常茂生物化學工程股份有限公司
Changmao Biochemical Engineering Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8208)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

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This announcement, 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 announcement 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 announcement misleading.*

* *For identification purpose only*

HIGHLIGHTS

- Turnover of approximately Rmb515,574,000 for the year ended 31 December 2010, representing an increase of 34% as compared to that of last year

- Net profit of approximately Rmb75,773,000 for the year ended 31 December 2010, representing an increase of 75% as compared to that of last year

- The Directors recommend the payment of a final dividend of Rmb0.043 (inclusive of tax) per share for the year ended 31 December 2010

The board of Directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is pleased to present the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010 together with the audited comparative figures for the year ended 31 December 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010** *Rmb'000*	2009 *Rmb'000*
Turnover	2	**515,574**	385,302
Cost of sales	4	**(378,212)**	(295,961)
Gross profit		**137,362**	89,341
Other income	3	**6,582**	10,951
Other losses, net	3	**(1,562)**	(173)
Selling expenses	4	**(10,028)**	(8,127)
Administrative expenses	4	**(49,325)**	(38,970)
Operating profit		**83,029**	53,022
Finance costs, net	5	**(6,476)**	(6,619)
Share of profit of an associate		**10,441**	3,538
Profit before income tax		**86,994**	49,941
Income tax expense	6	**(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	7	**Rmb0.122**	Rmb0.063
Dividends	8	**22,777**	–

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	**2010**	2009
		Rmb'000	*Rmb'000*
ASSETS			
Non-current assets			
Patents		**7,611**	8,530
Property, plant and equipment		**259,253**	253,743
Land use rights		**22,954**	23,479
Construction in progress		**34,302**	33,468
Investment in an associate		**28,407**	17,966
Prepayments		**3,096**	–
Deferred income tax assets		**603**	1,733
		356,226	338,919
Current assets			
Inventories		**117,945**	101,975
Trade receivables	9	**78,553**	46,456
Other receivables and prepayments		**16,685**	13,556
Amount due from a shareholder		**–**	21,560
Derivative financial instruments		**44**	–
Pledged bank balances		**14,493**	6,856
Cash and cash equivalents		**47,150**	76,132
		274,870	266,535
Total assets		**631,096**	605,454
EQUITY			
Capital and reserves attributable to Company's equity holders			
Share capital		**52,970**	68,370
Reserves	10	**354,328**	348,909
		407,298	417,279
Non-controlling interests		**1,034**	409
Total equity		**408,332**	417,688

	Note	2010 Rmb'000	2009 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**976**	957
Current liabilities			
Amount due to a shareholder		**–**	3
Trade and bills payables	11	**37,925**	28,955
Other payables and accrued charges		**73,693**	26,098
Derivative financial instruments		**–**	46
Income tax payable		**3,170**	1,707
Bank borrowings		**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

NOTES:

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.

Changes in accounting policy and disclosures

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'
- HK(IFRIC) 17, 'Distribution of non-cash assets to owners'
- HK(IFRIC) 18, 'Transfers of assets from customers'
- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, 'Financial instruments: Recognition and measurement'
- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation'
- HKAS 38 (amendment), 'Intangible assets'
- HKAS 1 (amendment), 'Presentation of financial statements'
- HKAS 17 (amendment), 'Leases'
- HKAS 36 (amendment), 'Impairment of assets'
- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions'
- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'

2 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	2009
	Rmb'000	*Rmb'000*
Turnover		
Sales of goods	**515,574**	385,302

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

	2010	2009
	Rmb'000	*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.

3 OTHER INCOME AND OTHER LOSSES, NET

	2010	2009
	Rmb'000	*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	**2,000**	–
Others	**329**	–
	6,582	10,951

	2010	2009
	Rmb'000	*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)

4 EXPENSES BY NATURE

	2010	2009
	Rmb'000	*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	**919**	920
Amortisation of land use rights	**525**	526
Auditors' remuneration	**783**	760
Depreciation	**28,371**	25,565
Operating lease rentals in respect of land and buildings	**510**	468
Provision for impairment of trade receivables	**37**	35
Research and development costs	**14,359**	9,785
Staff costs (including emoluments of Directors and Supervisors)	**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 recognised those expenditure as an asset.

5 FINANCE COSTS, NET

	2010	2009
	Rmb'000	*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

6 INCOME TAX EXPENSE

People's Republic of China ("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	2009
	Rmb'000	*Rmb'000*
Current income tax		
– Provision for CIT	**10,065**	7,582
– (Over)/under-provision in prior year	**(79)**	569
Deferred income tax	**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	2009
	Rmb'000	*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

7 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).

8 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	2009
	Rmb'000	*Rmb'000*
Final, proposed, of Rmb0.043 (2009: Nil) per share	**22,777**	–

9 TRADE RECEIVABLES

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

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

10 RESERVES

	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
At 1 January 2010	**87,159**	**42,705**	**–**	**–**	**219,045**	**348,909**
Share Repurchase	**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	

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.

11 TRADE AND BILLS PAYABLES

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

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

	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.

BUSINESS REVIEW AND OUTLOOK

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.

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 6.5million 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.

(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.

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 Changmao 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.

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.

(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.

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 as 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 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had total outstanding unsecured bank borrowings of Rmb 107 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 liabilities-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: Rmb 76,132,000). 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.

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 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.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising two independent non-executive directors, has reviewed with the management and approved the financial statements for the year ended 31 December 2010.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the Share Repurchase as stated in the paragraph "Capital Structure of the Company" above, 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.

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.043 (inclusive of tax) per share, totalling approximately Rmb22,777,000 for the year ended 31 December 2010. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It is intended that the dividend will be payable on or before 31 July 2011 to the holders of Domestic Shares, Foreign Shares and H Shares whose names appear on the register of member of the Company at 4:30 p.m. on 11 April 2011.

According to the Law on Corporate Income Tax of the People's Republic of China and the relevant implementing rules which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident enterprise shareholders as appearing on the H Share register of members of the Company on their behalves. Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the corporate income tax.

CLOSURE OF H SHARE REGISTER

The H Share register of shareholders of the Company will be closed from 5 April 2011 to 6 May 2011 (both days inclusive), during which no transfer of H Shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 4 April 2011.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2010 will be held on 6 May 2011. A notice convening the annual general meeting will be published in due course.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2010 and 2009.

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 Rmb 1 million. After the disposal, the Company's 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 sales 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.

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, the supervisors of the Company ("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:

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

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

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

(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 at 31 December 2010.

(m) The percentage is calculated based on the 281,000,000 Foreign Shares in issue 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.

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 and 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%
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 the 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 at 31 December 2010.

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

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 and were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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.

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.

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

At the date of this announcement, 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.

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Mr. Rui Xin Sheng is the Chairman of the Board and the General Manager of the Company. Save that, 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2010, 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.

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 considers the independent non-executive Directors remained independent.

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 has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including to review, inter alia, the Group's quarterly, interim and annual results during the year ended 31 December 2010 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 8 March 2011

As at the date hereof, Mr. Rui Xin Sheng (Chairman) and Mr. Pan Chun are the executive Directors, Mr. Zeng Xian Biao, Mr. Yu Xiao Ping, Mr. Wang Jian Ping and Ms. Leng Yi Xin are the non-executive Directors, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin are the independent non-executive Directors.

This announcement will remain at www.hkgem.com on the "Latest company announcements'' page of the GEM website for at least 7 days from the date of its posting and on the Company's website at www.cmbec.com.hk.