ANNUAL REPORT 2010

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: the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this report misleading.

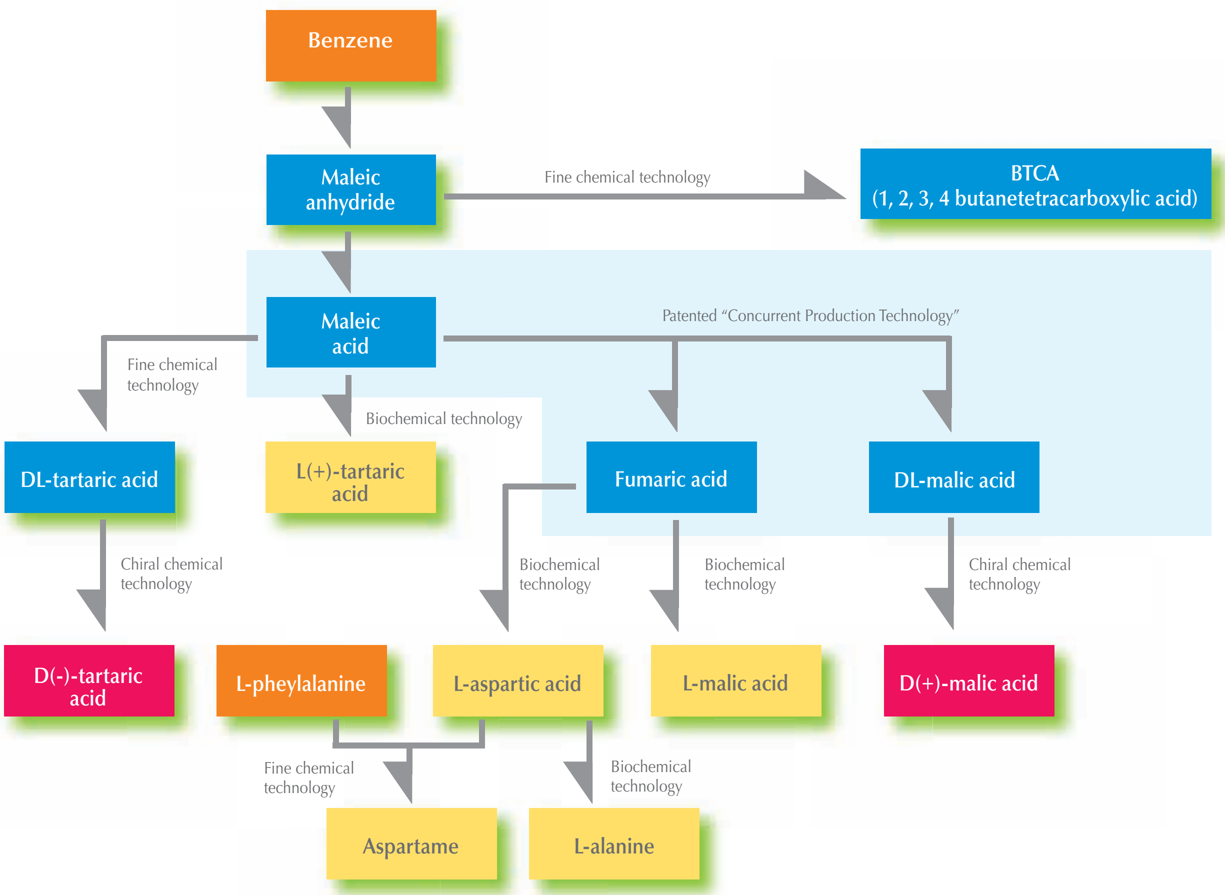
CONTENTS

CORPORATE PROFILE

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

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

PRODUCTION FLOWCHART OF CHANGMAO'S PRODUCTS

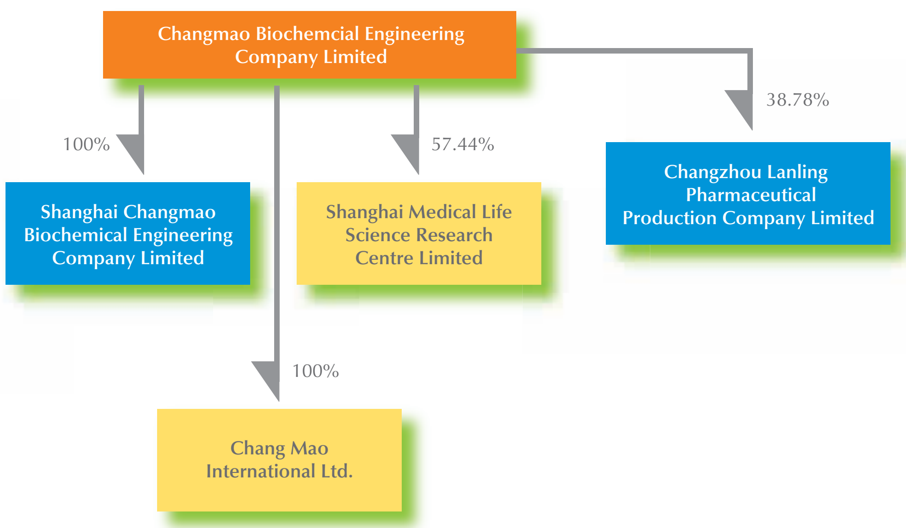


CORPORATE PROFILE

The Group persists in pursuing advanced technologies as its production direction and focuses in investment in new technology research and development which combines the production process with theoretical concepts. The Group received numerous awards in relation to production technologies including 技術發明一等獎 (First Prize in Technological Achievement) and 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 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 DIRECTORS
Mr. Rui Xin Sheng *(Chairman)*
Mr. Pan Chun

NON-EXECUTIVE DIRECTORS
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. Wan Yi Dong

INDEPENDENT SUPERVISORS NOMINATED BY SHAREHOLDERS
Prof. Jiang Yao Zhong
Mr. Geng Gang

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
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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
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AUDITORS
PricewaterhouseCoopers
Certified Public Accountants

COMPANY'S WEBSITE ADDRESS
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GEM STOCK CODE
8208

CHAIRMAN'S STATEMENT


To the shareholders,

On behalf of the board of the directors of the Company (the "Board"), I am pleased to present the annual report of the Company for the year ended 31 December 2010. In 2010, under the concerted efforts of the Board and all staff, the Group's production and operation were stable while its international collaboration projects, research and development, management condition and other aspects all achieved anticipated targets, showing a good development momentum of fairly fast-growing economy and increasing economic vitality. The Group generally developed in a proactive and healthy direction.

RESULTS FOR THE YEAR

The Group recorded a turnover of Rmb515,574,000 for the year ended 31 December 2010, which represented an increase of 34% as compared to that of last year; net profit was Rmb75,773,000, which represented an increase of 75% as compared to that of last year.

The Group focused on the annual targets of energy saving and emission reduction, increasing the production volume and efficiency and enhancing the product competitiveness to give full play of its strength of production of scale. It has researched and developed new energy saving and environmental friendly technologies, practiced a low-carbon recycle production mode and further expanded the room for profits. In terms of production and operation, it has also optimised its production technology to reduce consumption of raw materials and effectively control its production costs. In terms of quality management, it has continuously improved its product quality and product competitiveness to satisfy the domestic and international markets. Meanwhile, the Group was able to actively grasp opportunities for market development, analyse the market trend, explore new sales channels, create business opportunities and increase orders at home and abroad.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

In 2010, the Group's production and operation were stable, sales channels opened up gradually, international cooperation progressed well as scheduled and management level was enhanced constantly.

(1) Production and projects

In 2010, in view of the market needs, the Group enhanced the production capacity for existing products. Among which, the production capacity of fumaric acid increased by 21% after the upgrade of the relevant production equipment; the project integration of malic acid was started in March 2010 and completed in July with an increase in production capacity of 50%; a new production line of aspartame has been expanded and doubled the production capacity. After the integration of production lines, it has optimised the production technology and effectively enhanced the product quality that our products tend to go in line with the standard for natural food additives and were well received by customers; with raised production capacity allowing better application of the Group's strength of production of scale, coupled with its fine production technology and advanced equipment, not only could the raw material consumption be reduced, but also the production cost was controlled by a more effective way, thus the profit margin was finally to be expanded and during the year the Group invested Rmb 6.5 milion in energy-saving and environmental-friendly equipment. This not only conforms to the production philosophy of green environment, the steam generated by the equipment can also bring considerable economic benefits to the Group. In 2010, the Group raised the production capacity gradually, enhanced the product quality constantly, adopted production environmental friendly technologies that its products are getting more competitive and has built up a solid foundation for the Group's economic growth.

(2) Market expansion

In 2010, facing the competition of domestic and overseas, the Group has an excellent sales team that actively adjusted its sales strategies and increased its bargaining power to explore the sales market and new application area of the core products. It has also increased its brand awareness and customer recognition continuously. The use of malic acid in high-end food and beverage enlarged the market demand for malic acid, driving the sales to rise constantly with an increase of 29% in sales growth; the production capacity of aspartame has doubled after the production expansion with 68% increase in sales growth. These have contributed significantly to the economic benefits of the Group.

The Group seeks to innovate marketing modes to consolidate the steady growth in sales in the ways of expanding into certain markets that the Group has not been involved before such as Russia and Africa and exploring their potentials; setting up foreign office in Canada to develop and serve overseas markets and spread the global sales network.

CHAIRMAN'S STATEMENT

(3) New product development

1. Organic acid project

"Natural four-carbon series edible organic acid" is a project the Group is devoted to develop. This project is a "National 863 project" and is under "Fund for transformation of results from scientific technology in Jiangsu Province" (江蘇省科技成果轉化專項資金項目). Apart from the current passing through the magnification researches of laboratory fermentation technology and engineering technology, it also has yielded a fairly good result to enrich the Group's new product groups. This project makes use of 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. Owing to the safe and environmental friendly nature, it can satisfy people's need for natural and healthy food and help protect peoples' health, bound to bring economic contribution to the Group in the future.

2. Active pharmaceutical ingredients (API) project

The Group strives to develop high value-added products and is trying to expand into the domain of API. In 2010, the Group signed New Drug Certificate and entered into a production technology transfer contract with its cooperating unit, and started to prepare for API project and the application for Drug Manufacturing Certificate. It is expected the certificate will be obtained in the first half of 2011. Upon obtaining the Drug Manufacturing Certificate, the Group will commence the work for GMP recognition for API. This is also a brand new trial for API project of the Group. The Group will further develop new species of fermentation API and synthesis API, enlarge the production scope of API and make it a new part bringing profit growth to the Group.

(4) Development of subsidiary and associate

1. Associate: Changzhou Lanling Pharmaceutical Production Co., Ltd. (referred hereafter as "Lanling Pharm")

In 2010, Lanling Pharm achieved a substantial development. Share of profit from an associate by the Group amounted to Rmb10,441,000, which increased two fold as compared to that of last year. The Group will make use of the production platform of Lanling Pharm 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.

CHAIRMAN'S STATEMENT

2. Subsidiary: Shanghai Changmao Biochemical Engineering Company Limited (referred hereafter as "Shanghai Changmao")
Along with the more abundant material life and ever improving medical conditions, people are now having a longer lifespan and more concerned about nutrition and healthcare products. In line with this trend, Shanghai Changmao developed healthcare food which is closely related to human health. With continued efforts exerted in these years, the Healthy Companion brand (攜康牌) Vitamin K calcium tablet (維K鈣片) and Coenzyme Q10 Vitamin E capsule (輔酶Q10維E膠囊) that Shanghai Changmao had made application for, was approved by the State Food and Drug Administration on 28 January 2011. The approval numbers are Guo Shi Jian Zi G20110046 and Guo Shi Jian Zi G20110194 respectively. Obtaining approvals of healthcare food will directly encourage Shanghai Chanmao to explore the market of healthcare food. The products will be in direct contact with end-consumers, promoting fast business growth.

(5) Management

The Group has continuously adopted the ISO9001 Quality System Standards and the Certificate of the Hazard Analysis Critical Control Point (HACCP) management system to control production and operation. It enthusiastically puts GMP into practice to ensure quality control and to perfect its process management, which enables its production standard to occupy a leading position in the world. On the basis of Safety Standardized Management and Good Practice Standardized Regulatory Management system, the Group gained the ISO14001 Environmental System recognition in 2010 and further uplifted its corporate image and sharpened its competitive edge.

In December 2010, the national standards for DL-malic acid, L(+)-tartaric acid, D(-)-tartaric acid and fumaric acid products mainly drafted by the Group was officially promulgated. In addition to the national standard for L-malic acid which was promulgated in June 2008, the Group has completed four national standard drafting works in aggregate, firmly consolidating its leading position in the industry.

CHAIRMAN'S STATEMENT

FUTURE AND PROSPECT

Year 2011 represents the first year of the State's "12th Five-year-plan" in China, and the complicated international and domestic situation and fierce competition within the industry will apparently generate new opportunities as well as challenges for future development. The Group will start from a new germ; seize profoundly the international and domestic situation; fortify further its ability to adapt market change. It will also make use of its advantage in production with economy of scale and strong research and sales ability to implement advanced international standardization management, with an aim to realize its long-term objectives of product innovation, product transformation and product upgrading in unceasing pursuit of enlargement and expansion.

(I) Putting forward the pace of technology innovation and structure optimization

Innovation in technology is a key element to improve competitiveness and for continuing development. While focusing on its core products and making use of its advantage in production with economy of scale, the Group will make a lot of effort in technology innovation. It will consolidate its existing research resources and manpower to upgrade its products by means of launching competitive new product group in an organized way through research and development. In 2011, the natural food additives project will be implemented as scheduled, laying a solid foundation for future development.

(II) Developing market for new products through expansion of sales network

The Group will continuously enhance its sales personnel quality and the overall quality of the sales team. The Group will develop new sales channels and new application area to explore potential market. It will establish new overseas office to expand and serve the overseas market in a bid to enlarge the sales network globally and to secure a steady increase in sales.

Along with the year-on-year gradual increase in the healthcare consumption of the people, the sales of healthcare food is growing with an annual rate of 13%. In 2011, Healthy Companion brand (攜康牌) Vitamin K calcium tablet (維K鈣片) and Coenzyme Q10 Vitamin E capsule (輔酶Q10維E膠囊) that had obtained the approval for healthcare food from the State Food and Drug Administration, will face directly the consumers with a fashionable packaging and effective healthcare results, and with the elimination of intermediary parties, target a broader consumer market. Upon certification of the new APIs, related production and sale work will be fully implemented, targeting a broader room for profit making too. The enlargement and upgrading of our new product group is bound to be foundation for the Group's creating new growing points.

CHAIRMAN'S STATEMENT

(III) 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, and optimize personnel structure to strengthen team building. Through the full implementation of ISO9001, ISO14001, HACCP and Guide for Standardization System, the Group has broken through the international environmental protection barrier so that it can extend its market further in Europe and America, and attain the most optimized order for corporate development, which helped to coordinate the Group's sustainable development.

(IV) Establishment of brand reputation and enhancement of competitiveness

The Group builds its brand name with good product quality and gains customers with its brand name. L(+)-tartaric acid is a product titled "Famous Brand Product of Jiangsu Province" and the Group will continue to actively enhance its brand reputation and recognition. In line with the expanding product group, the Group will, through its innovative and perfect services, endeavor to promote advances in quality, create both unique and popular reputations for brand upgrading of various products and building of branded product group, so as to strengthen customer satisfaction and loyalty for Changmao Brand.

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, APIs and nutraceutical products. The Group will continue to extend its production chain and create new growth.

Rui Xin Sheng
Chairman

The PRC, 8 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit margin

The Group recorded a turnover of Rmb515,574,000 for the year ended 31 December 2010, which has increased by 34% as compared to that for the year ended 31 December 2009. The sales volume of major products increased compared to last year. Upon the completion of the expansion of production lines of malic acid and aspartame, the production volume and sales volume of these two products recorded a satisfactory growth in 2010. The sales volume of malic acid and aspartame increased by 29% and 68% respectively as compared to last year, which made a significant contribution to the growth in the turnover. In addition, through the refinement in production technology and the effect of economy of scale brought by the increase in production volume, the Group had effectively controlled its production cost, which increased the profit margin. Gross profit margin of the Group for the year ended 31 December 2010 was 26.6%, which was 3.4% higher that recorded in 2009.

Expenses

Selling and administrative expenses in 2010 increased as compared to that of 2009 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 corporate income tax rate of 15% for year ended 31 December 2010. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

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 58% (2009: 62%) of the Group's turnover while domestic sales in the PRC accounted for approximately 42% (2009: 38%) 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 2010, the Group had total outstanding unsecured bank borrowings of Rmb107 million (2009: Rmb130 million) which were all repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The average effective interest rate of all the outstanding bank loans as at 31 December 2010 was approximately 5.2% (2009: 5.1%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2010 and 2009, the Group did not have any committed borrowing facilities.

As at 31 December 2010, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb9,158,000. These capital commitments are mainly used for expansion of production lines in the next year. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2010. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 35.3% (2009: 31.0%) as at 31 December 2010. As at 31 December 2010, the Group's cash and cash equivalents amounted to Rmb47,150,000 (2009: Rmb76,132,000). The Directors believe that the Group is in a healthy financial position.

CAPITAL STRUCTURE OF THE COMPANY

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 that time, at a consideration of Rmb86,240,000 ("Share Repurchase"). 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. The procedures of the Share Repurchase have been completed in August 2010. The Repurchased Shares were cancelled after completion of the transaction and the issued share capital of the Company has been reduced by 154,000,000 shares accordingly.

As at 31 December 2010, the Company had already paid Rmb43,120,000 to Shuguang Factory in accordance with the Repurchase Agreement, the Company expects to settle the remaining portion of the consideration in 2011.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2010, the Group employed a total of 539 employees (2009: 505 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 2010 was approximately Rmb39,555,000 (2009: Rmb29,557,000). Staff cost increased mainly because of the increase in number of employees, salary increment and the increase in the amount of staff incentive bonus. Amount of bonus under the staff incentive scheme was Rmb6,150,000 for the year ended 31 December 2010 (2009: Rmb551,000). Under the staff incentive scheme for each of the three years ended 31 December 2010, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling 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 2010 and 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

In 2010, the Company has sold 20.56% of its equity interest in Shanghai Medical Life Science Research Centre Limited (上海醫學生命科學研究中心有限公司) ("Shanghai Life Science"), at a consideration of Rmb1,000,000. After the disposal, the Company's equity interest in Shanghai Life Science decreased from 78% to 57.44%.

In 2010, the Company has set up a wholly-owned subsidiary, Chang Mao International Limited, in Canada, with a registered capital of USD 200,000, for marketing and promotion and trading of the Company's products in the North America.

Save for the above, there are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2010.

CONTINGENT LIABILITIES

As at 31 December 2010 and 31 December 2009, the Group did not have any material contingent liabilities.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Rui Xin Sheng (芮新生), aged 54, 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).

Mr. Pan Chun (潘春), aged 41, is an executive director 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 Personnel 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Non-executive Directors (Continued)

Mr. Zeng Xian Biao (曾憲彪), aged 68, 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 55, 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 49, 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 49, 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 institute 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 65, 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 first appointed as an independent non-executive Director in June 2001.

Prof. Yang Sheng Li (楊勝利), aged 70, 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 first appointed as an independent non-executive Director in June 2001.

Ms. Wei Xin (衛新), aged 43, 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 first 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 56, is the chairman of the Company's supervisory committee 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, the vice manager of the labour department and the director of the administrative 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 66, 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. Wan Yi Dong (萬屹東), aged 37, is a Supervisor and 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. Mr. Wan joined the Company in August 1996.

Independent Supervisors Nominated by Shareholders

Prof. Jiang Yao Zhong (蔣耀忠), aged 74, is an independent Supervisor. He 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 first appointed as an independent Supervisor in June 2004.

SUPERVISORS (Continued)

Independent Supervisors Nominated by Shareholders (Continued)

Mr. Geng Gang (耿剛), aged 50, is an independent Supervisor. He 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 was first appointed as an independent Supervisor in June 2010.

SENIOR MANAGEMENT

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

Ms. Wan, Pui Ling Alice (溫珮玲), aged 39, 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), whose personal particulars are set out under the paragraph headed "Supervisors" in this section.

Mr. Lu A Xing (陸阿興), aged 42, 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, supervisors, 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 the maintaining of 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 2010.

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 two executive Directors, namely, Mr. Rui Xin Sheng (Chairman) and Mr. Pan Chun, four non-executive Directors, namely, 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 five times for the year ended 31 December 2010. Attendance of individual members of the Board meeting for the year ended 31 December 2010 is as follows:

	Name of Director	Attended/ Eligible to attend
Executive Directors	Rui Xin Sheng *(Chairman)*	5/5
	Pan Chun (appointed on 18 June 2010)	3/3
Non-executive Directors	Jiang Jun Jie (terms expired on 17 June 2010)	2/2
	Zeng Xian Biao	5/5
	Yu Xiao Ping	4/5
	Leng Yi Xin	5/5
	Wang Jian Ping	5/5
Independent Non-executive Directors	Ouyang Ping Kai	1/5
	Yang Sheng Li	2/5
	Wei Xin	5/5

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 2010.

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.

Each of Mr. Rui Xin Sheng and Mr. Pan Chun 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 2013.

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 2010 to assess the performance of the executive Directors and review the policy for the remuneration of the executive Directors. 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 2010 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 2010 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 of the Company 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. Wan Yi Dong and two independent supervisors nominated by shareholders, Prof. Jiang Yao Zhong. and Mr. Geng Gang. Each of Ms. Zhou Rui Juan and Mr. Wan Yi Dong has entered into a service agreement with the Company. Mr. Lu He Xing, Prof. Jiang Yao Zhong and Mr. Geng Gang 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 2013.

The supervisory committee held two meetings for the year ended 31 December 2010 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 2010, 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 42 and 43.

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 2010 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 2009 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$920,000 (approximately equivalent to Rmb783,000) (2009: 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 2010.

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 44.

No interim dividend was declared during the year (2009: Nil). The Directors recommend the payment of a final dividend of Rmb0.043 (inclusive of tax) per share for the year ended 31 December 2010, totalling approximately Rmb22,777,000 (2009: Nil).

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 Rmb140,000 (2009: Rmb150,000).

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 2010, the distributable reserves of the Company were approximately Rmb184,250,000 (2009: Rmb209,297,000) 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 103 of the annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the Share Repurchase as stated in the paragraph headed "Capital Structure of the Company" in the section headed "Management Discussion and Analysis", 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 2010.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

Executive Directors
Mr. Rui Xin Sheng *(Chairman)*
Mr. Pan Chun (appointed on 18 June 2010)

Non-executive Directors
Mr. Jiang Jun Jie (terms expired on 17 June 2010)
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 (terms expired on 17 June 2010)
Mr. Wan Yi Dong (appointed on 18 June 2010)

Independent Supervisors nominated by shareholders
Prof. Gu Jian Xin (resigned on 8 March 2010)
Prof. Jiang Yao Zhong
Mr. Geng Gang (appointed on 18 June 2010)

DIRECTORS AND SUPERVISORS (Continued)

The terms of each of the Directors and Supervisors will be expired on 17 June 2013. 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, Mr. Pan Chun, Ms. Zhou Rui Juan and Mr. Wan Yi Dong 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 2013.

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 transactions as disclosed in the section headed "Connected Transactions" below, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries 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 2010, 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 (l))	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Note (m))
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian (Note (a))	2,500,000	3.85%	135,000,000	48.04%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	3.85%	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%

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 (l))	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares (Noe (m))
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. Wan Yi Dong	(Note (j))	–	–	(Note (j))	(Note (j))
Prof. Jiang Yao Zhong	(Note (k))	–	–	(Note (k))	(Note (k))

Notes:

(a) The 135,000,000 promoter 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. 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 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.

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

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

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

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

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

REPORT OF THE DIRECTORS

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

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

(j) Mr. 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 65,000,000 Domestic Shares in issue as at 31 December 2010.

(m) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 December 2010.

Save as disclosed above, as at 31 December 2010, 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 2010, 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))
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	96.15%	–	–
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (d))	96.15%	–	–

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 65,000,000 Domestic Shares in issue as at 31 December 2010.

(f) The percentage is calculated based on the 281,000,000 Foreign Shares in issue as at 31 December 2010.

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 2010, 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.

REPORT OF THE DIRECTORS

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

	2010	2009
– the largest supplier	**8%**	11%
– five largest suppliers combined	**22%**	34%

Sales

	2010	2009
– the largest customer	**7%**	8%
– five largest customers combined	**29%**	28%

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

Shuguang Factory was a shareholder of the Company and thus a connected party to the Company for the period from 1 January 2010 to 9 August 2010 (the "Period"). Shuguang Factory ceased to be a shareholder of the Company on 10 August 2010. During the Period, the Company entered into the following significant continuing connected transactions with Shuguang Factory, and its subsidiary:

	2010	2009
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	**402**	7
Transportation expenses charged by the subsidiary of Shuguang Factory (note (b))	**126**	372

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.

CONNECTED TRANSACTIONS (Continued)

(2) Connected Transactions

(a) *Share Repurchase*

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 that time, at a consideration of Rmb86,240,000. 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. The procedures of the Share Repurchase was completed in August 2010. The Repurchased Shares were cancelled after completion of the transaction and the issued capital of the Company has been reduced by 154,000,000 shares accordingly.

As at 31 December 2010, the Company had paid Rmb43,120,000 to Shuguang Factory in accordance with the Repurchase Agreement and expects to settle the remaining portion of the consideration in 2011.

Each of Mr. Rui Xin Sheng, Ms. Leng Yi Xin, Mr. Jiang Jun Jie (ceased to be a Director after 17 June 2010), Mr. Zeng Xian Biao and Mr. Yu Xiao Ping, being Director, is interested in the Share Repurchase transaction.

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.

(b) *Cooperative Agreement*

On 29 June 2010, Shanghai Life Science, a subsidiary of the Company entered into a cooperation agreement ("Cooperative Agreement") with Changzhou Lanling Pharmaceutical Production Co., Ltd. (常州蘭陵製藥有限公司 or "Lanling Pharm"), a connected person of the Company, in relation to the joint research and development of the new drug products with patent of lentinan hexaose owned by Shanghai Life Science. Lanling Pharm is an associate of Mr. Yu Xiao Ping, being a non-executive Director, after taking into account an aggregate 32% interest in Lanling Pharm held by Mr. Yu Xiao Ping and his associates. Lanling Pharm is therefore a connected person of the Company pursuant to the GEM Listing Rules.

The Cooperation Agreement is unconditional and valid for a term of three years commencing from 29 June 2010. Income of Shanghai Life Science from Lanling Pharm in 2010 was amounted to Rmb2,000,000.

Mr. Yu Xiao Ping, a director of the Company, is interested in the transaction in relation to the Cooperative Agreement.

For details of the transaction in relation to the Cooperative Agreement, please refer to the announcement issued by the Company on 29 June 2010.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2010, 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))	65,000,000
Foreign Shares (Note (c))	281,000,000
	529,700,000

Notes:

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

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

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

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

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE (Continued)

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

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

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

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

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

PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Details of the retirement schemes are set out in notes 2.18(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, 8 March 2011

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2010, 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 2010, 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, 8 March 2011

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 44 to 102, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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, 8 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Rmb'000	2009 Rmb'000
Turnover	5	515,574	385,302
Cost of sales	7	(378,212)	(295,961)
Gross profit		137,362	89,341
Other income	6	6,582	10,951
Other losses, net	6	(1,562)	(173)
Selling expenses	7	(10,028)	(8,127)
Administrative expenses	7	(49,325)	(38,970)
Operating profit		83,029	53,022
Finance costs, net	8	(6,476)	(6,619)
Share of profit of an associate	20	10,441	3,538
Profit before income tax		86,994	49,941
Income tax expense	9	(11,135)	(7,074)
Profit for the year		75,859	42,867
Other comprehensive income – currency translation difference		25	–
Total comprehensive income for the year		75,884	42,867
Profit for the year attributable to:			
Equity holders of the Company		75,773	43,203
Non-controlling interests		86	(336)
		75,859	42,867
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	11	Rmb0.122	Rmb0.063

The notes on pages 51 to 102 are an integral part of these consolidated financial statements.

	Note	2010 Rmb'000	2009 Rmb'000
Dividends	12	22,777	–

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 Rmb'000	2009 Rmb'000
ASSETS			
Non-current assets			
Patents	15	7,611	8,530
Property, plant and equipment	16	259,253	253,743
Land use rights	17	22,954	23,479
Construction in progress	18	34,302	33,468
Investment in an associate	20	28,407	17,966
Prepayments		3,096	–
Deferred income tax assets	29	603	1,733
		356,226	338,919
Current assets			
Inventories	21	117,945	101,975
Trade receivables	22	78,553	46,456
Other receivables and prepayments		16,685	13,556
Amount due from a shareholder		–	21,560
Derivative financial instruments	23	44	–
Pledged bank balances	24	14,493	6,856
Cash and cash equivalents	24	47,150	76,132
		274,870	266,535
Total assets		631,096	605,454
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	52,970	68,370
Reserves	26	354,328	348,909
		407,298	417,279
Non-controlling interests		1,034	409
Total equity		408,332	417,688

The notes on pages 51 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 Rmb'000	2009 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	976	957
Current liabilities			
Amount due to a shareholder		–	3
Trade and bills payables	27	37,925	28,955
Other payables and accrued charges	25	73,693	26,098
Derivative financial instruments	23	–	46
Income tax payable		3,170	1,707
Bank borrowings	28	107,000	130,000
		221,788	186,809
Total liabilities		222,764	187,766
Total equity and liabilities		631,096	605,454
Net current assets		53,082	79,726
Total assets less current liabilities		409,308	418,645

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 51 to 102 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 Rmb'000	2009 Rmb'000
ASSETS			
Non-current assets			
Patents	15	3,611	4,278
Property, plant and equipment	16	251,924	245,954
Land use rights	17	9,858	10,099
Construction in progress	18	34,302	33,468
Investments in subsidiaries	19	24,149	23,794
Investment in an associate	20	10,936	10,936
Deferred income tax assets	29	421	1,541
		335,201	330,070
Current assets			
Inventories	21	117,856	101,811
Trade receivables	22	75,892	46,456
Other receivables and prepayments		16,480	13,551
Amount due from a subsidiary	19	7,411	1,327
Amount due from a shareholder		–	21,560
Derivative financial instruments	23	44	–
Pledged bank balances	24	14,493	6,856
Cash and cash equivalents	24	44,356	73,595
		276,532	265,156
Total assets		611,733	595,226
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	52,970	68,370
Reserves	26	337,679	344,349
Total equity		390,649	412,719

The notes on pages 51 to 102 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 Rmb'000	2009 Rmb'000
LIABILITIES			
Current liabilities			
Amount due to a shareholder		–	3
Trade and bills payables	27	37,925	28,955
Other payables and accrued charges	25	73,075	21,796
Derivative financial instruments	23	–	46
Income tax payable		3,084	1,707
Bank borrowings	28	107,000	130,000
		221,084	182,507
Total equity and liabilities		611,733	595,226
Net current assets		55,448	82,649
Total assets less current liabilities		390,649	412,719

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 51 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

		Attributable to equity holders of the Company					
		Share capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
	Note	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
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
Balance at 1 January 2010		68,370	129,864	219,045	417,279	409	417,688
Share repurchase	26	(15,400)	15,400	(86,240)	(86,240)	–	(86,240)
Gain on partial disposal of interest in a subsidiary		–	461	–	461	539	1,000
Transfer of profit to statutory reserve	26	–	6,799	(6,799)	–	–	–
Profit for the year		–	–	75,773	75,773	86	75,859
Other comprehensive income – currency translation difference – Group		–	25	–	25	–	25
Balance at 31 December 2010		52,970	152,549	201,779	407,298	1,034	408,332

The notes on pages 51 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Rmb'000	2009 Rmb'000
Cash flows from operating activities			
Cash generated from operations	30(a)	72,570	102,454
Interest paid		(6,966)	(6,939)
Income tax paid		(8,523)	(7,841)
Net cash generated from operating activities		57,081	87,674
Cash flows from investing activities			
Purchase of property, plant and equipment		(47)	(136)
Proceeds from disposal of property, plant and equipment		312	–
Additions of construction in progress		(32,497)	(20,647)
Prepayment for purchase of properties		(3,096)	–
Additional capital contribution to an associate		–	(5,246)
Proceed from partial disposal of a subsidiary		1,000	–
Increase in pledged bank balances		(7,637)	(2,598)
Interest received		462	264
Net cash used in investing activities		(41,503)	(28,363)
Cash flows from financing activities			
New bank borrowings	30(b)	127,000	181,500
Repayment of bank borrowings	30(b)	(150,000)	(196,000)
Dividends paid	30(b)	–	(10,256)
Instalment payment to a shareholder for repurchase of shares	30(b)	(21,560)	(21,560)
Net cash used in financing activities		(44,560)	(46,316)
Net (decrease)/increase in cash and cash equivalents		(28,982)	12,995
Cash and cash equivalents at 1 January		76,132	63,137
Cash and cash equivalents at 31 December	24	47,150	76,132

The notes on pages 51 to 102 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 8 March 2011.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

(a) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. 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 are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(a) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events). (Continued)

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of HKFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, 'Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

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) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events). (Continued)

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies 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.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The amendment does not have a material impact on the Group's or Company's financial statements.

  HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases. The amendment does not have a material impact on the Group's or the Company's financial statements.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 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 that interpretation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(a) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events). (Continued)

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies 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, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.

The Group's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. It is not expected to have a material impact on the Group's or Company's financial statements.

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. It is not expected to 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)

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted. (Continued)

- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. The Group will apply the amended standard from 1 January 2011. It is not expected to have a material impact on the Group's or Company's financial statements.

- HK (IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have a material impact on the Group's or Company's financial statements.

- Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) – Int 14). The amendments correct an unintended consequence of HK (IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) – Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011. 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)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2010.

(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 non-controlling interests. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) *Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(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.

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'.

(c) *Group companies*

The results and financial position of the Group entities (none of which has the currency of a hyper-inflationary economy) that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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.

2.5 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

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

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

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

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

2.7 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

2.14 Trade payables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 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'.

2.16 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Current and deferred income tax (Continued)

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.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated 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.

2.18 Employees benefits

(a) *Pension obligations*

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employees benefits (Continued)

(b) Profit-sharing and bonus plans

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

2.19 Provisions

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

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

2.20 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.

2.21 Research and development costs

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Operating leases

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

2.23 Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are charged to the consolidated statement of comprehensive income in the period in which they are incurred.

2.24 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) *Foreign exchange risk*

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure were located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

At 31 December 2010, 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 Rmb1,864,000 (2009: Rmb1,684,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables and USD-denominated bank deposits.

(b) Credit risk

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

Substantially all of the Group's bank balances 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 8% 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 2010 and 2009, 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 2010, 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 Rmb22,000 (2009: Rmb264,000) 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 2010 was as follows:

	2010 Rmb'000	2009 Rmb'000
Total liabilities	222,764	187,766
Total assets	631,096	605,454
Liabilities-to-assets ratio	35.3%	31.0%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 2010, the Group has several foreign exchange forward contracts of carrying amounts Rmb44,000 (2009:liability of 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, pledged bank deposits, trade receivables and other receivables, and current financial liabilities, including 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 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 investments in and amount due from subsidiaries

The Company makes provision for impairment of investments in subsidiaries based on an assessment of the future economic benefits of the investments which will flow to the Company and the collectibility of the amounts 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 investments in subsidiaries and amounts 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(g) Research and development costs (Continued)

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.

	2010 Rmb'000	2009 Rmb'000
Turnover		
Sales of goods	515,574	385,302

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

	2010 Rmb'000	2009 Rmb'000
Mainland China	252,064	167,459
Europe	107,576	97,431
Asia Pacific	95,870	72,567
America	37,515	35,497
Others	22,549	12,348
	515,574	385,302

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 OTHER INCOME AND OTHER LOSSES, NET

	2010 Rmb'000	2009 Rmb'000
Other income		
Sales of scrap materials	1,229	854
Government grants	3,024	10,097
Income from joint research and development of a patent (Note 32 (ii))	2,000	–
Others	329	–
	6,582	10,951

	2010 Rmb'000	2009 Rmb'000
Other losses, net		
Loss on disposal of property, plant and equipment	(40)	(19)
Fair value gains on derivative financial instruments	90	821
Net exchange loss	(1,783)	(977)
Others	171	2
	(1,562)	(173)

7 EXPENSES BY NATURE

	2010 Rmb'000	2009 Rmb'000
Cost of inventories sold (including (write back of)/provision for inventories to net realisable value of Rmb7,414,000 (2009: Rmb7,224,000))	254,150	184,621
Amortisation of patents (Note 15)	919	920
Amortisation of land use rights (Note 17)	525	526
Auditors' remuneration	783	760
Depreciation (Note 16)	28,371	25,565
Operating lease rentals in respect of land and buildings	510	468
Provision for impairment of trade receivables (Note 22(e))	37	35
Research and development costs	14,359	9,785
Staff costs (including emoluments of Directors and Supervisors) (Note 13)	39,555	29,557
Other expenses	98,356	90,821
Total cost of sales, selling expenses and administrative expenses	437,565	343,058

Included in research and development costs 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

	2010 Rmb'000	2009 Rmb'000
Interest on bank borrowings – wholly repayable within five years	6,938	6,883
Interest income on bank deposits	(462)	(264)
Net finance costs	6,476	6,619

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:

	2010 Rmb'000	2009 Rmb'000
Current income tax		
– Provision for CIT	10,065	7,582
– (Over)/under-provision in prior year	(79)	569
Deferred income tax (Note 29)	1,149	(1,077)
	11,135	7,074

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:

	2010 Rmb'000	2009 Rmb'000
Profit before income tax	86,994	49,941
Adjustment: share of profit of an associate	(10,441)	(3,538)
	76,553	46,403
Calculated at the tax rates applicable to results of the respective consolidated entities	11,586	6,687
Income not subject to tax	(58)	(1,671)
Expenses not deductible for tax purposes	76	1,363
Tax losses for which no deferred income tax asset was recognised	100	633
Utilisation of tax losses for which no deferred income tax asset was recognised	(166)	–
(Over)/under-provision in prior year	(79)	569
Others	(324)	(507)
Income tax expense	11,135	7,074

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 Rmb64,170,000 (2009: Rmb41,375,000).

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to the equity holders of the Company of Rmb75,773,000 (2009: Rmb43,203,000) and 622,944,000 (2009: 683,700,000) weighted average number of shares in issue during the year.

The Company had no dilutive potential shares in issue during the year (2009: Nil).

12 DIVIDENDS

No interim dividend was declared during the year (2009: Nil). The directors recommend the payment of a final dividend of Rmb0.043 per share, totalling Rmb22,777,000 for the year ended 31 December 2010. Such dividend is to be approved by the shareholders at the Annual General Meeting on 6 May 2011. These financial statements do not reflect this dividend payable.

	2010 Rmb'000	2009 Rmb'000
Final, proposed, of Rmb0.043 (2009: Nil) per share	22,777	–

13 STAFF COSTS

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

	2010 Rmb'000	2009 Rmb'000
Salaries, wages and related welfare	32,796	23,465
Social security costs	3,617	3,139
Contribution to defined contribution retirement schemes (note)	3,142	2,953
	39,555	29,557

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% (2009: 21%) of the total salaries and allowances of the PRC based employees, subject to a ceiling, and the Group has no further retirement benefit obligations to all its existing and future retired PRC based employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) The remuneration of each of the Directors of the Company for the year ended 31 December 2010 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	503	2,050	23	2,896
Mr. Pan Chun (Note (i))	–	278	526	23	827
Non-executive director					
Mr. Zeng Xian Biao	50	–	342	–	392
Mr. Yu Xiao Ping	50	–	342	–	392
Ms. Leng Yi Xin	50	–	342	–	392
Mr. Wang Jian Ping	50	–	342	–	392
Mr. Jiang Jun Jie (Note (ii))	23	–	157	–	180
Independent non-executive director					
Prof. Ouyang Ping Kai	85	–	–	–	85
Prof. Yang Sheng Li	85	–	–	–	85
Ms. Wei Xin	85	–	–	–	85

Notes:

(i) Mr. Pan was appointed as a Director on 18 June 2010.

(ii) Mr. Jiang ceased to be a Director on 17 June 2010.

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 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

None of the Directors waived any emoluments during the years ended 31 December 2010 and 2009.

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 2010 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	36	–	4	55
Mr. Lu He Xing	6	–	–	–	6
Mr. Pan Chun (Note (i))	3	–	–	–	3
Mr. Wan Yi Dong (Note (ii))	3	80	–	12	95
Prof. Gu Jian Xin (Note (iii))	4	–	–	–	4
Prof. Jiang Yao Zhong	15	–	–	–	15
Mr. Geng Gang (Note(ii))	8	–	–	–	8

Notes:

(i) Mr. Pan ceased to be a Supervisor on 17 June 2010

(ii) Mr. Wan and Mr. Geng were appointed as Supervisors on 18 June 2010

(iii) Prof. Gu ceased to be a Supervisor on 8 March 2010

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

None of the Supervisors waived any emoluments during the years ended 31 December 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	2010	2009
Director	3	1
Supervisor	0	2
Employees	2	2
	5	5

Details of the emoluments paid and payable to the above two employees (2009: two employees) are as follows:

	2010 Rmb'000	2009 Rmb'000
Basic salaries, allowances and benefits in kind	864	788
Discretionary bonus	171	15
Retirement benefit contributions	10	22
	1,045	825

None of the two employees' emolument exceed HK$1,000,000.

(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.

15 PATENTS

	Group		Company	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
Net book amount, at 1 January	8,530	9,450	4,278	4,944
Amortisation charge (Note 7)	(919)	(920)	(667)	(666)
Net book amount, at 31 December	7,611	8,530	3,611	4,278

	Group		Company	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
At cost	14,800	14,800	10,000	10,000
Accumulated amortisation	(7,189)	(6,270)	(6,389)	(5,722)
Net book amount, at 31 December	7,611	8,530	3,611	4,278

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 2009				
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
Year ended 31 December 2010				
Opening net book amount	91,373	147,767	14,603	253,743
Additions	–	–	47	47
Transfer from construction in progress (Note 18)	4,180	28,765	1,241	34,186
Disposals	–	(316)	(36)	(352)
Depreciation (Note 7)	(4,795)	(19,893)	(3,683)	(28,371)
Closing net book amount	90,758	156,323	12,172	259,253
At 31 December 2010				
Cost	112,020	250,666	27,397	390,083
Accumulated depreciation	(21,262)	(94,343)	(15,225)	(130,830)
Net book amount	90,758	156,323	12,172	259,253

Depreciation expense of Rmb24,272,000 (2009: Rmb22,305,000) and Rmb4,099,000 (2009: Rmb3,260,000) had been charged in "cost of sales" and "administrative expenses" respectively in 2010.

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 2009				
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
Year ended 31 December 2010				
Opening net book amount	84,383	147,504	14,067	245,954
Transfer from construction in progress (Note 18)	4,180	28,765	1,241	34,186
Disposals	–	(316)	(36)	(352)
Depreciation	(4,588)	(19,829)	(3,447)	(27,864)
Closing net book amount	83,975	156,124	11,825	251,924
At 31 December 2010				
Cost	104,776	249,491	25,739	380,006
Accumulated depreciation	(20,801)	(93,367)	(13,914)	(128,082)
Net book amount	83,975	156,124	11,825	251,924

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	
	2010	2009	2010	2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net book amount, at 1 January	23,479	24,005	10,099	10,339
Amortisation charge (Note 7)	(525)	(526)	(241)	(240)
Net book amount, at 31 December	22,954	23,479	9,858	10,099

	Group		Company	
	2010	2009	2010	2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost	26,275	26,275	12,040	12,040
Accumulated amortisation	(3,321)	(2,796)	(2,182)	(1,941)
Net book amount, at 31 December	22,954	23,479	9,858	10,099

18 CONSTRUCTION IN PROGRESS

	Group and Company	
	2010	2009
	Rmb'000	Rmb'000
At 1 January	33,468	59,479
Additions	35,020	20,832
Transfer to property, plant and equipment (Note 16)	(34,186)	(46,843)
At 31 December	34,302	33,468

19 INVESTMENTS IN AND AMOUNT DUE FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	2010 Rmb'000	2009 Rmb'000
Unlisted equity investments, at cost	24,149	23,794

Details of the subsidiaries at 31 December 2010 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% (2009:100%)	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	57.44% (2009:78%)	Research and development of medicine and nutraceutical products
Chang Mao International Ltd.	Canada, limited liability company	USD200,000	100% (2009: Nil)	Trading of organic acids

(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 2010 is the fair value of the amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 INVESTMENT IN AN ASSOCIATE

(a) The Group

	2010 Rmb'000	2009 Rmb'000
At 1 January	17,966	9,182
Additional capital contribution to the associate		
– cost of acquisition	–	5,246
Share of profit after tax	10,441	3,538
At 31 December	28,407	17,966

The Group's interest in its associate at 31 December 2010 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 %
2010:							
常州蘭陵制葯有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.)	Rmb9,695,000 unlisted	PRC	47,944	19,537	40,600	10,441	38.78
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

20 INVESTMENT IN AN ASSOCIATE (Continued)

(b) The Company

	2010 Rmb'000	2009 Rmb'000
Unlisted equity investment, at cost	10,936	10,936

(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	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
Raw materials	37,905	27,011	37,816	26,922
Work-in-progress	8,941	8,723	8,941	8,723
Finished goods	71,099	66,241	71,099	66,166
	117,945	101,975	117,856	101,811

22 TRADE RECEIVABLES

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

	Group		Company	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
0 to 3 months	77,808	45,286	75,147	45,286
4 to 6 months	423	700	423	700
Over 6 months	653	764	653	764
	78,884	46,750	76,223	46,750
Less: Provision for impairment of trade receivables	(331)	(294)	(331)	(294)
	78,553	46,456	75,892	46,456

22 TRADE RECEIVABLES (Continued)

(b) As at 31 December 2010, trade receivables of approximately Rmb1,242,000 (2009: Rmb2,179,000) 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	
	2010	2009
	Rmb'000	Rmb'000
0 to 3 months	934	1,012
4 to 6 months	308	660
Over 6 months	–	507
	1,242	2,179

(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	
	2010	2009	2010	2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Rmb	41,619	25,393	38,958	25,393
USD	37,265	21,357	37,265	21,357
	78,884	46,750	76,223	46,750
Less: Provision for impairment of trade receivables	(331)	(294)	(331)	(294)
	78,553	46,456	75,892	46,456

22 TRADE RECEIVABLES (Continued)

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

	Group and Company	
	2010 Rmb'000	2009 Rmb'000
At 1 January	294	259
Provision for impairment of trade receivables	37	35
At 31 December	331	294

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

23 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2010, 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 2010 are approximately Rmb17,307,000 (2009: Rmb22,062,000). These foreign exchange forward contracts held for trading are expected to be settled within the 12 months.

24 PLEDGED BANK BALANCES AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
Pledged bank balances	14,493	6,856	14,493	6,856
Cash and cash equivalents	47,150	76,132	44,356	73,595
Total	61,643	82,988	58,849	80,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Group		Company	
	2010	2009	2010	2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Denominated in:				
– Rmb	52,363	64,663	50,675	62,126
– USD	9,016	18,276	8,145	18,276
– CAD	235	–	–	–
– HKD	29	49	29	49
	61,643	82,988	58,849	80,451

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 1 January 2009 and 31 December 2009	683,700,000	68,370
Share repurchase	(154,000,000)	(15,400)
At 31 December 2010	529,700,000	52,970

As at 31 December 2010, the share capital of the Company comprised 65 million (2009: 219 million) domestic shares, 281 million (2009: 281 million) promoter foreign shares and 183.7 million (2009: 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.

25 SHARE CAPITAL (Continued)

On 8 September 2009, the Company entered into an off-market share repurchase agreement ("Repurchase Agreement") with Shuguang Factory, a shareholder, 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 in which the shareholders approved the Repurchase Agreement and authorised the Board of Directors to carry out all necessary procedures to complete the Repurchase Agreement.

Pursuant to the Company's Articles of Association and upon completion of the Share Repurchase in August 2010, the repurchased shares were cancelled and the amount was transferred to share premium and accordingly the registered and issued share capital of the Company was reduced by the nominal value of these shares. The consideration paid was accounted for as a reduction of retained earnings (Note 26).

During the year ended 31 December 2010, the Company already paid RMB43,120,000. As at 31 December 2010, the remaining consideration of Rmb43,120,000 payable to Shuguang Factory in relation to the Share Repurchase was included in other payable and accrued charges which is expected to be settled in 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RESERVES

	Group					
	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation 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

	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2010	87,159	42,705	–	–	219,045	348,909
Share repurchase (Note 25)	15,400	–	–	–	(86,240)	(70,840)
Gain on partial disposal of interest in a subsidiary (note a)	–	–	461	–	–	461
Transfer of profit to statutory reserve	–	6,799	–	–	(6,799)	–
Profit for the year	–	–	–	–	75,773	75,773
Other comprehensive income – currency translation difference- Group	–	–	–	25	–	25
At 31 December 2010	102,559	49,504	461	25	201,779	354,328
Representing:						
2010 proposed final dividend					22,777	
Others					179,002	
					201,779	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RESERVES (Continued)

Note a: During the year, the Company disposed of 20.56% equity interest in Shanghai Medical Life Science Research Centre Limited at a consideration of Rmb1,000,000 to an independent third party. As a result of the disposal, the Group's interest in Shanghai Medical Life Science Research Centre Limited was diluted from 78% to 57.44%. The disposal has resulted in a gain of Rmb461,000, which was accounted for directly in equity for the year ended 31 December 2010.

Company

	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

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2010	87,159	42,705	214,485	344,349
Share Repurchase (Note 25)	15,400	–	(86,240)	(70,840)
Transfer of profit to statutory reserve	–	6,799	(6,799)	–
Profit and total comprehensive income for the year	–	–	64,170	64,170
At 31 December 2010	102,559	49,504	185,616	337,679

Representing:	
2010 proposed final dividend	22,777
Others	162,839
	185,616

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 TRADE AND BILLS PAYABLES

	Group and Company	
	2010	2009
	Rmb'000	Rmb'000
Trade payables (Note (a))	21,445	13,464
Bills payable (Note (b))	16,480	15,491
	37,925	28,955

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

	Group and Company	
	2010	2009
	Rmb'000	Rmb'000
0 to 6 months	21,229	13,427
7 to 12 months	181	6
Over 12 months	35	31
	21,445	13,464

(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.

28 BANK BORROWINGS

Bank borrowings are analysed as follows:

	Group and Company	
	2010	2009
	Rmb'000	Rmb'000
Unsecured, short-term bank borrowings	107,000	130,000

The maturity of borrowings is as follows:

	Group and Company	
	2010	2009
	Rmb'000	Rmb'000
Within 1 year	107,000	130,000

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

As at 31 December 2010, the effective interest rates of the bank borrowings were as follows:

	Group and Company	
	2010	2009
Short-term bank borrowings, at fixed rate	4.9%	5.1%
Short-term bank borrowings, at floating rate	5.4%	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 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 tax jurisdiction. The offset amounts are as follows:

	Group		Company	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
Deferred tax assets to be recovered within 12 months	603	1,733	421	1,541
Deferred tax liabilities to be settled after more than 12 months	(976)	(957)	–	–
Deferred tax assets/(liabilities) – net	(373)	776	421	1,541

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

	Group		Company	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
At 1 January	776	(301)	1,541	390
(Charged)/credited to the statement of comprehensive income (Note 9)	(1,149)	1,077	(1,120)	1,151
At 31 December	(373)	776	421	1,541

29 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 31 January 2009	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
Charged to the statement of comprehensive income	(13)	(1,117)	(1,130)	(1,120)
At 31 December 2010	116	487	603	421

Deferred tax liabilities – Group:

	Fair value gain on patents Rmb'000
At 1 January 2009	833
Charged to consolidated statement of comprehensive income	124
At 31 December 2009	957
Charged to consolidated statement of comprehensive income	19
At 31 December 2010	976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 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 Rmb991,000 (2009: Rmb1,302,000) in respect of losses amounting to approximately Rmb5,890,000 (2009: Rmb6,431,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	Group	
	2010	2009
	Rmb'000	Rmb'000
2010	–	1,359
2011	1,655	1,655
2012	1,035	1,035
2013	1,711	1,711
2014	671	671
2015	486	–
2030	332	–
	5,890	6,431

The Company had no unrecognised deferred tax liabilities as at 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2010 Rmb'000	2009 Rmb'000
Profit before income tax	86,994	49,941
Adjustments for:		
Interest income	(462)	(264)
Interest expense	6,938	6,883
Amortisation of patents	919	920
Depreciation	28,371	25,565
Loss on disposal of property, plant and equipment	40	19
Amortisation of land use rights	525	526
(Write-back)/provision for inventories to net realisable value	(7,414)	7,224
Provision for impairment of trade receivables	37	35
Fair value gains on derivative financial instruments	(90)	(821)
Exchange gain	25	–
Share of profit of an associate	(10,441)	(3,538)
	105,442	86,490
Changes in working capital:		
Inventories	(8,556)	21,174
Trade receivables, other receivables and prepayments	(35,263)	(18,654)
Trade and bills payables, other payables and accrued charges	10,950	14,753
Amount due to a shareholder	(3)	(1,309)
Cash generated from operations	72,570	102,454

30 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	
	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000	2010 Rmb'000	2009 Rmb'000
At 1 January	(21,560)	–	130,000	144,500	–	–
New bank borrowings	–	–	127,000	181,500	–	–
Repayment of bank borrowings	–	–	(150,000)	(196,000)	–	–
2008 final dividend	–	–	–	–	–	10,256
Dividends paid	–	–	–	–	–	(10,256)
Settlement upon repurchase of shares	21,560	(21,560)	–	–	–	–
At 31 December	–	(21,560)	107,000	130,000	–	–

31 COMMITMENTS

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

	Group and Company	
	2010 Rmb'000	2009 Rmb'000
Authorised but not contracted for	–	–
Contracted but not provided for	9,158	–
	9,158	–

31 COMMITMENTS (Continued)

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2010, 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	
	2010	2009
	Rmb'000	Rmb'000
Not later than one year	174	341
Later than one year and not later than five years	–	180
	174	521

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

32 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) Transactions with a former shareholder – Group and Company

Shuguang Factory was a related party for the period from 1 January 2010 to 9 August 2010 in the capacity of a shareholder of the Company. Shuguang Factory ceased to be a shareholder of the Company since 10 August 2010. The Group entered into the following significant transactions in the ordinary course of business with Shugang Factory and its subsidiary for the period from 1 January 2010 to 9 August 2010:

	2010	2009
	Rmb'000	Rmb'000
Purchases of raw materials from Shuguang Factory (note (a))	402	7
Transportation expenses charged by the subsidiary of Shuguang Factory (note (b))	126	372

32 RELATED PARTY TRANSACTIONS (Continued)

(i) Transactions with a former shareholder – Group and Company (Continued)

(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.

(ii) Transaction with an associate – Group

On 29 June 2010, Shanghai Medical Life Science Research Centre Limited ("Shanghai Life Science"), a subsidiary of the Company, entered into a cooperation agreement with Changzhou Lanling Pharmaceutical Production Co., Ltd. ("Lanling Pharm"), an associate of the Company, in relation to the joint research and development of new drug products with patent of lentinan hexaose owned by Shanghai Life Science. Income received by Shanghai Life Science from Lanling Pharm during the year was:

	2010 Rmb'000	2009 Rmb'000
Income from joint research and development of a patent	2,000	–

(iii) Key management compensation – Group

	2010 Rmb'000	2009 Rmb'000
Salaries and other short-term employee benefits	3,834	1,004
Retirement benefit contributions	46	19
	3,880	1,023

FIVE YEAR SUMMARY

	2006 Rmb'000	2007 Rmb'000	2008 Rmb'000	2009 Rmb'000	2010 Rmb'000
Consolidated results					
Turnover	321,440	397,420	418,426	385,302	515,574
Operating profit	79,687	50,384	58,112	53,022	83,029
Finance costs, net	(5,219)	(10,489)	(11,414)	(6,619)	(6,476)
Share of (loss)/profit of an associate	(123)	801	2,349	3,538	10,441
Profit before income tax	74,345	40,696	49,047	49,941	86,994
Income tax expense	(6,987)	(6,078)	(3,413)	(7,074)	(11,135)
Profit for the year	67,358	34,618	45,634	42,867	75,859
Profit for the year attributable to:					
Equity holders of the Company	67,358	34,648	45,929	43,203	75,773
Non-controlling interest	–	(30)	(295)	(336)	86
Dividends	15,041	–	10,256	–	22,777
Consolidated assets and liabilities					
Total non-current assets	317,942	337,328	334,996	338,919	356,226
Total current assets	184,465	219,402	239,161	266,535	274,870
Total current liabilities	(183,611)	(216,577)	(188,247)	(186,809)	(221,788)
Net current assets	854	2,825	50,914	79,726	53,082
Total assets less current liabilities	318,796	340,153	385,910	418,645	409,308
Total non-current liabilities	–	(710)	(833)	(957)	(976)
Net assets	318,796	339,443	385,077	417,688	408,332
Earnings per share					
– basic and diluted	Rmb0.099	Rmb0.051	Rmb0.067	Rmb0.063	Rmb0.122

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2010 annual general meeting ("AGM") of Changmao Biochemical Engineering Company Limited (the "Company") will be held at 10:30 a.m. on Friday, 6 May 2011 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 2010;

2. To consider and approve the final dividend distribution proposal for the year ended 31 December 2010;

3. To consider and approve the appropriation to statutory common reserve for the year ended 31 December 2010;

4. 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 2011 and PricewaterhouseCoopers as the international auditor of the Company for the year 2011 and to authorise the Board to fix their remunerations;

5. To transact any other business.

As special resolution:

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

   (a) "**THAT** subject to the limitations imposed by (c) and (d) below and in accordance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), the Company Law of the PRC, and other applicable laws and regulations (in each case as amended from time to time), a general unconditional mandate be and is hereby granted to the

NOTICE OF ANNUAL GENERAL MEETING

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, 14 March 2011

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. Holders of H Shares are advised that the register of members of the Company will close from 5 April 2011 to 6 May 2011 (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 4 April 2011 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 4 April 2011.

2. Shareholders who intend to attend the AGM should complete and lodge the accompanying reply slip and return it on or before 15 April 2011. 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