450	10,369	4,944	5,611
Amortisation charge (Note 7)	(920)	(919)	(666)	(667)
Net book amount, at 31 December	8,530	9,450	4,278	4,944

	Group		Company	
	2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000
At cost	14,800	14,800	10,000	10,000
Accumulated amortisation	(6,270)	(5,350)	(5,722)	(5,056)
Net book amount, at 31 December	8,530	9,450	4,278	4,944

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 2008				
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
Year ended 31 December 2009				
Opening net book amount	78,426	144,699	9,223	232,348
Additions	121	–	15	136
Transfer from construction in progress (Note 18)	16,328	22,300	8,215	46,843
Disposals	–	–	(19)	(19)
Depreciation (Note 7)	(3,502)	(19,232)	(2,831)	(25,565)
Closing net book amount	91,373	147,767	14,603	253,743
At 31 December 2009				
Cost	107,840	222,645	26,462	356,947
Accumulated depreciation	(16,467)	(74,878)	(11,859)	(103,204)
Net book amount	91,373	147,767	14,603	253,743

Depreciation expense of Rmb22,305,000 (2008: Rmb20,921,000) and Rmb3,260,000 (2008: Rmb1,821,000) had been charged in "cost of sales" and "administrative expenses" respectively in 2009.

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 2008				
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
Year ended 31 December 2009				
Opening net book amount	71,349	144,372	8,444	224,165
Transfer from construction in progress (Note 18)	16,328	22,300	8,215	46,843
Disposals	–	–	(19)	(19)
Depreciation	(3,294)	(19,168)	(2,573)	(25,035)
Closing net book amount	84,383	147,504	14,067	245,954
At 31 December 2009				
Cost	100,596	221,469	24,851	346,916
Accumulated depreciation	(16,213)	(73,965)	(10,784)	(100,962)
Net book amount	84,383	147,504	14,067	245,954

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	
	2009	2008	2009	2008
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net book amount, at 1 January	24,005	24,530	10,339	10,580
Amortisation charge (Note 7)	(526)	(525)	(240)	(241)
Net book amount, at 31 December	23,479	24,005	10,099	10,339

	Group		Company	
	2009	2008	2009	2008
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost	26,275	26,275	12,040	12,040
Accumulated amortisation	(2,796)	(2,270)	(1,941)	(1,701)
Net book amount, at 31 December	23,479	24,005	10,099	10,339

18 CONSTRUCTION IN PROGRESS

	Group and Company	
	2009	2008
	Rmb'000	Rmb'000
At 1 January	59,479	83,773
Additions	20,832	21,636
Transfer to property, plant and equipment (Note 16)	(46,843)	(45,930)
At 31 December	33,468	59,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN AND AMOUNT DUE FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	2009 Rmb'000	2008 Rmb'000
Unlisted equity investments, at cost	23,794	23,794

Details of the subsidiaries at 31 December 2009 are as follows:

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

(b) Amount due from a subsidiary

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

The carrying value of the amount due from a subsidiary approximates its fair value. The maximum exposure to credit risk at 31 December 2009 is the fair value of the amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 INVESTMENT IN AN ASSOCIATE

(a) The Group

	2009 Rmb'000	2008 Rmb'000
At 1 January	9,182	6,833
Additional capital contribution to the associate		
– cost of acquisition	5,246	–
Share of profit after tax	3,538	2,349
At 31 December	17,966	9,182

The Group's interest in its associate at 31 December 2009 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 %
2009:							
常州蘭陵制葯有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.)	Rmb9,695,000 unlisted	PRC	39,963	21,997	30,326	3,538	38.78
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 INVESTMENT IN AN ASSOCIATE (Continued)

(b) The Company

	2009 Rmb'000	2008 Rmb'000
Unlisted equity investment, at cost	10,936	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	
	2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000
Raw materials	27,011	18,100	26,922	17,997
Work-in-progress	8,723	5,969	8,724	5,969
Finished goods	66,241	106,304	66,165	106,304
	101,975	130,373	101,811	130,270

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	
	2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000
0 to 3 months	45,286	31,883	45,286	31,508
4 to 6 months	700	629	700	629
Over 6 months	764	881	764	881
	46,750	33,393	46,750	33,018
Less: Provision for impairment of trade receivables	(294)	(259)	(294)	(259)
	46,456	33,134	46,456	32,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 TRADE RECEIVABLES (Continued)

(b) As at 31 December 2009, trade receivables of approximately Rmb2,473,000 (2008: Rmb2,137,000) 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	
	2009	2008
	Rmb'000	Rmb'000
Up to 3 months	1,012	886
4 to 6 months	700	629
Over 6 months	761	622
	2,473	2,137

(c) The credit quality of trade receivables neither past due nor impaired has been assessed with 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	
	2009	2008	2009	2008
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Rmb	25,393	10,258	25,393	9,883
USD	21,357	20,830	21,357	20,830
EUR	–	2,305	–	2,305
	46,750	33,393	46,750	33,018
Less: Provision for impairment of trade receivables	(294)	(259)	(294)	(259)
	46,456	33,134	46,456	32,759

22 TRADE RECEIVABLES (Continued)

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

	Group and Company	
	2009	2008
	Rmb'000	Rmb'000
At 1 January	259	30
Provision for impairment of trade receivables	35	229
At 31 December	294	259

(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 AMOUNT DUE FROM A SHAREHOLDER

The Company entered into an off-market share repurchase agreement ("Repurchase Agreement") with Shuguang Factory, a shareholder, on 8 September 2009, pursuant to which, the Company has conditionally agreed to repurchase and Shuguang Factory has conditionally agreed to sell 154,000,000 domestic shares of the Company, being Shuguang Factory's whole interest in the Company and 22.52% of the entire issued share capital of the Company, at a consideration of Rmb86,240,000 ("Share Repurchase").

The Company held the Extraordinary General Meeting, the Class Meeting of holders of H Shares and the Class Meeting of holders of Domestic Shares and Foreign Shares on 8 December 2009 and approved the Repurchase Agreement and authorised the Board of Directors to carry out all necessary procedures to complete the Repurchase Agreement.

On 25 December 2009, the Company paid the first instalment of Rmb21,560,000 to Shuguang Factory in accordance with the Repurchase Agreement and subject to the completion of the procedures of the Share Repurchase, the Company expects to settle the remaining portion of the consideration in 2010. Upon completion, the share capital will be reduced accordingly and the excess of the consideration paid over the nominal value of the shares repurchased will also be accounted for as a reduction of the equity of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 PLEDGED BANK BALANCES AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Pledged bank balances	6,856	4,258	6,856	4,258
Cash and cash equivalents	76,132	63,137	73,595	62,181
Total	82,988	67,395	80,451	66,439

	Group		Company	
	2009	2008	2009	2008
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Denominated in:				
– Rmb	64,663	55,504	62,126	54,548
– USD	18,276	8,739	18,276	8,739
– HKD	49	49	49	49
– EUR	–	3,103	–	3,103
	82,988	67,395	80,451	66,439

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 2009 and 2008	683,700,000	68,370

As at 31 December 2009 and 2008, 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.

26 RESERVES

	Group			
	Share premium Rmb'000	Statutory common reserve 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 and total comprehensive income 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	

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2009	87,159	38,729	190,074	315,962
Transfer of profit to statutory reserve	–	3,976	(3,976)	–
Profit and total comprehensive income for the year	–	–	43,203	43,203
Final dividend for the year ended 31 December 2008	–	–	(10,256)	(10,256)
At 31 December 2009	87,159	42,705	219,045	348,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RESERVES (Continued)

Company

	Share premium Rmb'000	Statutory common reserve 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 and total comprehensive income 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	

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2009	87,159	38,729	187,342	313,230
Transfer of profit to statutory reserve	–	3,976	(3,976)	–
Profit and total comprehensive income for the year	–	–	41,375	41,375
Final dividend for the year ended 31 December 2008	–	–	(10,256)	(10,256)
At 31 December 2009	87,159	42,705	214,485	344,349

26 RESERVES (Continued)

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.

27 AMOUNT DUE TO A SHAREHOLDER

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

28 TRADE AND BILLS PAYABLES

	Group and Company	
	2009	2008
	Rmb'000	Rmb'000
Trade payables (Note (a))	13,464	18,814
Bills payable (Note (b))	15,491	5,226
	28,955	24,040

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

	Group and Company	
	2009	2008
	Rmb'000	Rmb'000
0 to 6 months	13,427	18,594
7 to 12 months	6	195
Over 12 months	31	25
	13,464	18,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 TRADE AND BILLS PAYABLES (Continued)

(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 Rmb.

29 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2009, 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 for Rmb.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2009 are approximately Rmb22,062,000 (2008: Rmb30,690,000). These foreign exchange forward contracts held for trading are expected to be settled within the 12 months.

30 BANK BORROWINGS

Bank borrowings are analysed as follows:

	Group and Company	
	2009	2008
	Rmb'000	Rmb'000
Unsecured, short-term bank borrowings	130,000	144,500

The maturity of borrowings is as follows:

	Group and Company	
	2009	2008
	Rmb'000	Rmb'000
Within 1 year	130,000	144,500

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

30 BANK BORROWINGS (Continued)

As at 31 December 2009, the effective interest rates of the bank borrowings were as follows:

	Group and Company	
	2009	2008
	Rmb'000	Rmb'000
Short-term bank borrowings, at fixed rate	5.1%	6.5%
Short-term bank borrowings, at floating rate	–	5.5%

31 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	
	2009	2008	2009	2008
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Deferred tax assets to be recovered within 12 months	1,733	532	1,541	390
Deferred tax liabilities to be settled after more than 12 months	(957)	(833)	–	–
Deferred tax assets/(liabilities) – net	776	(301)	1,541	390

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

	Group		Company	
	2009	2008	2009	2008
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January	(301)	638	390	–
Credited/(charged) to the statement of comprehensive income (Note 9)	1,077	(337)	1,151	390
At 31 December	776	301	1,541	390

31 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 2008	72	–	72	–
Credited to the statement of comprehensive income	70	390	460	390
At 31 December 2008	142	390	532	390
(Charged)/credited to the statement of comprehensive income	(13)	1,214	1,201	1,151
At 31 December 2009	129	1,604	1,733	1,541

Deferred tax liabilities – Group:

	Fair value gain on patents Rmb'000
At 1 January 2008	710
Charged to consolidated statement of comprehensive income	123
At 31 December 2008	833
Charged to consolidated statement of comprehensive income	124
At 31 December 2009	957

31 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 Rmb1,302,000 (2008: Rmb1,508,000) in respect of losses amounting to approximately Rmb6,431,000 (2008: Rmb7,677,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	Group	
	2009	2008
	Rmb'000	Rmb'000
2009	–	1,917
2010	1,359	1,359
2011	1,655	1,655
2012	1,035	1,035
2013	1,711	1,711
2014	671	–
	6,431	7,677

The Company had no unrecognised deferred tax assets as at 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2009 Rmb'000	2008 Rmb'000
Profit before income tax	49,941	49,047
Adjustments for:		
Interest income	(264)	(438)
Interest expense	6,883	11,852
Amortisation of patents	920	919
Depreciation	25,565	22,742
Loss on disposal of property, plant and equipment	19	3,121
Amortisation of land use rights	526	525
Write-down of inventories to net realisable value	7,224	2,386
Provision for impairment of trade receivables	35	229
Fair value (gains)/losses on derivative financial instruments	(821)	976
Share of profit of an associate	(3,538)	(2,349)
	86,490	89,010
Changes in working capital:		
Inventories	21,174	(22,507)
Trade receivables, other receivables and prepayments	(18,654)	15,703
Trade and bills payables, other payables and accrued charges	14,753	8,354
Amount due to a shareholder	(1,309)	2
Cash generated from operations	102,454	90,562

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Amount due from a shareholder		Bank borrowings		Dividends payable	
	2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000	2009 Rmb'000	2008 Rmb'000
At 1 January	–	–	144,500	178,500	–	–
New bank borrowings	–	–	181,500	178,500	–	–
Repayment of bank borrowings	–	–	(196,000)	(212,500)	–	–
2008 final dividend	–	–	–	–	10,256	–
Dividends paid	–	–	–	–	(10,256)	–
Instalment payment for repurchase of shares	(21,560)	–	–	–	–	–
At 31 December	(21,560)	–	130,000	144,500	–	–

33 COMMITMENTS

(a) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2009, 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	
	2009 Rmb'000	2008 Rmb'000
Not later than one year	341	144
Later than one year and not later than five years	180	–
	521	144

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

(b) Other commitments

At 31 December 2009, the Group and the Company had an outstanding commitment amounting to Rmb64,680,000 in respect of the repurchase of its shares from a shareholder (Note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 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:

	2009 Rmb'000	2008 Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	7	33
Transportation expenses charged by the subsidiary of Shuguang Factory (note (b))	372	439

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

(iii) Balances with related parties – Group and Company

	2009 Rmb'000	2008 Rmb'000
Amount due from a shareholder – Instalment payment for repurchase of shares from Shuguang Factory (Note 23)	21,560	–
Amount due to a shareholder – Purchase of raw materials and services provided by Shuguang Factory (Note 27)	(3)	(1,312)

34 RELATED PARTY TRANSACTIONS (Continued)

(iv) Key management compensation – Group

	2009 Rmb'000	2008 Rmb'000
Salaries and other short-term employee benefits	1,004	1,157
Retirement benefit contributions	19	15
	1,023	1,172

FIVE YEAR SUMMARY

	2005	2006	2007	2008	2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Consolidated results					
Turnover	299,006	321,440	397,420	418,426	385,302
Operating profit	82,348	79,687	50,384	58,112	53,022
Finance costs, net	(1,659)	(5,219)	(10,489)	(11,414)	(6,619)
Share of (loss)/profit of an associate	–	(123)	801	2,349	3,538
Profit before income tax	80,689	74,345	40,696	49,047	49,941
Income tax expense	(12,102)	(6,987)	(6,078)	(3,413)	(7,074)
Profit and total comprehensive income for the year	68,587	67,358	34,618	45,634	42,867
Attributable to:					
Equity holders of the Company	68,587	67,358	34,648	45,929	43,203
Minority interest	–	–	(30)	(295)	(336)
Dividends	22,562	15,041	–	10,256	–
Consolidated assets and liabilities					
Total non-current assets	194,782	317,942	337,328	334,996	338,919
Total current assets	143,316	184,465	219,402	239,161	266,535
Total current liabilities	(55,098)	(183,611)	(216,577)	(188,247)	(186,809)
Net current assets	88,218	854	2,825	50,914	79,726
Total assets less current liabilities	283,000	318,796	340,153	385,910	418,645
Total non-current liabilities	(9,000)	–	(710)	(833)	(957)
Net assets	274,000	318,796	339,443	385,077	417,688
Earnings per share					
– basic and diluted	Rmb0.100	Rmb0.099	Rmb0.051	Rmb0.067	Rmb0.063

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2009 annual general meeting ("AGM") of Changmao Biochemical Engineering Company Limited (the "Company") will be held at 10:30 a.m. on Friday, 7 May 2010 at United Conference Centre, 10/F United Centre, 95 Queensway, Admiralty, Hong Kong for the following purposes:

As ordinary resolution:

1. To consider and approve the audited consolidated financial statements of the Company, the report of the Directors, the report of the Supervisory Committee and the report of the international independent auditor for the year ended 31 December 2009;

2. To consider and approve the appropriation to statutory common reserve for the year ended 31 December 2009;

3 To elect the directors of the forth session of the board ("Board") of directors of the Company (the "Directors"), namely Mr. Rui Xin Sheng and Mr. Pan Chun as the executive Directors, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Wang Jian Ping and Ms. Leng Yi Xin as the non-executive Directors, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin as the independent non-executive Directors, for a term of three years from 18 June 2010 to 17 June 2013, and to authorise the Board to fix their remuneration (Each as a separate resolution. Please see Appendix 1 for the details of candidates for the Directors);

4 To elect the supervisors for the forth session of the supervisory committee of the Company, namely Ms. Zhou Rui Juan and Mr. Lu He Xing as the Supervisors, Prof. Jiang Yao Zhong and Mr. Geng Gang as the independent Supervisors, who are representatives of the shareholders of the Company ; and Mr. Wan Yi Dong as the Supervisor representing the employees, for a term of three years from 18 June 2010 to 17 June 2013, and to authorise the Board to fix their remuneration (Each as a separate resolution. Please see Appendix 1 for the details of candidates for the Supervisors);

5. To consider the re-appointment of 江蘇公証會計師事務所有限公司 (Jiangsu Gongzheng Certified Public Accountants Co., Ltd.) as the People's Republic of China ("PRC") auditor of the Company for the year 2010 and PricewaterhouseCoopers as the international auditor of the Company for the year 2010 and to authorise the Board to fix their remunerations;

6. To transact any other business.

As special resolution:

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

   (a) "**THAT** subject to the limitations imposed by (c) and (d) below and in accordance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), the Company

NOTICE OF ANNUAL GENERAL MEETING

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;

(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;

NOTICE OF ANNUAL GENERAL MEETING

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

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

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

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

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

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

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 19 March 2010

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. Holders of H Shares are advised that the register of members of the Company will close from 2 April 2010 to 7 May 2010 (both days inclusive), during which time no transfer of H Shares will be effected and registered. Shareholders whose names appear on the register of members of the Company at the close of business on 1 April 2010 are entitled to attend the AGM. In order to qualify for attendance at the AGM, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's share registrar and transfer office for H shares, Computershare Hong Kong Investor Services Limited, by 4:30 p.m. on 1 April 2010.

2. Shareholders who intend to attend the AGM should complete and lodge the accompanying reply slip and return it on or before 16 April 2010. The completed reply slip may be delivered by hand, by post or by fax, in the case of holders of Domestic Shares and Foreign Shares, to the Company's principal place of business in Hong Kong, in the case of holders of H Shares, to the Company's H share registrar, Computershare Hong Kong Investor Services Limited. Completion and return of the reply slip do not affect the right of a shareholder to attend the AGM.

3. Every shareholder who has the right to attend and vote at the AGM is entitled to appoint one or more proxies, whether or not they are shareholders of the Company, to attend and vote on his behalf at the AGM.

4. A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointer or his attorney duly authorised in writing. If the appointer is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. The instrument appointing the proxy shall be deposited, in the case of holders of Domestic Shares and Foreign Shares, at the Company's principal place of business in Hong Kong, in the case of holders of H Shares, at the Company's H share registrar not less than 24 hours before the time appointed for the holding of the AGM. If the instrument appointing the proxy is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the instrument is signed shall be notarised. The notarised power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy, in the case of holders of Domestic Shares and Foreign Shares, at the Company's principal place of business in Hong Kong, in the case of holders of H Shares, at the Company's H share registrar.

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

6. Shareholders and their proxies attending the AGM shall be responsible for their own travelling and accommodation expenses.

7. The address of Computershare Hong Kong Investor Services Limited is:
   17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
   Tel No.: (852) 2862 8555
   Fax No.: (852) 2865 0990

   The address of the Company's principal place of business in Hong Kong is:
   Room 54, 5th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong
   Tel No.: (852) 2525 2242
   Fax No.: (852) 2525 6994

NOTICE OF ANNUAL GENERAL MEETING

APPENDIX 1: INFORMATION OF CANDIDATES FOR DIRECTORS AND SUPERVISORS

Profile of New Candidates for Directors and Supervisors

Mr. Pan Chun (潘春) (candidate for executive Director), aged 40, is currently a Supervisor and a deputy general manager of the Company. His terms as a Supervisor will be expired on 17 June 2010 and he will not offer himself for re-election as a Supervisor. He obtained a bachelor degree in applied chemistry from Nanjing University of Technology in 1993. Mr. Pan is recognised as a senior engineer by the Jiangsu Provincial Personnel Department (江蘇省人事廳). Mr. Pan has years of experiences in bio-chemistry industry. 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.

Mr. Wan Yi Dong (萬屹東) (candidate for Supervisor), aged 36, is the director of the Chirotechnology Centre of the Company. Mr. Wan is recognised as an engineer by the Bureau of Personnel of Chang Zhou Municipality (常州市人事局). 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.

Mr. Geng Gang (耿剛) (candidate for independent Supervisor), aged 49, graduated from 江蘇化工學院 (Jingsu Institute of Chemistry) in 1982. He possesses over 20 years of experience in the field of chemical industry. Mr. Geng is recognised as a senior engineer by the Jiangsu Provincial Personnel Department (江蘇省人事廳). Mr. Geng is currently a deputy chief engineer, a director of laboratory and senior engineer of a chemical company. He obtained 江蘇省科技進步三等獎(the third class award of Jiangsu Science and technology Progress) and 無錫市科技進步二等獎 (the second class award of Wuxi Science and technology Progress) for his research on the pilot-scale project of making viscose-styrene grafting fiber in 1990. He obtained the award of 無錫市優秀科技工作者稱號 (Wuxi Excellent Scientific Workers) in 1991 and the award of 無錫市中青年專業技術拔尖人才 (Wuxi Top Youth Expert) in 1992. Mr. Geng does not hold any other positions in the Company or any of its subsidiaries.

Please see the "Profile of Directors, Supervisors and Senior Management" in the 2009 annual report of the Company for biographies of the Directors and Supervisors for re-election.

NOTICE OF ANNUAL GENERAL MEETING

The remunerations payable to the Directors and Supervisors are determined by the Remuneration Committee, with reference to their contribution of time, effort and expertise on the Company's matters and are as follows:

(a) Mr. Rui Xin Sheng is entitled to an annual salary (on the basis of 12 calendar months per year) of Rmb800,000 for 2010, subject to adjustment of not more than 10% per annum for each of the subsequent calendar years;

(b) Mr. Pan Chun is entitled to an annual salary (on the basis of 12 calendar months per year) of Rmb250,000 for 2010, subject to adjustment of not more than 10% per annum for each of the subsequent calendar years;

(c) Each of Ms. Zhou Rui Juan, Mr. Wan Yi Dong and Mr. Lu He Xing is entitled to (in addition to their remuneration in respect of their respective office with the Company which shall not, in any event, exceed Rmb200,000 per annum (without annual adjustment) for each Supervisor) an annual Supervisor's fee (on the basis of 12 calendar month per year) of Rmb15,000, Rmb6,000 and Rmb6,000 respectively for the calendar year 2010, subject to adjustment of not more than 10% per annum for each of the subsequent calendar years;

(d) Each of the non-executive Directors will for the year 2010 (on the basis of 12 calendar months each year) be paid a Director's fee of Rmb50,000 per annum; each of the independent non-executive Directors will for the year 2010 (on the basis of 12 calendar months each year) be paid a Director's fee of Rmb60,000 per annum; and each of the independent Supervisors will for the year 2010 (on the basis of 12 calendar months each year) be paid a supervisor's fee of Rmb15,000 per annum, subject to an increment of not more than 10% per annum for each of the subsequent years;

(e) Apart from and in addition to the above salary, each Directors (other than the independent non-executive Directors) and each Supervisor (other than the independent Supervisors) is entitled to an incentive bonus each year, which is determined by the Remuneration Committee with reference to the profitability of the Company and its subsidiary and the market conditions.

Each of Mr. Rui Xin Sheng, Mr. Pan Chun, Ms. Zhou Rui Juan and Mr. Wan Yi Dong will entered into a service agreement with the Company for a term from 18 June 2010 to 17 June 2013. Save as disclosed above, there will be no service contract between other Directors/Supervisors and the Company.

NOTICE OF ANNUAL GENERAL MEETING

INTERESTS IN SHARES OF THE COMPANY OF THE CANDIDATES FOR DIRECTORS AND SUPERVISORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the date of this announcement, the interests (including interests in shares and short positions) of the candidates for Directors and Supervisors 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") were as follows:

Long positions in shares:

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

NOTICE OF ANNUAL GENERAL MEETING

Notes:

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

(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. 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.

(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.

NOTICE OF ANNUAL GENERAL MEETING

(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.

(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. Wan 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.

(k) 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.

(l) The percentage is calculated based on the 219,000,000 Domestic Shares in issue at the date of this announcement.

(m) The percentage is calculated based on the 281,000,000 Foreign Shares in issue at the date of this announcement.

Save as disclosed above, as at the date of this announcement, none of the Candidates for Directors and Supervisors have interests (including interests in shares and short positions) in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO.

Ms. Leng Yi Xin is the wife of Mr. Rui Xiu Sheng. Save for that, each of the candidates for Directors or Supervisors has no relationship with any Directors or the senior management of the Company, or with any substantial shareholders or controlling shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Each of the candidates of Directors or Supervisors does not hold any directorship in any other listed company in the last three years.

There is no other matters relating to the election of the forth session of the Directors and Supervisors apart from the above that need to be brought to the attention of the shareholders of the Company. There is no information apart from the above which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) of the GEM Listing Rules (particularly in relation to sub-paragraphs (h) to (x) of the rule.)