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*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*



常茂生物化學工程股份有限公司

**Changmao Biochemical Engineering Company Limited\***

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

(Stock Code: 8208)

**DISCLOSEABLE AND CONNECTED TRANSACTION  
DISPOSAL OF 38.78% EQUITY INTEREST IN LANLING  
PHARMACEUTICAL**

**Financial Adviser**



**CIMB SECURITIES (HK) LIMITED**

**Independent Financial Adviser**

**to the Independent Board Committee and the Independent Shareholders**



**First Shanghai Capital Limited**

**THE DISPOSAL**

The Board announces that on 16 March 2012, the Company and Kameo, a connected person of the Company, entered into the Equity Transfer Agreement, pursuant to which the Company has conditionally agreed to sell, and Kameo has conditionally agreed to acquire, the Sale Interest, being 38.78% of the equity interest in Lanling Pharmaceutical, at the Consideration of RMB28,115,500. Upon Completion, the Company will not have any equity interest in Lanling Pharmaceutical and will cease to have any rights and obligations in Lanling Pharmaceutical.

*\*For identification purpose*

As at the date of this announcement, Mr. Yu is a non-executive Director, and together with his spouse are interested in 66,000,000 Foreign Shares, representing approximately 19.21% of the total Foreign Shares in issue and approximately 12.46% of the total Shares in issue. As Mr. Yu and his spouse together hold the entire interest of Kameo as at the date of this announcement, Kameo is an associate of Mr. Yu and thus a connected person of the Company under the GEM Listing Rules and the Disposal constitutes a non-exempt connected transaction for the Company under Chapter 20 of the GEM Listing Rules which is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the GEM Listing Rules. The Disposal also constitutes a discloseable transaction for the Company pursuant to Chapter 19 of the GEM Listing Rules.

A circular containing, among other things, details of the Equity Transfer Agreement, a letter of recommendation from the Independent Board Committee regarding the Equity Transfer Agreement and the transactions contemplated thereunder to the Independent Shareholders and a letter from the independent financial adviser containing its advice to the Independent Board Committee regarding the Equity Transfer Agreement and the transactions contemplated thereunder, and the notice of the EGM will be despatched to the Shareholders on or before 11 April 2012 in accordance with the GEM Listing Rules.

#### **TRANSFER OF EQUITY INTEREST IN LANLING PHARMACEUTICAL FROM BONUS SKY TO KAMEO**

The Board was notified by Bonus Sky, a company wholly owned by Mr. Rui, that on 16 March 2012, Bonus Sky and Kameo entered into a conditional equity transfer agreement, pursuant to which Bonus Sky has conditionally agreed to sell, and Kameo has conditionally agreed to acquire, 12.5% of the equity interest in Lanling Pharmaceutical at a consideration of RMB9,062,500, which is equivalent to the Consideration for the Disposal on a proportional basis. Upon completion of such conditional equity transfer agreement, Bonus Sky will not have any equity interest in Lanling Pharmaceutical and will cease to have any rights and obligations in Lanling Pharmaceutical.

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#### **1. THE EQUITY TRANSFER AGREEMENT**

##### **Date**

16 March 2012

##### **Parties**

Vendor: the Company

Purchaser: Kameo, a company engaged in the import and export pharmaceutical products and investment holding

As at the date of this announcement, Mr. Yu is a non-executive Director and together with his spouse are, through Jomo Limited (a company incorporated in Hong Kong and wholly owned by Mr. Yu and his spouse), interested in 66,000,000 Foreign Shares, representing approximately 19.21% of the total Foreign Shares in issue and approximately 12.46% of the total Shares in issue. Accordingly, Mr. Yu is a connected person of the Company under the GEM Listing Rules. As at the date of this announcement, Mr. Yu and his spouse together hold the entire interest of Kameo. Accordingly, Kameo is an associate of Mr. Yu and thus a connected person of the Company under the GEM Listing Rules.

### **Asset to be disposed of**

The Sale Interest, representing 38.78% of the equity interest in Lanling Pharmaceutical.

### **Consideration**

The consideration (the “**Consideration**”) for the Disposal is RMB28,115,500 which shall be payable by Kameo in cash. The Consideration was determined after arm’s length negotiations between the parties to the Equity Transfer Agreement with reference to the appraised net assets value of Lanling Pharmaceutical attributable to the Sale Interest as at 29 February 2012, being approximately RMB21,587,003. Such appraisal was conducted by an independent valuer registered in the PRC using the asset-based approach.

### **Payment**

Kameo shall make payment with an amount of RMB7,756,000 to the Company within 30 days from the date of the Equity Transfer Agreement and the remaining balance within 30 days from the effective date of the Equity Transfer Agreement.

### **Undertaking from Kameo**

Kameo undertakes that, upon the Equity Transfer Agreement becoming effective, the Company shall be free from responsibilities and liabilities arising from any litigations and disputes with respect to Lanling Pharmaceutical occurred before the Equity Transfer Agreement becomes effective.

### **Conditions**

The Equity Transfer Agreement shall become effective upon the fulfillment of the following conditions:

- (i) the Company and Kameo having executed the Equity Transfer Agreement validly;

- (ii) the other equity holders (save for Kameo) of Lanling Pharmaceutical having consented to the Disposal contemplated under the Equity Transfer Agreement and to the renunciation of their respective pre-emptive rights to purchase the Sale Interest;
- (iii) Lanling Pharmaceutical having obtained approval from its board of directors for the revision on the articles of association of Lanling Pharmaceutical (the “**Revised Articles of Association**”) as a result of the transfer of the Sale Interest contemplated under the Equity Transfer Agreement;
- (iv) the Company having obtained approval of the Equity Transfer Agreement from the Independent Shareholders at the EGM;
- (v) each equity holder of Lanling Pharmaceutical having signed the Revised Articles of Association in accordance with the PRC laws; and
- (vi) all necessary approvals and/or consents (if any) from the relevant authorities in the PRC in respect of the Equity Transfer Agreement and the transactions contemplated thereunder and the Revised Articles of Association having been obtained.

If any of the above conditions is not fulfilled by 30 September 2012, the Equity Transfer Agreement will terminate automatically save for the surviving terms. In such event, no party will have any claim against or liability to the other save for any antecedent breaches of the Equity Transfer Agreement.

## **2. INFORMATION ON LANLING PHARMACEUTICAL**

Lanling Pharmaceutical is a limited liability company incorporated in the PRC in 1979 and is principally engaged in the production and sale of antibiotics and synthetic drugs in the form of injections, capsules, tablets and granules as well as active pharmaceutical ingredients.

As at the date of this announcement, the registered capital of Lanling Pharmaceutical is RMB25 million and is owned as to 38.78% by the Company, 32.00% by Mr. Yu and his associates (including, among others, Kameo with 27% interest), 12.5% by Bonus Sky, a company wholly owned by Mr. Rui, and the remaining of an aggregate of 16.72% by two PRC-incorporated companies each of which is held by the existing and former employees of the Company and the Independent Third Parties. Upon completions of the Disposal and the transfer of 12.5% equity interest in Lanling Pharmaceutical by Bonus Sky to Kameo, the registered capital of Lanling Pharmaceutical will be owned as to 83.28% by Mr. Yu and his associates (including, among others, Kameo with 78.28% interest) and the remaining of an aggregate of 16.72% by the aforesaid PRC-incorporated companies.

Set out below is certain financial information of Lanling Pharmaceutical as extracted from its audited financial statements prepared in accordance with the generally accepted accounting principles in the PRC for the two financial years ended 31 December 2011:

	<b>For the year ended 31 December</b>	
	<b>2010</b>	<b>2011</b>
	RMB million (audited)	RMB million (audited)
Profit before taxation	30.0	1.9 <i>Note</i>
Net profit after taxation	25.4	2.2 <i>Note</i>

*Note:*

*The material decrease in each of profit before taxation and net profit after taxation was mainly attributable to a provision of approximately RMB45.8 million made by Lanling Pharmaceutical as a result of the Judgment (as defined below).*

As at 31 December 2011, the audited net assets value of Lanling Pharmaceutical was approximately RMB69.0 million.

### **3. REASONS FOR AND BENEFITS OF THE DISPOSAL**

The Group is principally engaged in the production and sale of organic acids. Upon Completion, the Company will not have any equity interest in Lanling Pharmaceutical and will cease to have any rights and obligations in Lanling Pharmaceutical.

On 28 July 2000, Lanling Pharmaceutical and two independent third parties (the “**Plaintiffs**”), entered into a cooperation contract (as supplemented from time to time, collectively the “**Cooperation Contracts**”) for the development, production and sale of certain pharmaceutical products (the “**Subject Products**”). On 7 December 2009, the Plaintiffs filed a claim against Lanling Pharmaceutical in a PRC court alleging the breach of the Cooperation Contracts by the unpermitted purchase of raw material for producing the Subject Products and production and sale of the Subject Products by Lanling Pharmaceutical. The PRC court subsequently issued its judgment (the “**Judgment**”) on the claim which ordered that, among others, (i) the Cooperation Contracts were invalid; (ii) Lanling Pharmaceutical shall pay the Plaintiffs an aggregate of approximately RMB49.3 million for the settlement of raw materials provided by the Plaintiffs and the Plaintiffs’ share of revenue from the sale of the Subject Products by Lanling Pharmaceutical; and (iii) Lanling Pharmaceutical shall cease production and sale of the Subject Products with the technologies of one of the Plaintiffs. Although Lanling Pharmaceutical filed appeal (the “**Appeal Proceeding**”) against the Judgment in August 2011, the Directors (excluding the independent non-executive Directors who will express their views in the circular after considering the advice from the independent financial adviser) consider that the Disposal would release the Company from the uncertainties arising from the pending Appeal Proceeding and the potential adverse impacts on the operation and financial condition of Lanling Pharmaceutical as a result of its ceasing production and sales of the Subject Products with the technologies of one of the Plaintiffs as required under the Judgment.

The Company estimates that the net proceeds from the Disposal (after deducting expenses in relation thereto) are approximately RMB27.8 million, which will be used for general working capital of the Group.

Subject to audit, the estimated gain on the Disposal shall be approximately RMB11.3 million which is calculated based on the Consideration of approximately RMB28.1 million deducted by the sum of (i) the adjusted net asset book value of Lanling Pharmaceutical attributable to the Sale Interest as at 31 December 2011 of approximately RMB16.5 million (being the net asset book value of Lanling Pharmaceutical attributable to the Sale Interest as at 31 December 2011 of approximately RMB29.1 million adjusted by the dividend attributable to the Sale Interest declared by Lanling Pharmaceutical for the year ended 31 December 2011 of approximately RMB12.6 million); and (ii) the estimated expenses in connection with the Disposal of approximately RMB0.3 million. Shareholders should note that the actual gain or loss on the Disposal to be recorded by the Company will be determined based on the net asset book value of Lanling Pharmaceutical on the date of Completion.

The Directors (excluding the independent non-executive Directors who will express their views in the circular after considering the advice from the independent financial adviser) are of the view that the terms of the Equity Transfer Agreement were determined after arm's length negotiations between the parties and on normal commercial terms and fair and reasonable as far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

#### **4. IMPLICATIONS UNDER THE GEM LISTING RULES**

As at the date of this announcement, Mr. Yu is a non-executive Director, and together with his spouse, are interested in 66,000,000 Foreign Shares, representing approximately 19.21% of the total Foreign Shares in issue and approximately 12.46% of the total Shares in issue. Accordingly, Mr. Yu is a connected person of the Company under the GEM Listing Rules. As at the date of this announcement, Mr. Yu and his spouse together hold the entire interest of Kameo. Accordingly, Kameo is an associate of Mr. Yu and thus a connected person of the Company under the GEM Listing Rules and the Disposal constitutes a non-exempt connected transaction for the Company under Chapter 20 of the GEM Listing Rules which is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the GEM Listing Rules. The Disposal also constitutes a discloseable transaction for the Company pursuant to Chapter 19 of the GEM Listing Rules.

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As at the date of this announcement, Mr. Rui and Ms. Leng Yi Xin (being the spouse of Mr. Rui and a non-executive Director) are interested in the entire issued capital of 常州新生化科技開發有限公司 (Changzhou Xinsheng Bio-Technology Development Co., Ltd.\*), an enterprise that was incorporated in the PRC and is the registered holder and beneficial owner of 2,500,000 Domestic Shares, representing approximately 0.47% of the total Shares in issue as at the date of this announcement. Furthermore, Mr. Rui and Ms. Leng Yi Xin taken together are interested in approximately 82.6% of the entire issued capital of Hong Kong Xinsheng Pioneer Investment Company Limited (being the sum of a beneficial interest of approximately 63.0% and an interest of approximately 19.6% as Mr. Rui's trustee capacity), an investment holding company that was incorporated in Hong Kong and is the registered holder and beneficial owner of 135,000,000 Foreign Shares, representing approximately 25.49% of the total Shares in issue as at the date of this announcement.

## DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions have the meanings as set out below:

“Board”	the board of the Directors
“Bonus Sky”	Bonus Sky Investments Limited (利天投資有限公司), a company incorporated in the British Virgin Islands and wholly owned by Mr. Rui as at the date of this announcement
“Company”	常茂生物化學工程股份有限公司 (Changmao Biochemical Engineering Company Limited*), a joint stock limited company incorporated in the PRC with the H Shares currently listed on the GEM (stock code: 8208)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Equity Transfer Agreement
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the conditional disposal of the Sale Interest on terms and conditions set out in the Equity Transfer Agreement
“Domestic Share(s)”	ordinary share(s) with a par value of RMB0.10 each in the capital of the Company which is(are) subscribed for in RMB by PRC citizens and/or entities
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement and the transactions contemplated thereunder

“Equity Transfer Agreement”	the conditional equity transfer agreement dated 16 March 2012 entered into between the Company and Kameo in respect of the Disposal
“Foreign Share(s)”	ordinary share(s) with a par value of RMB0.10 each in the capital of the Company which is(are) subscribed for in a currency other than RMB by non-PRC citizens and/or entities
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) in the capital of the Company which is(are) subscribed for and traded in HK\$ and listed on the GEM
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee which will be established and will comprise all the independent non-executive Directors for the purpose of advising the Independent Shareholders in relation to the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders who have no material interest in the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	independent third party(ies) who is(are) independent of the Company and its connected person(s) as ascribed under the GEM Listing Rules
“Kameo”	Kameo Limited, a company incorporated in Hong Kong and wholly owned by Mr. Yu, a connected person of the Company, and his spouse as at the date of this announcement
“Lanling Pharmaceutical”	常州蘭陵製藥有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.), an enterprise incorporated in the PRC, 38.78% registered capital of which is held by the Company as at the date of this announcement
“ Mr. Rui”	Mr. Rui Xin Sheng, being the chairman of the Board, an executive Director and a director of Lanling Pharmaceutical



“Mr. Yu”	Mr. Yu Xiao Ping, being a non-executive Director and together with his spouse interested in the entire issued capital of Jomo Limited, a company that was incorporated in Hong Kong and is the registered holder and beneficial owner of 66,000,000 Foreign Shares, representing approximately 12.46% of the total Shares in issue as at the date of this announcement
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Sale Interest”	38.78% of the equity interest in Lanling Pharmaceutical
“Share(s)”	collectively, Domestic Share(s), H Share(s) and Foreign Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By Order of the Board  
**Changmao Biochemical Engineering Company Limited\***  
**Rui Xin Sheng**  
*Chairman*

The PRC, 16 March 2012

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

*This announcement will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting.*