ANNUAL REPORT 2012

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.

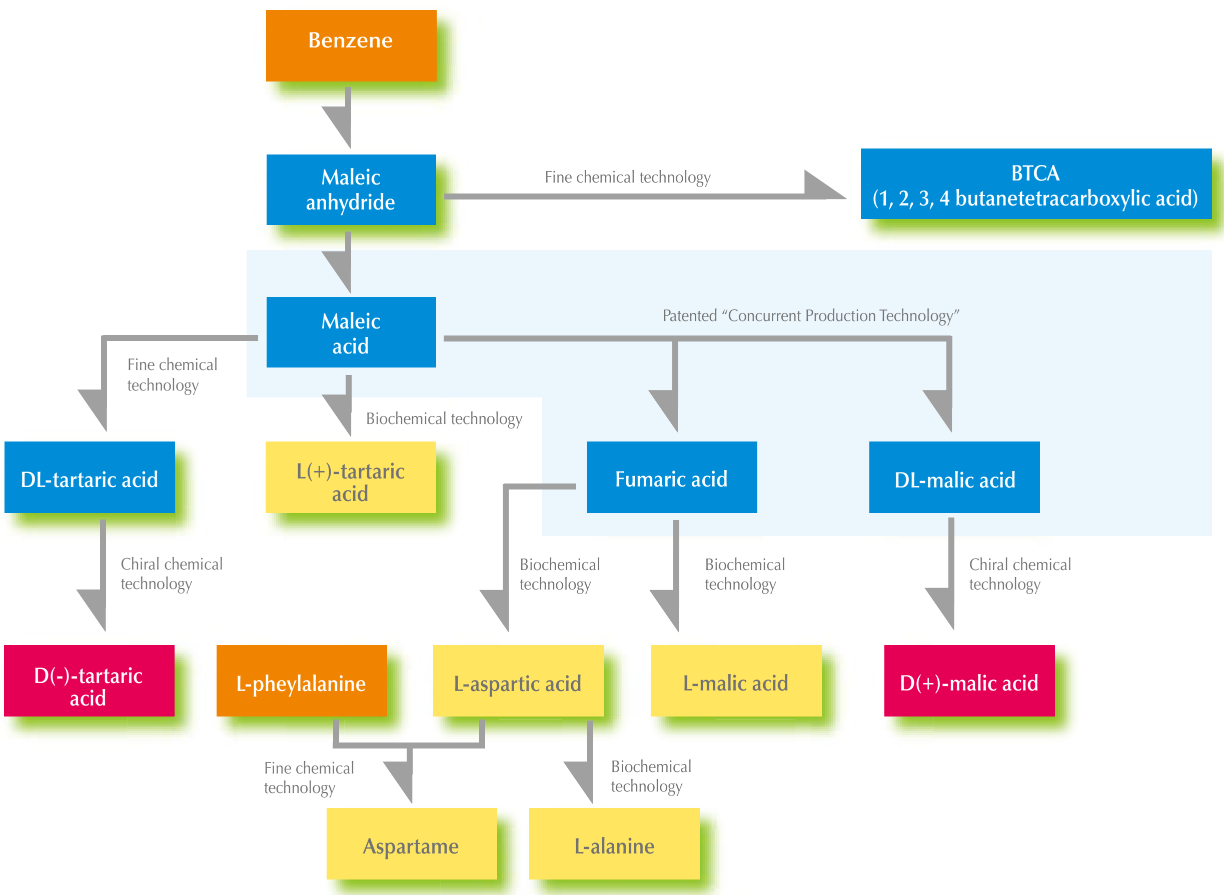
CONTENTS

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

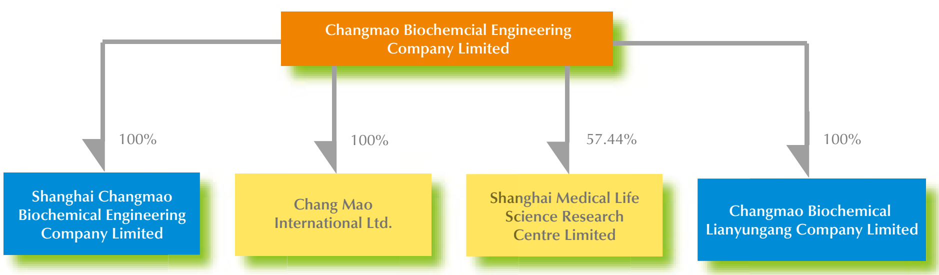


CORPORATE PROFILE

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, Environmental Management System ISO14001 and ISO2200 Food Safety System Certification. 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*

* *chairman of the relevant committee*

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

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

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PRINCIPAL BANKERS
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Changzhou Branch, the PRC

Industrial and Commercial Bank of China
Changzhou Branch, the PRC

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
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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 directors of the Company (the "Board"), I am pleased to present the annual report of the Company for the year ended 31 December 2012. In 2012, under the concerted efforts of the Board and all the staff, the Group maintained steady production and operation, achieved satisfactory sales performance. Project construction made headway as planned. International collaboration, research and development and management were satisfactorily operated. The Group's development reflected a positive and health trend in general.

RESULTS FOR THE YEAR

The Group recorded a turnover of Rmb653,218,000 for the year ended 31 December 2012, which represented an increase of 5.3% as compared to that of last year, net profit was Rmb49,455,000, which represented an increase of 20.3% as compared to that of last year. Despite of higher prices in raw materials, salaries increment of employees and increased operating costs as a result of the expansion of the Group in 2012, all staff of the Group worked together to improve production efficiency, expand sales aspects and enhance management efficiency, achieving a sustainable growth of sales revenue and net profit.

BUSINESS REVIEW

(I) Production

As for production, the Group's yearly target is to focus on increasing the efficiency of the production lines, increasing the production volume and reducing the wastage rate and energy consumption. It has optimized its production technology and breakthrough bottlenecks, reducing energy consumption as compared with the same period of last year while increasing total production volume, thus it effectively controlled its production cost. Through technology upgrade, maleic anhydride workshop utilised the steam generated from oxidation reaction to drive turbine-driven fans for production as an alternative energy which manages to reduce the cost. After a series of technology improvement and alteration and

CHAIRMAN'S STATEMENT

expansion, the Group has increased the production volume of its core product tartaric acid significantly and achieved a better economic efficiency. In addition, the quality of aspartame has been further enhanced after technology upgrade, strengthening the Group's market competitiveness. As for other products, the production was also adjusted accordingly to cater for market demand. In 2012, the Group continued to enjoy economies of scale effectively.

(II) Market Expansion

Faced with complicated market conditions domestically and abroad in 2012, our capable sales team responsively adjusted its sales strategies, accelerated information exchange and strengthened its bargain power, as well as directly explored end market to reduce intermediate links. By expanding the markets for the Group's core products, our sales team has increasingly improved our brand awareness and customer recognition. Despite of the impact of anti-dumping duty cases in EU, our tartaric acid, due to its excellent quality, is still enjoying a high market reputation both at home and abroad, achieving steady growth in sales and making a greater contribution to the Group's results. Meanwhile, in 2012, the Group obtained FSSC22000 (Food Safety System Certification), and passed site examination for its malic acid and aspartame by several well-known international and domestic food production enterprises, which will help open new sales aspects directly to end customers in the future.

(III) Research and Development and Projects

1. *Natural organic acids project*

The Group's "Natural four-carbon series edible organic acid" project, which is a project using renewable resources such as beans and corns as raw materials to produce organic acids, progressed smoothly. Its infrastructure and installation of production lines have already been completed. "Fumaric Acid Produced through Biology Fermentation Process" and "natural malic acid" projects conducted by the Group's post-doctoral research centre have been commenced for trial production at new workshops. In particular, a limited number of orders were received for natural malic acid, which constituted sales. In addition, the Group's invention patents relating to natural fumaric acid and natural malic acid were granted. The development of natural edible organic acid project fits modern people's pursuit of natural and healthy life and represents a trend for domestic and overseas food additives. The natural edible organic acid will undoubtedly make valuable contribution to the Group's future growth.

CHAIRMAN'S STATEMENT

2. *New-type vitamin pyrroloquinoline quinine ("PQQ") project*

   The Group developed the application of PQQ in feed additives, which is currently progressing well. The safety test and the experiment of the efficiency of PQQ as a new feed additive have been completed. According to the research, the addition of an appropriate amount of PQQ into the diet of laying hens may improve laying performance and enhance antioxidant ability of the organism, while adding into the diet of broiler chickens may promote growth and enhance antioxidant ability of the organism, thus increasing the carcass percentage. The Group will continue to carry out the research for the use of PQQ in feed additives, and plans to apply to the Ministry of Agriculture of the PRC for the use of PQQ as a feed additive. In addition, the research team of the Group has applied for a domestic invention patent in respect of other applications of PQQ.

3. *Pharmaceutical adjuvant and active pharmaceutical ingredients (API) project*

   In 2012, in order to extend product chains and increase the added value of its products, the Group commenced the development of the pharmaceutical adjuvant project, and intended to report four varieties, i.e. DL-malic acid, L-malic acid, L(+) – tartaric acid and aspartame. The GMP workshop and biochemical test laboratory for pharmaceutical adjuvant have passed the examination for cleanliness by the Municipal Institute for Drug Control (市藥檢所). The increase of the items on the production license for pharmaceutical adjuvant and the preparation for registration of pharmaceutical adjuvant are also in progress. The Group will also put more efforts into research and development by reinforcing the collaboration with colleges, research institutes and drug manufacturers in the development of new species of pharmaceutical adjuvant and expansion of the pharmaceutical adjuvant product mix. Meanwhile, the Group completed the re-registration of the API with the Food and Drug Administration of Jiangsu Province and initiated production line improvements of GMP workshop and trial production for the APIs, which is progressing well.

4. *Alternative sweetener project*

   Leveraging on its large customer base in the food additives market, the Group has aggressively developed high value-added alternative sweetener – sucralose to increase the species of sweetener products. Sucralose, as a powerful non-nutritive sweetener, has such advantages as high sweetness, pure taste, good stability and high degree of safety, as well as not absorbed by the body, which is in line with the trend of prevailing sweetener. The product has a high added value and good market prospect. Currently, the lab and trial technology research is completed, and an invention patent has been applied for. At present, the trial production and project design is in progress. In addition, the patent for the production technology of an additional sweetener of the Group – neotame was authorized.

CHAIRMAN'S STATEMENT

(IV) Management

The Group has combined information technologies with production safety by adopting the efficient operation of ISO9001 quality management system, ISO14001 environment management system and FSSC22000 food safety management system to standardize the management and increase competitiveness of the Group. In 2012, the Group continued to advance its safety standardization, improve its safety system and promote environment protection projects. It was recognised again as a "Production Safety Credit Enterprise in Jiangsu Province (江蘇省安全誠信企業)" and a "Green Enterprise in Changzhou (常州市綠色企業)".

Regarding brand building, the Group's tartaric acid and malic acid were recognised as "Famous Brand Product of Jiangsu Province" and aspartame got accredited as "Famous Brand Product of Changzhou City". Besides, the figurative mark of Changmao was recognised as a "Famous Trademark in Jiangsu Province", which laid a foundation for the sustainable upgrade and internationalization of Changmao's brand.

(V) Investment projects

To further speed up the development of Changmao Group, the Group decided to set up a new production base, which is a wholly owned subsidiary named Changmao Biochemical Lianyungang Limited (常茂生物連雲港有限公司) located in Guanyun County, Lianyungang, Jiangsu Province with a registered capital of RMB50,000,000, in 2012 after conducting thorough research and on-site investigation in various provinces and cities in the country. The preliminary infrastructure work was under progress as scheduled and planned to put into operation in 2013. The newly set up Changmao Biochemical Lianyungang Limited focused on the production of sucralose, a new type of sweetener, PQQ, a feed additive, and other new products in order to extend product chain, enhance the advantage of economies of scale and create new economic growth.

FUTURE AND PROSPECT

Domestic and overseas economic conditions are facing more and more uncertainties, and there will always be fierce competition. In response, the Group will further enhance its ability to fend off market fluctuations, speed up the adjustment of its product mix by economies of scale as well as strong research and development and marketing capability, continue to develop new products and continue to expand into new markets to capture growth opportunities. In 2013, the Group will concentrate on the following areas:

(I) Accelerating technology innovation and promoting product upgrade

The Group will put more efforts into technology innovation to consolidate its existing resources and research team, build a more optimised product mix through cultivating new products like natural food additives and PQQ with strong competitiveness as planned. Moreover, it will reorganise product structure, extend product chain and enhance the added value of products to meet the trend of the pursuit of human health and natural, and enhance the Group's competitiveness in the high-end product market, and to seek new profit source of the Group.

CHAIRMAN'S STATEMENT

(II) Adjusting sales strategies and attracting high-end customers

The Group will strive to attract major customers and end-customers by optimising its sales structure, tap the market potential, and developing a steady, sustainable market for its products. It will further cooperate with a number of locally and internationally renowned food companies for its major products including tartaric acid, malic acid and aspartame. This will help open new international sales aspects, direct access by end customers and expand international sales networks. It will also facilitate steady growth in sales, and constantly improve the economic efficiency.

(III) Building brand reputation and registering international trademarks

The Group builds its brand name with high product quality, promotes its brand with trademarks and gains customers with its brand name. It will continue to implement a strategic plan for its brand, gradually upgrade the level of its trademarks and register trademarks overseas systematically. The Group will enhance its global brand awareness, continue its brand upgrade, improve its customers' satisfaction with and loyalty to Changmao brand, and increase its market share.

(IV) Establishment and operation of a wholly owned subsidiary – Changmao Biochemical Lianyungang Limited

Changmao Biochemical Lianyungang Limited will be the new focus of the Group's future development. Lianyungang is suitable for investment and mass production of food additives, and enjoys lower production cost compare to Changzhou. The establishment and operation of this subsidiary will further enhance the advantage of economies of scale of the Group and promote the upgrade of the existing production chain, which is in line with the strategic target of developing high value-added food additives. Besides, this will further perfect food additives series like sweeteners and acidulants so as to provide raw materials to high-end food producers worldwide, bring new drivers to the Group's development, increase comprehensive competitiveness and will be the new profit centre of the Group.

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 capitalise on its research and production strength to develop new functional food additives, natural food additives and nutraceutical products. The Group will continue to extend its production chain, expand its scale and strengthen its power, create new record and achieve new breakthroughs.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board I would like to thank the continuing concern and assistance from peers and business partners from all circles. I would also like to express my appreciation to the full support to all projects of the Group by all shareholders and a great deal of thanks goes out to our hardworking staff for their hard work. Let's hold hands together and create a brighter Changmao Group.

Rui Xin Sheng
Chairman

The PRC, 6 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit margin

The Group recorded a turnover of Rmb653,218,000 for the year ended 31 December 2012, which has increased by 5.3% as compared to that for the year ended 31 December 2011. The sales volume of major products, L(+)-tartaric acid and L-malic acid had increased as compared to last year. Although the price of major raw material and the salary of direct labour both increased, the increase in product price as well as the effectiveness of the measures on reducing costs and increasing efficiency and enhancement in production management level helped the slight improvement in gross margin. The Group will continue to control its production costs through the refinement in production technology and develop new products with higher gross margin.

Expenses

Selling and administrative expenses in 2012 increased as compared to that of 2011 due to the continuous growth of business and production volume and increase in staff costs, the Group has increased scale of the Group's research and development, and devoted more effort into marketing and promotion this year.

Share of profit of an associate and other gains, net

The Group has completed the disposal of all of its equity interest in its associate, Changzhou Lanling Pharmaceutical Production Co., Ltd. ("Lanling Pharm"), (38.78%) in June 2012 and this made the Group recorded a net gain of approximately Rmb11,231,000 before tax. The net gain after tax from the disposal of an associate was approximately Rmb 8,654,000.

Income tax

The Company is entitled to a preferential corporate income tax rate of 15% for year ended 31 December 2012. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

Net profit

The Group recorded a net profit of approximately Rmb49,455,000 for the year ended 31 December 2012. Taking out the effect of net gain from disposal of an associate after tax, the net profit would be Rmb40,801,000, which would be approximately the same level as that of last year.

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 50% (2011: 53%) of the Group's turnover while domestic sales in the PRC accounted for approximately 50% (2011: 47%) of turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to 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 2012, the Group had total outstanding bank borrowings of Rmb144,456,000 (2011: Rmb177,000,000). Rmb29,456,000 of these bank loans (2011: Nil) are secured by a USD bank deposit of RMB4,089,000. They 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 2012 was approximately 5.8% (2011: 6.4%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2012 and 2011, the Group did not have any committed borrowing facilities.

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.

As at 31 December 2012, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb40,684,000 (2011: Rmb7,970,000). These capital commitments are mainly used for expansion of production lines and the building of new factory in Lianyungang. 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 2012. The liabilites-to-assets ratio (calculated based on total liabilities divided by total assets) was 29.9% (2011: 35.7%) as at 31 December 2012. As at 31 December 2012, the Group's cash and cash equivalents amounted to Rmb106,578,000 (2011: Rmb59,635,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2012, the Group employed a total of 552 employees (2011: 623 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 2012 was approximately Rmb50,485,000 (2011: Rmb40,933,000). Bonus to Directors and employees under the staff incentive scheme for the year ended 31 December 2012 was Rmb1,625,000 (2011: Rmb190,000). Excluding the bonus, staff cost including salary, welfare benefits and retirement benefits was approximately Rmb48,860,000 (2011: Rmb40,743,000). Staff cost increased as compared to that of last year mainly because of salary increment.

Under the staff incentive scheme for each of the three years ended 31 December 2013, 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 2012 and 2011.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

During the year, the Company has set up a wholly-owned subsidiary, Changmao Biochemical Lianyungang Company Limited with a registered capital of Rmb50 million. In addition, the Group has completed the disposal of all of its equity interest in its associate, Changzhou Lanling Pharmaceutical Production Co., Ltd., (38.78%) in June 2012. Save of the above, there are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2012.

CONTINGENT LIABILITIES

As at 31 December 2012 and 31 December 2011, 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 56, 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 43, 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 70, 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 57, 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 51, 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 51, 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 67, 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 72, 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 45, 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 58, 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 68, 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 39, 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 immobilised 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 76, 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS (Continued)

Independent Supervisors Nominated by Shareholders (Continued)

Mr. Geng Gang (耿剛), aged 52, 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 41, 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 44, 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 REPORT

The Company is committed to the maintaining of a high standard of corporate governance. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value.

CORPORATE GOVERNANCE CODE COMPLIANCE

The Board is responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 in Appendix 15 to the GEM Listing Rules.

Throughout the year ended 31 December 2012, the Company complied the code provisions of Corporate Governance Code ("CG Code") and Corporate Governance Report (revised and took effect on 1 April 2012) as well as those of the former Code on Corporate Governance Practice as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules, with the exception of Code Provisions A.2.1 (separation of roles of chairman and chief executives) and A.6.7 (directors attending general meetings).

Code provision A.2.1 of CG Code 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 provision A.6.7 of CG Code stipulates that non-executive Directors should attend general meetings. Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin were unable to attend the annual general meeting and extraordinary general meeting of the Company that held on 21 May 2012 due to prior business commitment.

The Company's corporate governance structure includes the board of directors and the supervisory committee. The Company has also established three committees under the Board, namely the Remuneration Committee, the Audit Committee and the Nomination Committee. The corporate governance practices adopted by the Company are as follows:

CORPORATE GOVERNANCE REPORT

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.

The Board meets regularly, and had met four times for the year ended 31 December 2012. Attendance of individual members of the Board meeting for the year ended 31 December 2012 is as follows:

	Name of Director	**Attended/ Eligible to attend**
Executive Directors	Rui Xin Sheng *(Chairman)*	4/4
	Pan Chun	4/4
Non-executive Directors	Zeng Xian Biao	2/4
	Yu Xiao Ping	4/4
	Leng Yi Xin	4/4
	Wang Jian Ping	4/4
Independent Non-executive Directors	Ouyang Ping Kai	1/4
	Yang Sheng Li	1/4
	Wei Xin	3/4

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

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 2012.

CORPORATE GOVERNANCE REPORT

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 Nomination Committee and then by the Board. 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.

Nomination of Candidates for re-election of Directors

On 6 March 2013, the Nomination Committee, taking into account the Board performance evaluation for the 2012, confirmed that all the existing Directors continue to contribute effectively and are committed to their roles. Although Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin have served as independent non-executive Directors for more than 9 years, they meet the independence factors set out in Rule 5.09 of the GEM Listing Rules and are not involved in the daily management of the Company, nor in any relationships or circumstances which would interfere with the exercise of their independent judgment. In addition, they continue to demonstrate the attributes of independent non-executive directors and there is no evidence that their tenure have had any impact on their independence. Taking into account the above, the Nomination Committee is of the opinion that Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin remain independent notwithstanding the length of their service and it believes that their valuable knowledge and experience in the Group's business and their general business acumen continue to generate significant contribution to the Company. Accordingly, the Nomination Committee, in accordance with the Nomination Policy, nominated all the existing Directors to stand for election by Shareholders at the forthcoming Annual General Meeting. On the same day, the said nominations were accepted by the Board with each candidate abstaining from voting on the proposition of himself for election by Shareholders. All the candidates for re-election of Directors do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation), and their particulars are set out in the "Profile of Directors, Supervisors and Senior Management" and the circular in relation to the Company's forthcoming Annual General Meeting.

CORPORATE GOVERNANCE REPORT

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 Rule 5.09 of the GEM Listing Rules and the Company still considers the independent non-executive Directors remained independent.

Continuous Professional Development

Directors' training is an ongoing process. During the year, Directors received regular updates and presentations on changes and developments to the Group's business and to environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. Effective January 2012, all Directors are required to provide the Company with his or her annual training record.

The Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

	Directors	Types of training
Executive Directors	Rui Xin Sheng	A,B
	Pan Chun	A,B
Non-executive Directors	Zeng Xian Biao	A,B
	Yu Xiao Ping	A,B
	Leng Yi Xin	A,B
	Wang Jian Ping	A,B
Independent non-executive Directors	Ouyang Ping Kai	A,B
	Yang Sheng Li	A,B
	Wei Xin	A,B

A: attending internal briefing session in relation to corporate governance
B: reading materials in relation to regulatory update

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee was established 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. The Remuneration Committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms.Wei Xin and an executive Director, Mr. Rui Xin Sheng. The Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee held one meeting in 2012 to assess the performance of the executive Directors and review the policy for the remuneration of the executive Directors and how the Group complied with the staff incentive bonus scheme as stated below. 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 with written terms of reference in compliance with the 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 2012 with attendance rate of 100%, two of which were with the attendance of the external auditor.

Duties performed by the Audit Committee for the year were as follows:

1. made recommendations to the Board on the re-appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;

2. reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, discussed with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. reviewed the Group's financial information, monitored the integrity of the Group's financial statements and the annual report and accounts, half-year report and quarterly reports, and reviewed significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee had focused particularly on:–

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit (if any);

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards;

   (vi) compliance with the GEM Listing Rules and legal requirements in relation to financial reporting; and

   (vii) consider any significant or unusual items that are, or may need to be, reflected in the report and accounts;

4. reviewed the Group's financial controls, internal control and risk management systems, among others, by discussing the internal control system with management to ensure that management has performed its duty to have an effective internal control system; reviewed the Group's financial and accounting policies and practices; and reported to the Board on the matters in the code provision.

Nomination Committee

The Nomination Committee was established to formulate and implement the policy for nominating candidates for election by shareholders based on the criterias such as reputation for integrity, accomplishment and experience in the bio-chemical sector, professional and educational background, and potential time commitments, and to assess the independence of independent non-executive Directors. The Nomination Committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin and an executive Director, Mr. Rui Xin Sheng.

The Nomination Committee held one meeting in 2012 to review the structure, size and composition of the Board and to assess the independence of independent non-executive Directors. The attendance rate was 100%.

CORPORATE GOVERNANCE REPORT

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 2012 with attendance rate of 100%.

COMPANY SECRETARY

The Company Secretary, Ms Wan, Pui Ling Alice , is responsible for facilitating the Board process, as well as communications among Board members, with shareholders and management. The Company Secretary's biography is set out in the "Profiles of Directors, Supervisors and Senior Management" section of this Annual Report.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2012, 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 46 and 47.

CORPORATE GOVERNANCE REPORT

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 2011 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 2011 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$1,150,000 (approximately equivalent to Rmb933,000) (2011: HK$1,050,000 (approximately equivalent to Rmb851,000)).

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Article 61 of the Articles and Associations of the Company, shareholder(s) holding 10% or more of the Company's issued capital that carry voting rights request(s) in writing for the convening of an extraordinary general meeting, the board of Directors shall convene an extraordinary general meeting within 2 months.

Prodecures for putting forward proposals at shareholders' meeting

Pursuant to Article 63 of the Articles and Associations of the Company, when the Company convenes a shareholders' annual general meeting, shareholder(s) holding 5% or more of the total shares carrying voting rights of the Company are entitled to propose new matters in writing to be considered, and the Company shall include in the agenda of that meeting those matters contained in the proposal which are within the scope of the duties of the general meeting provided that the proposal is delivered to the Company within 30 days from the issue of the notice of the meeting.

CORPORATE GOVERNANCE REPORT

Procedures for nominating a new Director

Pursuant to Article 97 of the Articles and Associations of the Company, a notice of the intention to propose a person for election as Director and the written notice by such candidate of his/her willingness to accept the nomination shall be given to the Company no less than seven days. The minimum seven-day period of lodgement by the shareholders of notice to nominate a Director shall commence no earlier than the date after the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.

The Board always welcome Shareholders' and other stakerholder's questions and concerns relating to the Group's management and governance. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post. The address is Room 54, 5th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong.

Articles of Association

There was no any change to the Articles of Association to the Company during the year ended 31 December 2012.

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 6 March 2013

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 2012.

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 48.

No interim dividend was declared during the year (2011: Nil). The Directors recommend the payment of a final dividend of Rmb0.028 (2011: Rmb0.024) (inclusive of tax) per share for the year ended 31 December 2012, totalling approximately Rmb14,832,000 (2011: Rmb12,713,000).

RESERVES

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to Rmb210,000 (2011: Rmb295,000).

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 2012, the distributable reserves of the Company were approximately Rmb233,274,000 (2011: Rmb198,661,000) 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 107 of the annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2012.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year were:

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

REPORT OF THE DIRECTORS

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 2012, 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	100%	135,000,000	39.30%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	100%	135,000,000	39.30%
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	19.21%

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 (Note (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.

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.

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 2,500,000 Domestic Shares in issue as at 31 December 2012.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, 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 2012, 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 Foreign Shares**	**Approximate Percentage shareholding in the Foreign Shares** (Note (f))
Hong Kong Xinsheng Pioneer Investment Company Limited	Beneficial owner	135,000,000	39.30%
Hong Kong Bio-chemical Advanced Technology Investment Company Limited	Beneficial owner	67,500,000	19.65%
Union Top Development Limited	Interest of controlled corporation	67,500,000 (Note (a))	19.65%
Ms. Rakchanok Sae-lao	Interest of controlled corporation	67,500,000 (Note (b))	19.65%

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 Foreign Shares	Percentage shareholding in the Foreign Shares (Note (f))
Jomo Limited	Beneficial owner	66,000,000	19.21%
Ms. Lam Mau	Interest of spouse and interest of controlled corporation	66,000,000 (Note (c))	19.21%
Kehai Venture Capital (Hong Kong) Limited	Beneficial owner	62,500,000	18.20%
上海科技投資股份有限公司 (Shanghai Technology Investment Company Limited)	Interest of controlled corporation	62,500,000 (Note (d))	18.20%
上海科技投資公司 (Shanghai Technology Investment Company)	Interest of controlled corporation	62,500,000 (Note (e))	18.20%

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 Limited is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited, which is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(e) Shanghai Technology Investment Company is the beneficial owner of 62.3% of the issued share capital of Shanghai Technology Investment Company Limited, which is the beneficial owner of 100% of the issued share capital of Kehai Venture Capital (Hong Kong) Limited. Kehai Venture Capital (Hong Kong) Limited is the registered holder and beneficial owner of 62,500,000 Foreign Shares.

(f) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 31 December 2012.

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 2012, 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

	2012	2011
– the largest supplier	**18%**	6%
– five largest suppliers combined	**37%**	27%

Sales

	2012	2011
– the largest customer	**7%**	8%
– five largest customers combined	**24%**	22%

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

(i) Cooperative Agreement

On 29 June 2010, Shanghai Medical Life Science Research Centre Limited ("Shanghai Life Science"), a subsidiary of the Company entered into a cooperation agreement ("Cooperative Agreement") with 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 at the time when the Cooperative Agreement was signed. Lanling Pharm was therefore a connected person of the Company pursuant to the GEM Listing Rules.

During the year ended 31 December 2012, Mr. Yu Xiao Ping, a non-executive Director, and his associates still own the equity interest in Lanling Pharm, therefore Mr. Yu Xiao Ping is interested in the transaction in relation to the Cooperative Agreement.

The Cooperation Agreement is unconditional and valid for a term of three years commencing from 29 June 2010. 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

CONNECTED TRANSACTIONS (Continued)

(i) Cooperative Agreement (Continued)

The Company has completed the disposal of all of its equity interest in Lanling Pharm in June 2012 (for details, please refer to paragraph (ii) below). Lanling Pharm is no longer an associate of the Group since then. However, since Mr. Yu Xiao Ping, a non-executive Director, and his associate own the entire interest of Lanling Pharm since 12 June 2012, Lanling Pharm is still a connected party of the Company under the GEM Listing Rules.

Income recognised by the Group in relation to the Cooperative Agreement for the year ended 31 December 2012 was:

	Rmb'000
1 January 2012 to 11 June 2012	358
12 June 2012 (date since which Lanling Pharm is no longer an associate of the Group) to 31 December 2012	442
	800

Income recognised by the Group in relation to the Cooperative Agreement for the year ended 31 December 2011 was Rmb800,000.

As at 31 December 2012, the deferred income in relation to the Cooperative Agreement on the accounts of Shanghai Life Science was Rmb400,000 (2011: Rmb1,200,000).

After over 2 years of research and development under the Cooperative Agreement, Shanghai Life Science and Lanling Pharm mutually agreed to terminate the Cooperation Agreement on 24 January 2013 in view of the relatively slow progress of the research and development and the uncertain commercial viability of the new drug products under the Cooperative Agreement. The Company has made an announcement in this regard. For details, please refer to the announcement published by the Company on 24 January 2013.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

(ii) Selling of equity interest in an associate, Lanling Pharm

On 16 March 2012, the Company and Kameo Limited, a connected person of the Company, entered into an equity transfer agreement, pursuant to which, the Company has conditionally agreed to sell, and Kameo Limited has conditionally agreed to acquire, 38.78% of the equity interest in Lanling Pharm, at a consideration of RMB28,115,500 (the "Transaction"). Upon completion of the Transaction, the Company will not have any equity interest in Lanling Pharm and will cease to have any rights and obligations in Lanling Pharm.

Kameo Limited is a company controlled by Mr. Yu Xiao Ping and his spouse. Mr. Yu Xiao Ping is a non-executive Director, and together with his spouse, are interested in 66,000,000 Foreign Shares. Accordingly, Mr. Yu Xiao Ping and Kameo Limited are connected persons of the Company under the GEM Listing Rules and the Transaction constituted a non-exempt connected transaction for the Company under Chapter 20 of the GEM Listing Rules which was subject to the reporting, announcement and the independent shareholders' approval requirements under the GEM Listing Rules. The Transaction also constituted a discloseable transaction for the Company pursuant to Chapter 19 of the GEM Listing Rules.

Mr. Rui Xin Sheng, an executive Director, and Mr. Yu Xiao Ping, a non-executive Director, and their associates had equity interest in Lanling Pharm when the related agreement was signed, therefore were interested in the Transaction.

The Transaction was completed in June 2012. For details of the Transaction, please refer to the announcement issued by the Company on 16 March 2012.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2012, 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))	2,500,000
Foreign Shares (Note (c))	343,500,000
	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.

The H shares of the Company were listed on the GEM on 28 June 2002.

PUBLIC FLOAT

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

RETIREMENT SCHEMES

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

REPORT OF THE DIRECTORS

AUDITOR

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

By order of the Board

Rui Xin Sheng
Chairman

The PRC, 6 March 2013

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders,

During the year ended 31 December 2012, 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 2012, 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, 6 March 2013

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

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 48 to 106, which comprise the consolidated and company balance sheets as at 31 December 2012, and 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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.

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INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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 2012, 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, 6 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 December 2012

	Note	2012 Rmb'000	2011 Rmb'000
Turnover	5	653,218	620,233
Cost of sales	7	(525,765)	(506,045)
Gross profit		127,453	114,188
Other income	6	5,834	4,785
Other gains, net	6	13,375	615
Selling expenses	7	(16,247)	(12,731)
Administrative expenses	7	(61,355)	(52,395)
Operating profit		69,060	54,462
Finance income		645	554
Finance costs		(10,722)	(9,303)
Finance costs, net	8	(10,077)	(8,749)
Share of profit of an associate	20	342	739
Profit before income tax		59,325	46,452
Income tax expense	9	(9,757)	(4,749)
Profit for the year	10	49,568	41,703
Other comprehensive income – currency translation difference		(129)	(31)
Total comprehensive income for the year		49,439	41,672
Profit for the year attributable to:			
Equity holders of the Company		49,455	41,105
Non-controlling interests		113	598
		49,568	41,703
Total comprehensive income for the year attributable to:			
Equity holders of the Company		49,326	41,074
Non-controlling interests		113	598
		49,439	41,672
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	11	Rmb0.093	Rmb0.078

The notes on pages 55 to 106 are an integral part of these consolidated financial statements.

	Note	2012 Rmb'000	2011 Rmb'000
Dividends	12	14,832	12,713

CONSOLIDATED BALANCE SHEET

AS AT 31 December 2012

	Note	2012 Rmb'000	2011 Rmb'000
ASSETS			
Non-current assets			
Patents	15	4,899	6,223
Property, plant and equipment	16	259,261	268,505
Land use rights	17	21,903	22,429
Construction in progress	18	50,920	47,793
Prepayments		13,991	3,096
Investment in an associate	20	–	29,146
Deferred income tax assets	29	877	804
		351,851	377,996
Current assets			
Inventories	21	108,480	148,661
Trade and bills receivables	22	74,550	62,068
Other receivables and prepayments		14,638	12,995
Derivative financial instruments	23	507	150
Pledged bank balances	24	4,094	2,500
Cash and bank balances	24	108,178	59,635
		310,447	286,009
Total assets		662,298	664,005
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	52,970	52,970
Reserves	26	409,238	372,625
		462,208	425,595
Non-controlling interests		1,745	1,632
Total equity		463,953	427,227

The notes on pages 55 to 106 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (Continued)

AS AT 31 December 2012

	Note	2012 Rmb'000	2011 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	29	655	820
Current liabilities			
Trade and bills payables	27	20,878	31,397
Other payables and accrued charges		30,008	26,573
Income tax payable		2,348	988
Bank borrowings	28	144,456	177,000
		197,690	235,958
Total liabilities		198,345	236,778
Total equity and liabilities		662,298	664,005
Net current assets		112,757	50,051
Total assets less current liabilities		464,608	428,047

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 55 to 106 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	2012 Rmb'000	2011 Rmb'000
ASSETS			
Non-current assets			
Patents	15	2,278	2,944
Property, plant and equipment	16	248,290	261,529
Land use rights	17	9,376	9,617
Construction in progress	18	50,920	47,793
Investments in subsidiaries	19	74,149	24,149
Investment in an associate	20	–	10,936
Deferred income tax assets	29	538	518
		385,551	357,486
Current assets			
Inventories	21	108,135	148,386
Trade and bills receivables	22	74,272	61,415
Other receivables and prepayments		14,421	11,803
Amounts due from subsidiaries	19	8,658	7,309
Derivative financial instruments	23	507	150
Pledged bank balances	24	4,094	2,500
Cash and bank balances	24	67,022	55,210
		277,109	286,773
Total assets		662,660	644,259
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	52,970	52,970
Reserves	26	413,356	357,311
Total equity		466,326	410,281

The notes on pages 55 to 106 are an integral part of these financial statements.

BALANCE SHEET (Continued)

AS AT 31 DECEMBER 2012

	Note	2012 Rmb'000	2011 Rmb'000
LIABILITIES			
Current liabilities			
Trade and bills payables	27	20,878	31,397
Other payables and accrued charges		28,652	24,593
Income tax payable		2,348	988
Bank borrowings	28	144,456	177,000
		196,334	233,978
Total equity and liabilities		662,660	644,259
Net current assets		80,775	52,795
Total assets less current liabilities		466,326	410,281

Rui Xin Sheng
Director

Pan Chun
Director

The notes on pages 55 to 106 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 December 2012

		Attributable to equity holders of the Company					
		Share capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	Note	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January 2011		52,970	152,549	201,779	407,298	1,034	408,332
Transfer of profit to statutory reserve	26	–	4,118	(4,118)	–	–	–
Profit for the year		–	–	41,105	41,105	598	41,703
Other comprehensive income – currency translation difference – Group		–	(31)	–	(31)	–	(31)
Final dividend for the year ended 31 December 2010		–	–	(22,777)	(22,777)	–	(22,777)
Balance at 31 December 2011		52,970	156,636	215,989	425,595	1,632	427,227
Balance at 1 January 2012		52,970	156,636	215,989	425,595	1,632	427,227
Transfer of profit to statutory reserve	26	–	5,261	(5,261)	–	–	–
Profit for the year		–	–	49,455	49,455	113	49,568
Other comprehensive income – currency translation difference – Group		–	(129)	–	(129)	–	(129)
Final dividend for the year ended 31 December 2011		–	–	(12,713)	(12,713)	–	(12,713)
Balance at 31 December 2012		52,970	161,768	247,470	462,208	1,745	463,953

The notes on pages 55 to 106 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 December 2012

	Note	2012 Rmb'000	2011 Rmb'000
Cash flows from operating activities			
Cash generated from operations	30(a)	113,185	60,881
Interest paid		(10,931)	(9,050)
Income tax paid		(8,635)	(7,288)
Net cash generated from operating activities		93,619	44,543
Cash flows from investing activities			
Proceed from disposal of a patent		2,000	3,000
Purchase of property, plant and equipment		(1,452)	(23)
Proceeds from disposal of property, plant and equipment		526	21
Additions of construction in progress		(26,672)	(51,706)
Prepayment for purchase of properties		(13,991)	–
Proceed from disposal of equity interest in an associate		28,116	–
Dividend received from an associate		12,603	–
(Increase)/decrease in pledged bank balances		(1,594)	11,993
Increase in short-term bank deposits with maturities of over 3 months		(1,600)	–
Interest received		645	554
Net cash used in investing activities		(1,419)	(36,161)
Cash flows from financing activities			
New bank borrowings	30(b)	254,442	227,000
Repayment of bank borrowings	30(b)	(286,986)	(157,000)
Dividends paid	30(b)	(12,713)	(22,777)
Instalment payment to a shareholder for repurchase of shares		–	(43,120)
Net cash (used in)/generated from financing activities		(45,257)	4,103
Net increase in cash and cash equivalents		46,943	12,485
Cash and cash equivalents at 1 January		59,635	47,150
Cash and cash equivalents at 31 December	24	106,578	59,635

The notes on pages 55 to 106 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 of The Stock Exchange of Hong Kong Limited 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 Renminbi ("Rmb"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 6 March 2013.

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 derivative financial instruments which are stated at fair value.

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) New and amended standards adopted by the Group

The Hong Kong Institute of Certified Public Accounts ("HKICPA") has amended HKAS 12, "Income taxes", to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. The Group or the Company does not have any interest in investment property, therefore it is not expected to have a material impact on the Group's or Company's financial statements.

Other than as disclosed below, there are no HKFRSs or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2012.

(a) Subsidiaries

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) *Subsidiaries (Continued)*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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. Costs also include direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *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. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) Associates (Continued)

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 other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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 legal or constructive 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.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executives directors that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional, and the Company's 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 costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other 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)

2.4 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. On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

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. Exchange differences arising are recognised in other comprehensive income.

2.5 Patents

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

Acid patent	15 years
Nutraceutical patent	19 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment

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

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

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

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

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

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

2.7 Land use rights

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Construction in progress

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

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

2.9 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.

2.10 Government grants

A government grant is recognised at its fair value where there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the related costs that they are intended to compensate.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Inventories

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

2.12 Trade and other receivables

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

2.13 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.

2.14 Derivative financial instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 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.

2.16 Trade payables

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

2.17 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 consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Current and deferred income tax (Continued)

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 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.

2.19 Employees benefits

(a) Pension obligations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employees benefits (Continued)

(a) Pension obligations (Continued)

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,250 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

(b) Profit-sharing and bonus plans

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

2.20 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue from sales of goods is recognised when goods are delivered to customers and title has passed.

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

2.22 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.

2.23 Operating leases

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

2.24 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) *Foreign exchange risk*

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

At 31 December 2012, 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 Rmb980,000 (2011: Rmb1,437,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, USD-denominated bank loan and USD-denominated bank deposits.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) *Credit risk*

The carrying amounts of 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. 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 7% of the Group's total revenue 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 2012 and 2011, 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)

(c) Liquidity risk (Continued)

The table below summarises the contractual undiscounted cash out flows in relation to the Group's and the Company's financial liabilities.

	Group	**Company**
	Rmb'000	Rmb'000
At 31 December 2012		
Trade and bills payables	20,878	20,878
Other payables and accrued charges	14,426	14,073
Bank borrowings and interest thereon	148,634	148,634
At 31 December 2011		
Trade and bills payables	31,397	31,397
Other payables and accrued charges	13,258	12,978
Bank borrowings and interest thereon	181,455	181,455

(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. Borrowings 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 2012, 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 Rmb144,000 (2011: Rmb56,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

3 FINANCIAL RISK MANAGEMENT (Continued)

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.

The liabilities-to-assets ratio at 31 December 2012 and 2011 was as follows:

	2012 Rmb'000	2011 Rmb'000
Total liabilities	198,345	236,778
Total assets	662,298	664,005
Liabilities-to-assets ratio	29.9%	35.7%

3 FINANCIAL RISK MANAGEMENT (Continued)

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 2012, the Group had several foreign exchange forward contracts of carrying amounts Rmb507,000 (2011: Rmb150,000), 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 balances, 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.

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 from 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 from 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Impairment of investments in subsidiaries and associate and amounts due from subsidiaries

The Company makes provision for impairment of investments in subsidiaries and associate and amounts due from 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 associate 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.

Significant judgement is required in determining the capitalisation of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 TURNOVER AND SEGMENT INFORMATION

Management determines the operating segments based on the information reported to the Group's chief operating decision maker. Executive directors are identified as the chief operating decision maker. The Group is engaged in the production and sale of organic acids. Resources of the Group are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, and the executive directors consider the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirement of HKFRS 8.

	2012 Rmb'000	2011 Rmb'000
Turnover		
Sales of goods	653,218	620,233

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

	2012 Rmb'000	2011 Rmb'000
Mainland China	343,299	324,357
Europe	136,577	123,552
Asia Pacific	102,961	109,648
America	49,380	50,640
Others	21,001	12,036
	653,218	620,233

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.

The total of the Group's assets located in Mainland China is Rmb660,111,000 (2011: Rmb662,003,000), and the total of the Group's assets located in other country is Rmb2,187,000 (2011: Rmb2,002,000).

6 OTHER INCOME AND OTHER GAINS, NET

	2012 Rmb'000	2011 Rmb'000
Other income		
Sales of scrap materials	401	749
Government grants	4,457	2,518
Income from joint research and development of a patent (Note 32 (i))	800	800
Others	176	718
	5,834	4,785

	2012 Rmb'000	2011 Rmb'000
Other gains, net		
Gain on disposal of equity interest in an associate	11,231	–
Gain on disposal of a patent	1,553	2,532
Loss on disposal of property, plant and equipment	(72)	(354)
Fair value gains on derivative financial instruments	357	106
Net exchange loss	(168)	(1,669)
Others	474	–
	13,375	615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2012 Rmb'000	2011 Rmb'000
Cost of inventories sold	372,210	351,342
Amortisation of patents (Note 15)	877	920
Amortisation of land use rights (Note 17)	526	525
Auditors' remuneration	933	851
Depreciation (Note 16)	35,373	30,331
Operating lease rentals in respect of land and buildings	425	620
Research and development costs	13,674	15,695
Staff costs (including emoluments of Directors and Supervisors) (Note 13)	50,485	40,933
Other expenses	128,864	129,954
Total cost of sales, selling expenses and administrative expenses	603,367	571,171

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

	2012 Rmb'000	2011 Rmb'000
Interest on bank borrowings – wholly repayable within five years	10,722	9,303
Interest income on bank deposits	(645)	(554)
Net finance costs	10,077	8,749

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:

	2012 Rmb'000	2011 Rmb'000
Current income tax		
– Provision for CIT	9,995	7,090
– Over-provision in prior year	–	(93)
Tax credit	–	(1,891)
Deferred income tax (Note 29)	(238)	(357)
	9,757	4,749

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INCOME TAX EXPENSE (Continued)

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 the results of the consolidated entities as follows:

	2012 Rmb'000	2011 Rmb'000
Profit before income tax	59,325	46,452
Adjustment: share of profit of an associate	(342)	(739)
	58,983	45,713
Calculated at the tax rates applicable to results of the respective consolidated entities	8,702	6,972
Income not subject to tax	(106)	(73)
Expenses not deductible for tax purposes	153	308
Tax losses for which no deferred income tax asset was recognised	104	385
Utilisation of tax losses for which no deferred income tax asset was recognised	–	(468)
Tax credit	–	(1,891)
Over-provision in prior year	–	(93)
Others	904	(391)
Income tax expense	9,757	4,749

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 Rmb68,758,000 (2011: Rmb42,409,000).

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the profit attributable to the equity holders of the Company of Rmb49,455,000 (2011: Rmb41,105,000) and 529,700,000 (2011: 529,700,000) weighted average number of shares in issue during the year.

The Company had no dilutive potential shares in issue during the year (2011: Nil).

12 DIVIDENDS

No interim dividend was declared during the year (2011: Nil). The directors recommend the payment of a final dividend of Rmb0.028 (2011: Rmb0.024) per share, totalling Rmb14,832,000 (2011: Rmb12,713,000) for the year ended 31 December 2012. Such dividend is to be approved by the shareholders at the Annual General Meeting on 16 May 2013. These financial statements do not reflect this dividend payable.

	2012 Rmb'000	2011 Rmb'000
Final, proposed, of Rmb0.028 (2011: 0.024) per share	14,832	12,713

13 STAFF COSTS

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

	2012 Rmb'000	2011 Rmb'000
Salaries, wages and related welfare	40,401	32,117
Social security costs	5,657	5,197
Contribution to defined contribution retirement schemes (note)	4,427	3,619
	50,485	40,933

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% (2011: 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 2012 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 (Note (i))	320	509	542	29	1,400
Mr. Pan Chun	100	179	181	29	489
Non-executive director					
Mr. Zeng Xian Biao	50	–	90	–	140
Mr. Yu Xiao Ping	50	–	90	–	140
Ms. Leng Yi Xin	50	–	90	–	140
Mr. Wang Jian Ping	50	–	90	–	140
Independent non-executive director					
Prof. Ouyang Ping Kai	60	–	–	–	60
Prof. Yang Sheng Li	60	–	–	–	60
Ms. Wei Xin	60	–	–	–	60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2011 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 (Note (i))	320	505	63	26	914
Mr. Pan Chun	100	175	21	26	322
Non-executive director					
Mr. Zeng Xian Biao	50	–	11	–	61
Mr. Yu Xiao Ping	50	–	11	–	61
Ms. Leng Yi Xin	50	–	11	–	61
Mr. Wang Jian Ping	50	–	11	–	61
Independent non-executive director					
Prof. Ouyang Ping Kai	60	–	–	–	60
Prof. Yang Sheng Li	60	–	–	–	60
Ms. Wei Xin	60	–	–	–	60

Notes:

(i) Mr. Rui is also the chief executive officer of the Company.

None of the Directors waived any emoluments during the years ended 31 December 2012 and 2011.

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 2012 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	38	–	–	53
Mr. Lu He Xing	6	–	–	–	6
Mr. Wan Yi Dong	6	196	54	30	286
Prof. Jiang Yao Zhong	15	–	–	–	15
Mr. Geng Gang	15	–	–	–	15

The remuneration of each of the Supervisors of the Company for the year ended 31 December 2011 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	33	35	–	83
Mr. Lu He Xing	6	–	–	–	6
Mr. Wan Yi Dong	6	136	80	20	242
Prof. Jiang Yao Zhong	15	–	–	–	15
Mr. Geng Gang	15	–	–	–	15

None of the Supervisors waived any emoluments during the years ended 31 December 2012 and 2011.

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:

	2012	2011
Director	2	2
Supervisor	–	1
Employees	3	2
	5	5

Details of the emoluments paid and payable to the above three employees (2011: two employees) are as follows:

	2012 Rmb'000	2011 Rmb'000
Basic salaries, allowances and benefits in kind	1,482	1,076
Discretionary bonus	63	5
Retirement benefit contributions	26	10
	1,571	1,091

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

(d) Senior management remuneration by band

None of the senior management's (who are not Directors nor Supervisors) emolument exceed HK$1,000,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PATENTS

	Group		Company	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net book amount, at 1 January	6,223	7,611	2,944	3,611
Disposal	(447)	(468)	–	–
Amortisation charge (Note 7)	(877)	(920)	(666)	(667)
Net book amount, at 31 December	4,899	6,223	2,278	2,944

	Group		Company	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost	13,600	14,200	10,000	10,000
Accumulated amortisation	(8,701)	(7,977)	(7,722)	(7,056)
Net book amount, at 31 December	4,899	6,223	2,278	2,944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT

	Group			
	Buildings	**Plant and machinery**	**Equipment and motor vehicles**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2011				
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
Year ended 31 December 2011				
Opening net book amount	90,758	156,323	12,172	259,253
Additions	–	–	23	23
Transfer from construction in progress (Note 18)	4,598	30,313	5,024	39,935
Disposals	(214)	(149)	(12)	(375)
Depreciation (Note 7)	(4,918)	(21,831)	(3,582)	(30,331)
Closing net book amount	90,224	164,656	13,625	268,505
At 31 December 2011				
Cost	116,293	280,540	32,368	429,201
Accumulated depreciation	(26,069)	(115,884)	(18,743)	(160,696)
Net book amount	90,224	164,656	13,625	268,505
Year ended 31 December 2012				
Opening net book amount	90,224	164,656	13,625	268,505
Additions	3,205	–	1,343	4,548
Transfer from construction in progress (Note 18)	2,572	19,071	536	22,179
Disposals	–	(550)	(48)	(598)
Depreciation (Note 7)	(5,220)	(26,043)	(4,110)	(35,373)
Closing net book amount	90,781	157,134	11,346	259,261
At 31 December 2012				
Cost	122,070	297,830	33,768	453,668
Accumulated depreciation	(31,289)	(140,696)	(22,422)	(194,407)
Net book amount	90,781	157,134	11,346	259,261

Depreciation expense of Rmb29,329,000 (2011: Rmb25,611,000) and Rmb6,044,000 (2011: Rmb4,720,000) had been charged in "cost of sales" and "administrative expenses" respectively in 2012.

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 2011				
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
Year ended 31 December 2011				
Opening net book amount	83,975	156,124	11,825	251,924
Transfer from construction in progress (Note 18)	4,598	30,313	5,024	39,935
Disposals	(214)	(149)	(11)	(374)
Depreciation	(4,709)	(21,783)	(3,464)	(29,956)
Closing net book amount	83,650	164,505	13,374	261,529
At 31 December 2011				
Cost	109,049	279,365	30,702	419,116
Accumulated depreciation	(25,399)	(114,860)	(17,328)	(157,587)
Net book amount	83,650	164,505	13,374	261,529
Year ended 31 December 2012				
Opening net book amount	83,650	164,505	13,374	261,529
Addition	–	–	117	117
Transfer from construction in progress (Note 18)	2,572	19,071	536	22,179
Disposals	–	(550)	(48)	(598)
Depreciation	(5,012)	(25,995)	(3,930)	(34,937)
Closing net book amount	81,210	157,031	10,049	248,290
At 31 December 2012				
Cost	111,621	296,655	30,876	439,152
Accumulated depreciation	(30,411)	(139,624)	(20,827)	(190,862)
Net book amount	81,210	157,031	10,049	248,290

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	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net book amount, at 1 January	22,429	22,954	9,617	9,858
Amortisation charge (Note 7)	(526)	(525)	(241)	(241)
Net book amount, at 31 December	21,903	22,429	9,376	9,617

	Group		Company	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost	26,275	26,275	12,040	12,040
Accumulated amortisation	(4,372)	(3,846)	(2,664)	(2,423)
Net book amount, at 31 December	21,903	22,429	9,376	9,617

18 CONSTRUCTION IN PROGRESS

	Group and Company	
	2012	2011
	Rmb'000	Rmb'000
At 1 January	47,793	34,302
Additions	25,306	53,426
Transfer to property, plant and equipment (Note 16)	(22,179)	(39,935)
At 31 December	50,920	47,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	2012 Rmb'000	2011 Rmb'000
Unlisted equity investments, at cost, at 1 January	24,149	24,149
Capital injection to a subsidiary	50,000	–
Unlisted equity investments, at cost, at 31 December	74,149	24,149

Details of the subsidiaries at 31 December 2012 and 2011 are as follows:

Name	Place of establishment, operations and kind of legal entity	Particulars of registered capital	Interest directly held	Principal activities
上海常茂生物化學工程有限公司 (Shanghai Changmao Biochemical Engineering Company Limited)	PRC, limited liability company	Rmb20,000,000	100%	Trading of organic acids and property holding
上海醫學生命科學研究中心有限公司 (Shanghai Medical Life Science Research Centre Limited)	PRC, limited liability company	Rmb15,384,600	57.44%	Research and development of medicine and nutraceutical products
Chang Mao International Ltd.	Canada, limited liability company	USD200,000	100%	Trading of organic acids
常茂生物連雲港有限公司 (Changmao Biochemical Lianyungang Company Limited)	PRC, limited liability company	Rmb50,000,000	100%	Sales and production of food additives

(b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest free, repayable on demand and denominated in Rmb.

The carrying values of the amounts due from subsidiaries approximate their fair value and represent the maximum exposure to credit risk at 31 December 2012.

20 INVESTMENT IN AN ASSOCIATE

(a) The Group

	2012 Rmb'000	2011 Rmb'000
At 1 January	29,146	28,407
Share of profit after tax	342	739
Dividend income	(12,603)	–
Disposal of equity interest	(16,885)	–
At 31 December	–	29,146

The Group's interest in its associate at 31 December 2011 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 %
2011:							
常州蘭陵制葯有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.)	Rmb9,695,000 unlisted	PRC	66,500	37,354	50,081	739	38.78

(b) The Company

	2012 Rmb'000	2011 Rmb'000
Unlisted equity investment, at cost	–	10,936

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INVENTORIES

	Group		Company	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	44,940	51,453	44,855	51,367
Work-in-progress	13,779	9,870	13,779	9,870
Finished goods	49,761	87,338	49,501	87,149
	108,480	148,661	108,135	148,386

22 TRADE AND BILLS RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables	73,220	62,068	73,220	61,415
Bills receivables	1,330	–	1,052	–
	74,550	62,068	74,272	61,415

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

	Group		Company	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
0 to 3 months	71,772	61,952	71,772	61,299
4 to 6 months	915	116	915	116
Over 6 months	949	275	949	275
	73,636	62,343	73,636	61,690
Less: Provision for impairment of trade receivables	(416)	(275)	(416)	(275)
	73,220	62,068	73,220	61,415

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

22 TRADE AND BILLS RECEIVABLES (Continued)

(c) As at 31 December 2012, trade receivables of approximately Rmb1,329,000 (2011: Rmb870,000) 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	
	2012 Rmb'000	2011 Rmb'000
0 to 3 months	–	754
4 to 6 months	915	116
Over 6 months	414	–
	1,329	870

(d) The credit quality of trade and bills receivables neither past due nor impaired has been assessed with reference to historical information about the counterparty default rates.

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

	Group		Company	
	2012 Rmb'000	2011 Rmb'000	2012 Rmb'000	2011 Rmb'000
Rmb	36,083	22,127	35,805	22,127
USD	38,883	40,216	38,883	39,563
	74,966	62,343	74,688	61,690
Less: Provision for impairment of trade receivables	(416)	(275)	(416)	(275)
	74,550	62,068	74,272	61,415

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 TRADE AND BILLS RECEIVABLES (Continued)

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

	Group and Company	
	2012 Rmb'000	2011 Rmb'000
At 1 January	275	331
Provision/(write-back of) for impairment of trade receivables	141	(56)
At 31 December	416	275

(g) 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 2012, 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 2012 are approximately Rmb74,497,000 (2011: Rmb24,592,000). These foreign exchange forward contracts held for trading are expected to be settled within 15 months.

24 PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

	Group		Company	
	2012 Rmb'000	2011 Rmb'000	2012 Rmb'000	2011 Rmb'000
Short-term bank deposits with original maturities of over 3 months	1,600	–	–	–
Cash and cash equivalents	106,578	59,635	67,022	55,210
	108,178	59,635	67,022	55,210
Pledged bank balances	4,094	2,500	4,094	2,500
Total	112,272	62,135	71,116	57,710

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Group		Company	
	2012 Rmb'000	2011 Rmb'000	2012 Rmb'000	2011 Rmb'000
Denominated in:				
– Rmb	95,545	57,654	56,564	54,567
– USD	14,674	4,042	14,525	3,115
– CAD	2,026	411	–	–
– HKD	27	28	27	28
	112,272	62,135	71,116	57,710

The effective interest rate on the short-term bank deposits with original maturities of over 3 months ranged from 2.85% to 3.25% per annum. These deposits have remaining maturities ranged from 6 months to 1 year as at 31 December 2012.

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

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

25 SHARE CAPITAL

Registered, issued and fully paid:

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 31 December 2012 and 2011	529,700,000	52,970

As at 31 December 2012 and 2011, the share capital of the Company comprised 2.5 million domestic shares, 343.5 million promoter foreign shares and 183.7 million H shares. The H shares rank pari passu with the domestic shares and promoter foreign shares in all aspects and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed by legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

26 RESERVES

	Group					
	Share premium Rmb'000	Statutory common reserve Rmb'000	Capital reserve Rmb'000	Translation reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2011	102,559	49,504	461	25	201,779	354,328
Transfer of profit to statutory reserve	–	4,118	–	–	(4,118)	–
Profit for the year	–	–	–	–	41,105	41,105
Other comprehensive income – currency translation difference – Group	–	–	–	(31)	–	(31)
Final dividend for the year ended 31 December 2010	–	–	–	–	(22,777)	(22,777)
At 31 December 2011	102,559	53,622	461	(6)	215,989	372,625
Representing:						
2011 proposed final dividend					12,713	
Others					203,276	
					215,989	

	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 2012	102,559	53,622	461	(6)	215,989	372,625
Transfer of profit to statutory reserve	–	5,261	–	–	(5,261)	–
Profit for the year	–	–	–	–	49,455	49,455
Other comprehensive income – currency translation difference – Group	–	–	–	(129)	–	(129)
Final dividend for the year ended 31 December 2011	–	–	–	–	(12,713)	(12,713)
At 31 December 2012	102,559	58,883	461	(135)	247,470	409,238
Representing:						
2012 proposed final dividend					14,832	
Others					232,638	
					247,470	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RESERVES (Continued)

Company

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2011	102,559	49,504	185,616	337,679
Transfer of profit to statutory reserve	–	4,118	(4,118)	–
Profit and total comprehensive income for the year	–	–	42,409	42,409
Final dividend for the year ended 31 December 2010	–	–	(22,777)	(22,777)
At 31 December 2011	102,559	53,622	201,130	357,311
Representing:				
2011 proposed final dividend			12,713	
Others			188,417	
			201,130	

	Share premium Rmb'000	Statutory common reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
At 1 January 2012	102,559	53,622	201,130	357,311
Transfer of profit to statutory reserve	–	5,261	(5,261)	–
Profit and total comprehensive income for the year	–	–	68,758	68,758
Final dividend for the year ended 31 December 2011	–	–	(12,713)	(12,713)
At 31 December 2012	102,559	58,883	251,914	413,356
Representing:				
2012 proposed final dividend			14,832	
Others			237,082	
			251,914	

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	
	2012	2011
	Rmb'000	Rmb'000
Trade payables (Note (a))	20,878	26,477
Bills payables	–	4,920
	20,878	31,397

(a) The ageing analysis which is based on the invoice date of trade payables is as follows:

	Group and Company	
	2012	2011
	Rmb'000	Rmb'000
0 to 6 months	20,754	26,416
7 to 12 months	63	12
Over 12 months	61	49
	20,878	26,477

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 BANK BORROWINGS

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group and Company	
	2012	2011
	Rmb'000	Rmb'000
– Rmb	115,000	177,000
– USD	29,456	–
Short-term bank borrowings	144,456	177,000

The maturity of borrowings is as follows:

	Group and Company	
	2012	2011
	Rmb'000	Rmb'000
Within 1 year	144,456	177,000

The carrying amounts of these bank borrowings approximate their fair values. As at 31 December 2012, bank loans of Rmb29,456,000 (2011:Nil) are secured by a USD bank deposit of Rmb4,089,000.

As at 31 December 2012, the effective interest rates of the bank borrowings were as follows:

	Group and Company	
	2012	2011
Short-term bank borrowings, at fixed rate	6.4%	5.9%
Short-term bank borrowings, at floating rate	5.6%	6.6%

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 amounts are as follows:

	Group		Company	
	2012 Rmb'000	2011 Rmb'000	2012 Rmb'000	2011 Rmb'000
Deferred tax assets to be recovered within 12 months	877	804	538	518
Deferred tax liabilities to be settled after more than 12 months	(655)	(820)	–	–
Deferred tax assets/(liabilities) – net	222	(16)	538	518

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

	Group		Company	
	2012 Rmb'000	2011 Rmb'000	2012 Rmb'000	2011 Rmb'000
At 1 January	(16)	(373)	518	421
Credited to the statement of comprehensive income (Note 9)	238	357	20	97
At 31 December	222	(16)	538	518

29 DEFERRED INCOME TAX (Continued)

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

Deferred tax assets:

	Group			Company
	Decelerated tax depreciation Rmb'000	Provisions Rmb'000	Total Rmb'000	Provisions Rmb'000
At 1 January 2011	116	487	603	421
(Charged)/credited to the statement of comprehensive income	(14)	215	201	97
At 31 December 2011	102	702	804	518
(Charged)/credited to the statement of comprehensive income	(13)	86	73	20
At 31 December 2012	89	788	877	538

Deferred tax liabilities – Group:

	Fair value gain on patents Rmb'000
At 1 January 2011	976
Credited to consolidated statement of comprehensive income	(156)
At 31 December 2011	820
Credited to consolidated statement of comprehensive income	(165)
At 31 December 2012	655

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 Rmb1,564,000 (2011: Rmb1,461,000) in respect of losses amounting to approximately Rmb5,941,000 (2011: Rmb5,668,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	Group	
	2012	2011
	Rmb'000	Rmb'000
2012	–	1,035
2013	1,711	1,711
2014	671	671
2015	486	486
2016	892	892
2017	614	–
2030	313	332
2031	519	541
2032	735	–
	5,941	5,668

The Company had no unrecognised deferred tax liabilities as at 31 December 2012.

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2012 Rmb'000	2011 Rmb'000
Profit before income tax	59,325	46,452
Adjustments for:		
Interest income	(645)	(554)
Interest expense	10,722	9,303
Amortisation of patents	877	920
Gain on disposal of a patent	(1,553)	(2,532)
Depreciation	35,373	30,331
Loss on disposal of property, plant and equipment	72	354
Amortisation of land use rights	526	525
Gain on disposal of equity interest in an associate	(11,231)	–
Provision/(write-back of provision) for impairment of trade receivables and other receivables	235	(56)
Fair value gains on derivative financial Instruments	(357)	(106)
Exchange gain	(129)	(31)
Share of profit of an associate	(342)	(739)
	92,873	83,867
Changes in working capital:		
Inventories	40,181	(30,716)
Trade and bills receivables, other receivables and prepayments	(14,360)	20,231
Trade and bills payables, other payables and accrued charges	(5,509)	(12,501)
Cash generated from operations	113,185	60,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank borrowings		Dividends payable	
	2012	2011	2012	2011
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January	177,000	107,000	–	–
New bank borrowings	254,442	227,000	–	–
Repayment of bank borrowings	(286,986)	(157,000)	–	–
2011/2010 final dividend	–	–	12,713	22,777
Dividends paid	–	–	(12,713)	(22,777)
At 31 December	144,456	177,000	–	–

31 COMMITMENTS

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

	Group and Company	
	2012	2011
	Rmb'000	Rmb'000
Authorised but not contracted for	35,931	–
Contracted but not provided for	4,753	7,970
	40,684	7,970

31 COMMITMENTS (Continued)

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 31 December 2012, 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	
	2012	2011
	Rmb'000	Rmb'000
Not later than one year	199	397
Later than one year and not later than five years	–	198
	199	595

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

32 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exercise significant influence over the other party in marking financial or operating decisions. Parties are also considered to be related if they are both subject to control or joint control by the same entity. If one entity controls or jointly controls a second entity, and the first entity has significant influence over a third party, then the second and third entities are also related to each other. Conversely, if two entities are both subject to significant influence by the same entity, the two entities are not related to each other. Related parties may be individuals or entities.

32 RELATED PARTY TRANSACTIONS (Continued)

(i) 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 joint research and development of new drug products with patent of lentinan hexaose owned by Shanghai Life Science. The Company disposed of all of its equity interest in Lanling Pharm on 11 June 2012 and Lanling Pharm ceased to be a related party of the Group. Income received by Shanghai Life Science from Lanling Pharm during the period from 1 January 2012 to 11 June 2012 was:

	2012 Rmb'000	2011 Rmb'000
Income from joint research and development of a patent	358	800

(ii) Key management compensation – Group

	2012 Rmb'000	2011 Rmb'000
Salaries and other short-term employee benefits	1,830	1,184
Retirement benefit contributions	59	52
	1,889	1,236

FIVE YEAR SUMMARY

	2008 Rmb'000	2009 Rmb'000	2010 Rmb'000	2011 Rmb'000	2012 Rmb'000
Consolidated results					
Turnover	418,426	385,302	515,574	620,233	653,218
Operating profit	58,112	53,022	83,029	54,462	69,060
Finance costs, net	(11,414)	(6,619)	(6,476)	(8,749)	(10,077)
Share of profit of an associate	2,349	3,538	10,441	739	342
Profit before income tax	49,047	49,941	86,994	46,452	59,325
Income tax expense	(3,413)	(7,074)	(11,135)	(4,749)	(9,757)
Profit for the year	45,634	42,867	75,859	41,703	49,568
Profit for the year attributable to:					
Equity holders of the Company	45,929	43,203	75,773	41,105	49,455
Non-controlling interest	(295)	(336)	86	598	113
Dividends	10,256	–	22,777	12,713	14,832
Consolidated assets and liabilities					
Total non-current assets	334,996	338,919	356,226	377,996	351,851
Total current assets	239,161	266,535	274,870	286,009	310,447
Total current liabilities	(188,247)	(186,809)	(221,788)	(235,958)	(197,690)
Net current assets	50,914	79,726	53,082	50,051	112,757
Total assets less current liabilities	385,910	418,645	409,308	428,047	464,608
Total non-current liabilities	(833)	(957)	(976)	(820)	(655)
Net assets	385,077	417,688	408,332	427,227	463,953
Earnings per share					
– basic and diluted	Rmb0.067	Rmb0.063	Rmb0.122	Rmb0.078	Rmb0.093