常茂生物化學工程股份有限公司

Changmao Biochemical Engineering Company Limited*

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

(Stock code: 8208)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

* *For identification purpose only*

HIGHLIGHTS

- Turnover of approximately Rmb620,233,000 for the year ended 31 December 2011

- Net profit of approximately Rmb41,105,000 for the year ended 31 December 2011

- The Directors recommend the payment of a final dividend of Rmb0.024 (inclusive of tax) per share for the year ended 31 December 2011

The board of Directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company" or "Changmao") is pleased to present the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011 together with the audited comparative figures for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	**2011** *Rmb'000*	2010 *Rmb'000*
Turnover	2	**620,233**	515,574
Cost of sales	4	**(506,045)**	(378,212)
Gross profit		**114,188**	137,362
Other income	3	**4,785**	6,582
Other gains/(losses), net	3	**615**	(1,562)
Selling expenses	4	**(12,731)**	(10,028)
Administrative expenses	4	**(52,395)**	(49,325)
Operating profit		**54,462**	83,029
Finance income		**554**	462
Finance costs		**(9,303)**	(6,938)
Finance costs, net	5	**(8,749)**	(6,476)
Share of profit of an associate		**739**	10,441
Profit before income tax		**46,452**	86,994
Income tax expense	6	**(4,749)**	(11,135)
Profit for the year		**41,703**	75,859
Other comprehensive income – currency translation difference		**(31)**	25
Total comprehensive income for the year		**41,672**	75,884
Profit for the year attributable to:			
Equity holders of the Company		**41,105**	75,773
Non-controlling interests		**598**	86
		41,703	75,859
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**41,074**	75,798
Non-controlling interests		**598**	86
		41,672	75,884
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	7	**Rmb0.078**	Rmb0.122
Dividends	8	**12,713**	22,777

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 *Rmb'000*	2010 *Rmb'000*
ASSETS			
Non-current assets			
Patents		**6,223**	7,611
Property, plant and equipment		**268,505**	259,253
Land use rights		**22,429**	22,954
Construction in progress		**47,793**	34,302
Investment in an associate		**29,146**	28,407
Prepayments		**3,096**	3,096
Deferred income tax assets		**804**	603
		377,996	356,226
Current assets			
Inventories		**148,661**	117,945
Trade receivables	9	**62,068**	78,553
Other receivables and prepayments		**12,995**	16,685
Derivative financial instruments		**150**	44
Pledged bank balances		**2,500**	14,493
Cash and cash equivalents		**59,635**	47,150
		286,009	274,870
Total assets		**664,005**	631,096
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	10	**372,625**	354,328
		425,595	407,298
Non-controlling interests		**1,632**	1,034
Total equity		**427,227**	408,332

	Note	2011 Rmb'000	2010 Rmb'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**820**	976
Current liabilities			
Trade and bills payables	11	**31,397**	37,925
Other payables and accrued charges		**26,573**	73,693
Income tax payable		**988**	3,170
Bank borrowings		**177,000**	107,000
		235,958	221,788
Total liabilities		**236,778**	222,764
Total equity and liabilities		**664,005**	631,096
Net current assets		**50,051**	53,082
Total assets less current liabilities		**428,047**	409,308

Notes:

1 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by 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.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendment to standard is mandatory for the first time for the financial year beginning 1 January 2011:

- HKAS 24 (Revised) 'Related party disclosures'

The above amended standard does not have material impact on the Group's or Company's financial statements.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

- HKFRS 9 'Financial instruments'
- HKFRS 10 'Consolidated financial statements'
- HKFRS 12 'Disclosures of interests in other entities'
- HKFRS 13 'Fair value measurement'

The above new standards and amended standards do not have material impact on the Group's financial statements.

2 TURNOVER AND SEGMENT INFORMATION

Management determines the operating segments based on the information reported to the Groups' 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.

	2011	2010
	Rmb'000	*Rmb'000*
Turnover		
Sales of goods	**620,233**	515,574

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

	2011	2010
	Rmb'000	*Rmb'000*
Mainland China	**324,357**	252,064
Europe	**123,552**	107,576
Asia Pacific	**109,648**	95,870
America	**50,640**	37,515
Others	**12,036**	22,549
	620,233	515,574

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 Rmb662,003,000 (2010: Rmb629,965,000), and the total of the Group's assets located in other country is Rmb2,002,000 (2010: Rmb1,131,000).

3 OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	2011	2010
	Rmb'000	*Rmb'000*
Other income		
Sales of scrap materials	**749**	1,229
Government grants	**2,518**	3,024
Income from joint research and development of a patent	**800**	2,000
Others	**718**	329
	4,785	6,582

	2011	2010
	Rmb'000	*Rmb'000*
Other gains/(losses), net		
Gain on disposal of a patent	**2,532**	–
Loss on disposal of property, plant and equipment	**(354)**	(40)
Fair value gains on derivative financial instruments	**106**	90
Net exchange loss	**(1,669)**	(1,783)
Others	**–**	171
	615	(1,562)

4 EXPENSES BY NATURE

	2011	2010
	Rmb'000	*Rmb'000*
Cost of inventories sold (2010: including write-back of provision for inventories to net realisable value of Rmb7,414,000)	**351,342**	254,150
Amortisation of patents	**920**	919
Amortisation of land use rights	**525**	525
Auditors' remuneration	**851**	783
Depreciation	**30,331**	28,371
Operating lease rentals in respect of land and buildings	**620**	510
Research and development costs	**15,695**	14,359
Staff costs (including emoluments of Directors and Supervisors)	**40,933**	39,555
Other expenses	**129,954**	98,393
Total cost of sales, selling expenses and administrative expenses	**571,171**	437,565

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.

5 FINANCE COSTS, NET

	2011	2010
	Rmb'000	*Rmb'000*
Interest on bank borrowings – wholly repayable within five years	**9,303**	6,938
Interest income on bank deposits	**(554)**	(462)
Net finance costs	**8,749**	6,476

6 INCOME TAX EXPENSE

People's Republic of China ("PRC") Corporate Income Tax ("CIT") is provided for on the basis of the profit for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being registered as a New and High Technology Enterprise since 2008, is entitled to a preferential CIT rate of 15%. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

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

	2011	2010
	Rmb'000	*Rmb'000*
Current income tax		
– Provision for CIT	**7,090**	10,065
– Over-provision in prior year	**(93)**	(79)
Tax credit *(note)*	**(1,891)**	–
Deferred income tax	**(357)**	1,149
	4,749	11,135

Note: During the year, the Company obtained approval from the tax bureau in Mainland China whereby it is granted a tax credit of approximately Rmb 1,891,000 in respect of purchase of certain equipment manufactured in Mainland China.

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:

	2011	2010
	Rmb'000	*Rmb'000*
Profit before income tax	**46,452**	86,994
Adjustment: share of profit of an associate	**(739)**	(10,441)
	45,713	76,553
Calculated at the tax rates applicable to results of the respective consolidated entities	**6,972**	11,586
Income not subject to tax	**(73)**	(58)
Expenses not deductible for tax purposes	**308**	76
Tax losses for which no deferred income tax asset was recognised	**385**	100
Utilisation of tax losses for which no deferred income tax asset was recognised	**(468)**	(166)
Tax credit	**(1,891)**	–
Over-provision in prior year	**(93)**	(79)
Others	**(391)**	(324)
Income tax expense	**4,749**	11,135

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to the equity holders of the Company of Rmb41,105,000 (2010: Rmb75,773,000) and 529,700,000 (2010: 622,944,000) weighted average number of shares in issue during the year.

The Company had no dilutive potential shares in issue during the year (2010: Nil).

8 DIVIDENDS

No interim dividend was declared during the year (2010: Nil). The Directors recommend the payment of a final dividend of Rmb0.024 (2010:Rmb0.043) per share, totalling Rmb12,713,000 (2010: Rmb22,777,000) for the year ended 31 December 2011. Such dividend is to be approved by the shareholders at the Annual General Meeting on 21 May 2012. These financial statements do not reflect this dividend payable.

	2011	2010
	Rmb'000	*Rmb'000*
Final, proposed, of Rmb0.024 (2010: Rmb0.043) per share	**12,713**	22,777

9 TRADE RECEIVABLES

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:

	2011	2010
	Rmb'000	*Rmb'000*
0 to 3 months	**61,952**	77,808
4 to 6 months	**116**	423
Over 6 months	**275**	653
	62,343	78,884
Less: Provision for impairment of trade receivables	**(275)**	(331)
	62,068	78,553

10 RESERVES

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

11 TRADE AND BILLS PAYABLES

	2011	2010
	Rmb'000	*Rmb'000*
Trade payables *(Note (a))*	**26,477**	21,445
Bills payables *(Note (b))*	**4,920**	16,480
	31,397	37,925

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

	2011	2010
	Rmb'000	*Rmb'000*
0 to 6 months	**26,416**	21,229
7 to 12 months	**12**	181
Over 12 months	**49**	35
	26,477	21,445

(b) The maturity dates of bills payable are normally within 6 months.

BUSINESS REVIEW AND OUTLOOK

Results for the year

The Group recorded a turnover of Rmb620,233,000 for the year ended 31 December 2011, which represented an increase of 20% as compared to that of last year; net profit was Rmb41,105,000, which represented a decrease of 46% as compared to that of last year.

The climbing raw material prices since 2011 caused the average prices of the Group's main raw materials to rise by approximately 14% from last year, and the Group's production costs increased accordingly. The boost in production costs was also in part due to higher staff wages. As the Group expanded its scale of operations, its production overheads continued to grow, and the Group's operating costs increased as a result. While the costs of the Group's products jumped, their prices were not able to go up as much as the prices of raw materials did. The continuous depreciation of United States Dollars ("USD") against Renminbi and the European Union debts crisis also put huge pressure on the Group's export. In addition, certain uncertainties regarding the Group's associate negatively impacted the Group. All these reasons led to the fact the Group's net profit declined while its sales increased. However, with the advantages of economies of scale and product quality enjoyed by the Group, as well as its strategy to expand customer base through brand building, the Group will achieve steady growth in the long term.

Business Review

In 2011, the Group maintained steady production and operation. Its sales channels opened up gradually, research and development and projects progressed well as scheduled, and its management was constantly improved.

(I) Production

In 2011, the Group significantly expanded the production capacity of its existing products through optimising production line arrangement, improving equipment utilisation rate and motivating staff. Its production capacity of maleic anhydride, malic acid and fumaric acid all realised considerable expansion, 26% higher than last year's average in average. The Group also conducted in-depth improvements to certain important links of production process in its aspartame production line. The refined aspartame received recognition from renowned potential customers for its superior quality. With its strong sense of social responsibility, the Group consistently promotes energy saving and emission reduction and facilitates safe and environment-friendly operation. It was recognised as a "Green Enterprise" in March 2011.

(II) Market Expansion

Faced with complicated market conditions domestically and abroad in 2011, our capable sales team responsively adjusted its sales strategies and strengthened its bargain power by expanding the markets for the Group's core products and improving our brand awareness and customer recognition. The Group's malic acid enjoys great reputation for its high quality, and its sales volume continued to grow. The sales volume of malic acid in 2011 was up by 30% compared to that of last year. As the market demand for fumaric acid continued to grow, our sales personnel took this opportunity to put more efforts into its marketing, and its sales volume grew by over 100% compared to that of last year, which made contribution to the Group's performance. The Group has also obtained the approval for nutraceutical products for its Healthy Companion brand Vitamin K calcium tablet (攜康牌維K鈣片) and Coenzyme Q10 Vitamin E capsule (輔酶Q10維E膠囊) from the State Food and Drug Administration, and has begun entering into the market which made some progress in the nutraceutical domain.

(III) Research And Development And Projects

1. Natural organic acids project

In 2011, the Group's "Natural four-carbon series edible organic acid" project progressed smoothly. Its civil and framework construction is almost complete and equipment installment is in progress. The natural organic acid project use natural raw materials such as beans and corns to replace the raw materials that are derived from fossils and currently used by the Group in production. The Group's doctoral research center has received the "Technology Advancement Award" in results conversion issued by Changzhou New North Technology Bureau for its "Fumaric Acid Production through Biology Fermentation Process" project. In addition, the Group's new-type fumaric acid separation and extraction process patent application has passed the review and is in the process of authorisation. 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 Group expects the launch of its natural edible organic acid will improve the Group's overall gross profit margin, which will make valuable contribution to the Group's future growth.

2. Active pharmaceutical ingredients (API) project

In 2011, the API produced by the laboratory has met the general API standards, and the Group has been granted the Drug Manufacturing Certificate for the project. The Group also initiated the relevant production line improvements and GMP documentation preparation. The Group 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 fermentation API and synthesis API and expanding the API product mix.

3. Alternative sweetener project

On the foundation of its alternative sweetener neotame lab synthesis technology research, the Group furthered magnified the development process and made a patent application in 2011. The Group also conducted the research of other alternative sweeteners, which is progressing smoothly. The resultant alternative sweetener production process will effectively improve the yield rate and lower production costs, while providing the Group's sweetener products with advantages of offering alternative and diversified options to meet the changing market demand.

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

In 2011, the Group continued its PQQ production technology research and set up a trial production line. It also enhanced its collaboration in the research and development of PQQ's applications in food additives, feed additives, and drugs to expand PQQ's uses. The research and development of PQQ project suits market needs and will facilitate the Group's development in the foreseeable future.

(IV) Management

The Group has adopted the ISO9001 quality management system, ISO14001 environment management system and HACCP food safety management system in its management, production and operation for a long time. It emphasises on quality control, safety and environment protection, and continues to improve its capability by combing information technologies with production safety.

In 2011, the Group continued to advance its safety standardisation and improve its safety system, and was recognised as a "Production Safety Credit Enterprise in Jiangsu Province". The Group's "Facilitating Food Additive Production with Modern Information Integration Technologies" project has been selected by the Ministry of Industry and Information Technology as one of the first 100 "Key Projects Facilitating Production Safety through Informationisation and Industrialisation". The Group also improved its safety management system, enabling its safety management documentation to meet the AQ3013-2008 "General Norms for Safety Standardisation of Hazardous Chemical Enterprises", while better suiting the Group's needs for safety management, which has provided system assurance for safety supervision and has created suitable working conditions for staff.

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, development and marketing capability, and continue to expand into new markets to capture growth opportunities. In 2012, the Group will concentrate on the following areas:

(I) Optimising product mix and facilitating product upgrade

The Group will continue to consolidate its core products and bring into play the economies of scale by actively developing natural food additives, effectively advancing its nutraceutical product business and fully initiating its API business. Meanwhile, 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 product categories with strong competitiveness as planned, and create new growth drivers by promoting product upgrade.

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

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

The Group will continue to develop its new market–nutraceutical product business by reinforcing advertising. The development of nutraceutical product business will contribute to the Group's financial results.

(III) Improving workforce structure and enhancing corporate management

In line with its needs of development strategy, the Group will focus on innovating human resources management, optimising workforce structure and building an excellent team. In 2012, the Group will, based on its fully implementation of ISO9001, ISO14001, HACCP and Code of Good Practice for Standardisation, concentrate on obtaining the FSSC22000 food safety management system certification and building a more comprehensive safety management system, with the aim of breaking through the green barriers in international trades to expand in the U.S. and European markets in pursuit of optimised order for development.

(IV) Building brand reputation and registering international trademarks

The Group builds its brand name with high product quality and gains customers with its brand name. In addition to its L (+)-tartaric acid which has been recognised as "Famous Brand Product of Jiangsu Province", the Group continued with its application for recognition as "Famous Brand Product of Jiangsu Province" for its malic acid and successfully completed the brand upgrade. The Group will also register trademarks overseas. Currently its international trademark application progresses well and is under review. The Group will enhance its global brand awareness, continue its brand upgrade, and improve its customers' satisfaction with and loyalty to Changmao brand.

(V) Promoting sustainable development by attracting end-customers

The Group will strive to attract major customers and end-customers by optimising its sales structure and developing a steady, sustainable market for its products. Four renowned international enterprises have visited and examined the Group. They may become the Group's major end-customers for Changmao malic acid, aspartame and tartaric acid, which will lay a solid foundation for Changmao's future development. The Group will also proactively attract high-end customers, enhance the competitiveness of its products in high-end markets and improve its performance.

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 production and research strength to develop new functional food additives, natural food additives, neutraceutical products, medicinal intermediaries, APIs and nutraceutical products. The Group will continue to extend its production chain and create new growth.

FINANCIAL REVIEW

Turnover and gross profit margin

The Group recorded a turnover of Rmb620,233,000 for the year ended 31 December 2011, which has increased by 20% as compared to that for the year ended 31 December 2010. The sales volume of major products increased as compared to last year as a result of the expansion of production lines in 2011. Although the turnover has increased as compared to that of last year, gross profit did not grow at the same extent because the price of raw materials derived from petroleum and coal increased much more than the market price of the products. Average cost of a major raw material has increased by approximately 14% in 2011 as compared to 2010. Increase in direct labour costs also caused the increase in production costs. In addition, the depreciation of USD and the economy downturn in Europe also caused pressure on the Group's export and affected the gross margin of the Group. 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 2011 increased as compared to that of 2010 due to the continuous growth of business, production volume and the 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

Share of profit of an associate decreased in 2011 mainly because the associate of the Company, Changzhou Lanling Pharmaceutical Production Co., Ltd. (常州蘭陵製藥有限公司 or "Lanling Pharm"), has made a provision in relation to a lawsuit for the year ended 31 December 2011. In 2000, Lanling Pharm 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"). The Plaintiffs filed a claim against Lanling Pharm 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 Pharm. The PRC court subsequently issued its judgement on the claim which ordered that, among others, Lanling Pharm shall pay the Plaintiffs approximately Rmb45.8 million for the Plaintiffs' share of revenue from the sale of the Subject Products by Lanling Pharm. Therefore, Lanling Pharm has made a provision in its accounts and resulted in a decrease in profit for the year ended 31 December 2011.

Income tax

The Company is entitled to a preferential corporate income rate of 15% for year ended 31 December 2011. Other subsidiaries of the Group in Mainland China are subject to a standard tax rate of 25%.

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. As expressed as a percentage of turnover, export sales (including sales through import-export agents in the PRC) accounted for approximately 53% (2010: 58%) of the Group's turnover while domestic sales in the PRC accounted for approximately 47% (2010: 42%) of turnover.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operates in the PRC. Substantially all of its assets, liabilities and capital expenditure are located or incurred in Mainland China. Sales are made to customers in the PRC as well as overseas customers while purchases are mainly from suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to 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 2011, the Group had total outstanding unsecured bank borrowings of Rmb 177million (2010: Rmb107 million) which were all repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The average effective interest rate of all the outstanding bank loans as at 31 December 2011 was approximately 6.4% (2010: 5.2%) per annum.

Except for the bank borrowings disclosed above, as at 31 December 2011 and 2010, 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 2011, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb7,970,000 (2010: Rmb9,158,000). These capital commitments are mainly used for expansion of production lines in the next year. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2011. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 35.7% as at 31 December 2011 (2010: 35.3%). As at 31 December 2011, the Group's cash and cash equivalents amounted to Rmb59,635,000 (2010: Rmb 47,150,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors and Supervisors, as at 31 December 2011, the Group employed a total of 623 employees (2010: 539 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 2011 was approximately Rmb40,933,000 (2010: Rmb39,555,000). Bonus to Directors and employees under the staff incentive scheme for the year ended 31 December 2011 was approximately Rmb190,000 (2010: Rmb6,150,0000). Excluding the bonus, staff cost including salary, welfare benefits and retirement benefits was approximately Rmb40,743,000 (2010: Rmb33,405,000). Staff cost increased as compared to that of last year mainly because of the increase in number of employees and 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.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, which is chaired by an independent non-executive Director and currently has a membership comprising two independent non-executive Directors, has reviewed with the management and approved the financial statements for the year ended 31 December 2011.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 2011.

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.024 (inclusive of tax) per share in cash, totalling approximately Rmb12,713,000 for the year ended 31 December 2011. The proposed dividend is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It is intended that the dividend will be payable on 31 July 2012 to the holders of Domestic Shares, Foreign Shares and H Shares whose names appear on the register of member of the Company at 4:30 p.m. on 31 May 2012.

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

CLOSURE OF H SHARE REGISTER

The H Share register of shareholders of the Company will be closed from 26 May 2012 to 31 May 2012 (both days inclusive), during which no transfer of H Shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 May 2012.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2011 will be held on 21 May 2012. A notice convening the annual general meeting will be published in due course.

SIGNIFICANT INVESTMENTS

There are no significant investments held by the Group as at 31 December 2011 and 2010.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

There are no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2011.

CONTINGENT LIABILITIES

As at 31 December 2011 and 31 December 2010, the Group did not have any material contingent liabilities.

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

As at 31 December 2011, the interests (including interests in shares and short positions) of the Directors, the supervisors of the Company ("Supervisors") or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

(I) The Company

	Capacity	Number of Domestic Shares	Approximate Percentage shareholding in the Domestic Shares *(Note (l))*	Number of Foreign Shares	Approximate Percentage shareholding in the Foreign Shares *(Note (m))*
Director					
Mr. Rui Xin Sheng	Interest of spouse, interest of controlled corporation, trustee (other than a bare trustee) and custodian *(Note (a))*	2,500,000	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%
Prof. Ouyang Ping Kai	*(Note (f))*	–	–	*(Note (f))*	*(Note (f))*
Prof. Yang Sheng Li	*(Note (g))*	–	–	*(Note (g))*	*(Note (g))*
Supervisor					
Ms. Zhou Rui Juan	*(Note (h))*	–	–	*(Note (h))*	*(Note (h))*
Mr. Lu He Xing	*(Note (i))*	–	–	*(Note (i))*	*(Note (i))*
Mr. Wan Yi Dong	*(Note (j))*	–	–	*(Note (j))*	*(Note (j))*
Prof. Jiang Yao Zhong	*(Note (k))*	–	–	*(Note (k))*	*(Note (k))*

Notes:

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

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

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

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

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

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

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

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

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

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

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

(l) The percentage is calculated based on the 2,500,000 Domestic Shares in issue at 31 December 2011.

(m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue at 31 December 2011.

(II) Associated corporation of the Company - 常州蘭陵製藥有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd)

Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Rui Xin Sheng	Interest of controlled corporation *(Note (a))*	3,125,000	12.5%
Mr. Yu Xiao Ping	Interest of controlled corporation *(Note (b))*	8,000,000	32.0%

Notes:

(a) Such interest is held by a company of which Mr. Rui is interested in the entire share capital.

(b) Such interest is held by certain companies of which Mr. Yu and his associates are interested in the entire share capital.

Save as disclosed above, as at 31 December 2011, 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 2011, the followings, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares:

Name of Shareholder	Capacity	Number of 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%
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 at 31 December 2011.

Save as disclosed above, as at 31 December 2011, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO

COMPETING BUSINESS

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

SHARE CAPITAL STRUCTURE

As at 31 December 2011, 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.

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 Company held a extraordinary general meeting on 10 March 2011 that approved the increase of the number of Foreign Shares by 62,500,000 and concurrently the number of Domestic Shares be decreased by 62,500,000. For details, please refer to the circular dated 20 January 2011 issued by the Company.

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

PUBLIC FLOAT

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

COMPLIANCE WITH CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Mr. Rui Xin Sheng is the Chairman of the Board and the General Manager of the Company. Save that, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out by the Stock Exchange in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2011.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2011, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in rules 5.46 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to GEM Listing Rule 5.09 and the Company considers the independent non-executive Directors remained independent.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with GEM Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group, to review the Group's financial information and to review the audit plan, audit findings and independence of the Auditors of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including to review, inter alia, the Group's quarterly, interim and annual results during the year ended 31 December 2011 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 16 March 2012

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

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