



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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

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.

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

** For identification purpose only*

The board of Directors (the “Board”) of Changmao Biochemical Engineering Company Limited (the “Company” or “Changmao”) is pleased to present the unaudited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three and the six months ended 30 June 2012 together with the unaudited comparative figures for corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and six months ended 30 June 2012 – Unaudited

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2012 Rmb'000	2011 Rmb'000	2012 Rmb'000	2011 Rmb'000
Turnover	2	154,969	161,674	314,463	303,876
Cost of sales		(122,871)	(132,494)	(256,823)	(243,784)
Gross profit		32,098	29,180	57,640	60,092
Other income	3	1,994	507	4,873	1,344
Other gains/(losses), net	3	11,289	(511)	11,241	(820)
Selling expenses		(3,350)	(2,632)	(8,062)	(5,319)
Administrative expenses		(15,733)	(8,501)	(31,403)	(25,140)
Operating profit	4	26,298	18,043	34,289	30,157
Finance costs, net	5	(2,504)	(2,035)	(5,319)	(3,476)
Share of (loss)/profit of an associate		(494)	313	342	4,941
Profit before income tax		23,300	16,321	29,312	31,622
Income tax expense	6	(4,534)	(2,466)	(5,048)	(4,250)
Profit for the period		18,766	13,855	24,264	27,372
Other comprehensive income – currency translation difference		(79)	(5)	(73)	15
Total comprehensive income for the period		<u>18,687</u>	<u>13,850</u>	<u>24,191</u>	<u>27,387</u>
Profit for the period attributable to:					
Equity holders of the Company		18,888	13,961	24,491	27,332
Non-controlling interests		(122)	(106)	(227)	40
		<u>18,766</u>	<u>13,855</u>	<u>24,264</u>	<u>27,372</u>
Total comprehensive income for the period attributable to:					
Equity holders of the Company		18,809	13,956	24,418	27,347
Non-controlling interests		(122)	(106)	(227)	40
		<u>18,687</u>	<u>13,850</u>	<u>24,191</u>	<u>27,387</u>
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	7	<u>Rmb0.036</u>	Rmb0.026	<u>Rmb0.046</u>	Rmb0.052

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012 – Unaudited

		30 June 2012	31 December 2011
	<i>Note</i>	Rmb'000	<i>Rmb'000</i>
ASSETS			
Non-current assets			
Patents	9	5,780	6,223
Property, plant and equipment	10	253,203	268,505
Land use rights	10	22,166	22,429
Construction in progress	10	62,434	47,793
Investment in an associate		–	29,146
Prepayments		3,096	3,096
Deferred income tax assets		876	804
		<hr/> 347,555	<hr/> 377,996
Current assets			
Inventories		118,784	148,661
Trade and bills receivables	11	93,011	62,068
Other receivables and prepayments		39,760	12,995
Derivative financial instruments		–	150
Financial asset at fair value through profit and loss	12	20,087	–
Pledged bank balances		–	2,500
Cash and cash equivalents		67,334	59,635
		<hr/> 338,976	<hr/> 286,009
Total assets		<u>686,531</u>	<u>664,005</u>

		30 June	31 December
		2012	2011
	<i>Note</i>	Rmb'000	<i>Rmb'000</i>
EQUITY			
Capital and reserves attributable to the			
Company's equity holders			
Share capital	13	52,970	52,970
Reserves	14	384,330	372,625
		437,300	425,595
Non-controlling interests		1,405	1,632
Total equity		438,705	427,227
LIABILITIES			
Non-current liability			
Deferred income tax liabilities		792	820
Current liabilities			
Trade and bills payables	15	28,326	31,397
Other payables and accrued charges		29,868	26,573
Dividend payable	8	12,713	–
Derivative financial instruments		360	–
Income tax payable		4,187	988
Bank borrowings	16	171,580	177,000
		247,034	235,958
Total liabilities		247,826	236,778
Total equity and liabilities		686,531	664,005
Net current assets		91,942	50,051
Total assets less current liabilities		439,497	428,047

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012- Unaudited

	Attributable to equity holders of the Company				Non- controlling Interest	Total
	Share capital	Other reserves	Retained earnings	Total		
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Balance at 1 January 2011	52,970	152,549	201,779	407,298	1,034	408,332
Profit for the period	–	–	27,332	27,332	40	27,372
Other comprehensive income						
– currency translation difference – Group	–	15	–	15	–	15
Final dividend for the year ended 31 December 2010	–	–	(22,777)	(22,777)	–	(22,777)
	<u>52,970</u>	<u>152,564</u>	<u>206,334</u>	<u>411,868</u>	<u>1,074</u>	<u>412,942</u>
Balance at 30 June 2011	<u>52,970</u>	<u>152,564</u>	<u>206,334</u>	<u>411,868</u>	<u>1,074</u>	<u>412,942</u>
Balance at 1 January 2012	52,970	156,636	215,989	425,595	1,632	427,227
Profit for the period	–	–	24,491	24,491	(227)	24,264
Other comprehensive income						
– currency translation difference – Group	–	(73)	–	(73)	–	(73)
Final dividend for the year ended 31 December 2011	–	–	(12,713)	(12,713)	–	(12,713)
	<u>–</u>	<u>–</u>	<u>(12,713)</u>	<u>(12,713)</u>	<u>–</u>	<u>(12,713)</u>
Balance at 30 June 2012	<u>52,970</u>	<u>156,563</u>	<u>227,767</u>	<u>437,300</u>	<u>1,405</u>	<u>438,705</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012 – Unaudited

	For the six months ended	
	30 June	
	2012	2011
	<i>Rmb'000</i>	Rmb'000
Net cash generated from operating activities	34,849	10,883
Net cash used in investing activities	(21,730)	(7,131)
Net cash (used in)/generated from financing activities	(5,420)	28,440
Net increase in cash and cash equivalents	7,699	32,192
Cash and cash equivalents at 1 January	59,635	47,150
Cash and cash equivalents at 30 June	<u>67,334</u>	<u>79,342</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information has been prepared in accordance with applicable disclosure provisions of GEM Listing Rules, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim financial information was approved for issue on 8 August 2012. This condensed consolidated interim financial information has not been audited.

The accounting policies used in preparing the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2011 (the “2011 Financial Statements”), except for the new standards, amendments and interpretations of Hong Kong Financial Reporting Standards (“New HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants which have become effective in this period as detailed in note 2 of the 2011 Financial Statements. The adoption of such New HKFRSs has no material impact on the accounting policies in the Group’s interim financial statements for the period.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of organic acids. Turnover represents sales of organic acids for the period.

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.

	For the six months ended	
	30 June	
	2012	2011
	Rmb’000	Rmb’000
Mainland China	160,906	163,472
Europe	80,033	53,106
Asia Pacific	42,396	61,375
America	24,370	19,908
Others	6,758	6,015
	<u>314,463</u>	<u>303,876</u>

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 segment is based on the country in which the customer is located. No analysis of contribution by geographic segment has been presented as the ratio of profit to turnover achieved for individual segment 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 Rmb684,511,000 (30 June 2011: Rmb667,356,000), and the total of the Group's assets located in other country is Rmb2,020,000 (30 June 2011: Rmb1,094,000).

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

	For the six months ended	
	30 June	
	2012	2011
	<i>Rmb'000</i>	<i>Rmb'000</i>
Other income		
Sales of scrap materials	218	444
Government grants	4,107	10
Income from joint research and development of a patent	400	400
Others	148	490
	<u>4,873</u>	<u>1,344</u>
Other gains/(losses), net		
Gain on disposal of an associate	11,230	–
Loss on disposal of property, plant and equipment	(46)	–
Fair value gain on financial asset at fair value through profit and loss	87	–
Fair value (losses)/gains on derivative financial instruments	(509)	295
Net exchange gain/(loss)	479	(1,115)
	<u>11,241</u>	<u>(820)</u>

4. OPERATING PROFIT

Operating profit is stated after charging the following:

	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2012	2011	2012	2011
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Amortisation of patents	222	230	443	460
Amortisation of land use rights	131	131	263	263
Depreciation	8,921	7,536	17,375	15,031
	<u>8,921</u>	<u>7,536</u>	<u>17,375</u>	<u>15,031</u>

5. FINANCE COSTS, NET

	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2012	2011	2012	2011
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest on bank loans – wholly repayable within five years	2,594	2,155	5,552	3,791
Interest income on bank deposits	(90)	(120)	(233)	(315)
	<hr/>	<hr/>	<hr/>	<hr/>
Net finance costs	2,504	2,035	5,319	3,476
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

6. INCOME TAX EXPENSE

PRC Company Income Tax (“CIT”) is provided 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. Upon obtaining the New and High Technology Enterprise certificate in 2008, the Company is entitled to a preferential CIT rate of 15%. The other subsidiaries of the Group in Mainland China are subject to a tax rate of 25%.

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

	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2012	2011	2012	2011
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Current income tax				
– Provision for CIT	4,559	2,531	5,148	4,347
– Under-provision in prior year	–	–	–	14
Deferred income tax	(25)	(65)	(100)	(111)
	<hr/>	<hr/>	<hr/>	<hr/>
	4,534	2,466	5,048	4,250
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated entities as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>Rmb'000</i>	2011 <i>Rmb'000</i>	2012 <i>Rmb'000</i>	2011 <i>Rmb'000</i>
Profit before income tax	23,300	16,321	29,312	31,622
Adjustment: Share of loss/(profit) of an associate	494	(313)	(342)	(4,941)
	<u>23,794</u>	<u>16,008</u>	<u>28,970</u>	<u>26,681</u>
Calculated at the tax rates applicable to results of the respective consolidated entities	3,536	2,453	4,231	4,218
Income not subject to tax	(7)	(24)	(13)	(52)
Expenses not deductible for tax purposes	64	2	80	2
Tax losses for which no deferred income tax asset was recognised	50	103	189	228
Utilisation of tax losses for which no deferred income tax asset was recognised	–	(68)	–	(160)
Under-provision in prior year	–	–	–	14
Others	891	–	561	–
Income tax expense	<u>4,534</u>	<u>2,466</u>	<u>5,048</u>	<u>4,250</u>

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2012 is based on the profit attributable to the equity holders of the Company of approximately Rmb18,888,000 (for the three months ended 30 June 2011: Rmb13,961,000) and 529,700,000 shares (for the three months ended 30 June 2011: 529,700,000 shares) weighted average number of shares in issue during the period.

The calculation of earnings per share for the six months ended 30 June 2012 is based on the profit attributable to the equity holders of the Company of approximately Rmb24,491,000 (for the six months ended 30 June 2011: Rmb27,332,000) and 529,700,000 shares (for the six months ended 30 June 2011: 529,700,000 shares) weighted average number of shares in issue during the period.

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

8. DIVIDEND

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2012 (Corresponding period in 2011: Nil).

In addition, the final dividend of Rmb0.024 (inclusive of tax) per share for the year ended 31 December 2011 which was recommended by the Directors on 16 March 2012 was approved by the shareholders at the Annual General Meeting on 21 May 2012. This final dividend, totalling approximately Rmb12,713,000 has been recognised as a liability in this financial information.

9. PATENTS

	<i>Rmb'000</i>
Net book value as at 1 January 2012	6,223
Amortisation	(443)
	<hr/>
Net book value as at 30 June 2012	5,780
	<hr/> <hr/>

10. CAPITAL EXPENDITURE

	Property, plant and equipment	Land use rights	Construction in progress
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Net book value as at 1 January 2012	268,505	22,429	47,793
Transfer from construction in progress	1,512	–	(1,512)
Additions	1,012	–	16,153
Disposal	(451)	–	–
Depreciation/amortisation charge	(17,375)	(263)	–
	<hr/>	<hr/>	<hr/>
Net book value as at 30 June 2012	253,203	22,166	62,434
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND BILLS RECEIVABLES

	30 June 2012	31 December 2011
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade receivables (<i>note (a)</i>)	70,605	62,068
Bills receivables (<i>note (b)</i>)	22,406	–
	<hr/>	<hr/>
	93,011	62,068
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2012 Rmb'000	31 December 2011 Rmb'000
0 to 3 months	69,162	61,952
4 to 6 months	958	116
Over 6 months	760	275
	<hr/>	<hr/>
	70,880	62,343
Provision for impairment of trade receivables	(275)	(275)
	<hr/>	<hr/>
	70,605	62,068
	<hr/> <hr/>	<hr/> <hr/>

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

12. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT AND LOSS

This represents a short-term structured deposit with a bank with a principal amount of Rmb20 million. The contract will mature in November 2012 and the bank has an option to early terminate the contract in October 2012. Interest is receivable upon the maturity date of the contract and is at a fixed rate of 4.1% per annum.

The Group designates this contract as a financial asset at fair value through profit or loss and it is accounted for at fair value through profit or loss. Changes in the fair value of this contract is recognised immediately in the consolidated statement of comprehensive income within 'other gains/ (losses), net'.

The fair value of this contract is measured by level 2 of the fair value measurement hierarchy, that is "inputs other than quoted prices included within level 1 (Quoted prices (unadjusted) in active markets for identical assets or liabilities) that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)".

This contract has been pledged to the same bank to secure a bank borrowing amounted to Rmb19,460,000.

13. SHARE CAPITAL

Registered, issued and fully paid

	Share capital	
	Number of shares at Rmb0.10 each	Nominal value Rmb'000
At 30 June 2012 and 31 December 2011	<u>529,700,000</u>	<u>52,970</u>

As at 30 June 2012 and 31 December 2011, the share capital of the Company composed of 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 for by, and trade in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC.

14. 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 2011	102,559	49,504	461	25	201,779	354,328
Profit for the period	–	–	–	–	27,332	27,332
Other comprehensive income						
– currency translation difference – Group	–	–	–	15	–	15
Final dividend for the year ended 31 December 2010	–	–	–	–	(22,777)	(22,777)
At 30 June 2011	<u>102,559</u>	<u>49,504</u>	<u>461</u>	<u>40</u>	<u>206,334</u>	<u>358,898</u>

	Share premium <i>Rmb'000</i>	Statutory common reserve <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Translation reserve <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1 January 2012	102,559	53,622	461	(6)	215,989	372,625
Profit for the period	-	-	-	-	24,491	24,491
Other comprehensive income						
– currency translation difference – Group	-	-	-	(73)	-	(73)
Final dividend for the year ended 31 December 2011	-	-	-	-	(12,713)	(12,713)
At 30 June 2012	<u>102,559</u>	<u>53,622</u>	<u>461</u>	<u>(79)</u>	<u>227,767</u>	<u>384,330</u>

15. TRADE AND BILLS PAYABLES

	30 June 2012 <i>Rmb'000</i>	31 December 2011 <i>Rmb'000</i>
Trade payables (<i>Note (a)</i>)	28,326	26,477
Bills payable (<i>Note (b)</i>)	-	4,920
	<u>28,326</u>	<u>31,397</u>

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

	30 June 2012 <i>Rmb'000</i>	31 December 2011 <i>Rmb'000</i>
0 to 6 months	28,241	26,416
7 to 12 months	26	12
Over 12 months	59	49
	<u>28,326</u>	<u>26,477</u>

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

16. BANK BORROWINGS

Bank borrowings are analysed as follows:

	30 June 2012 Rmb'000	31 December 2011 Rmb'000
Unsecured, short-term bank borrowings	<u>171,580</u>	<u>177,000</u>

All bank borrowings were repayable within one year.

The carrying amounts of these bank borrowings approximate their fair values and are denominated in the following currencies:

	30 June 2012 Rmb'000	31 December 2011 Rmb'000
Rmb	161,460	177,000
USD	10,120	–
	<u>171,580</u>	<u>177,000</u>

A bank borrowing of Rmb19,460,000 is secured by the financial asset at fair value through profit and loss of the Company of Rmb20,087,000.

As at 30 June 2012, the effective interest rates of the bank borrowings were as follows:

	30 June 2012	31 December 2011
Short-term bank borrowings, at fixed rate	6.1%	5.9%
Short-term bank borrowings, at floating rate	6.1%	6.6%

17. CONTINGENT LIABILITIES

As at 30 June 2012 and 31 December 2011, the Group did not have any material contingent liabilities.

18. COMMITMENTS

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

	30 June 2012 Rmb'000	31 December 2011 Rmb'000
Contracted but not provided for	–	–
Authorised but not contracted for	<u>3,263</u>	<u>7,970</u>
	<u>3,263</u>	<u>7,970</u>

(b) Commitments under operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. At 30 June 2012, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 June 2012 Rmb'000	31 December 2011 Rmb'000
Not later than one year	399	397
Later than one year and not later than five years	<u>–</u>	<u>198</u>
	<u>399</u>	<u>595</u>

19. RELATED PARTY TRANSACTIONS

Transactions with an associate – Group

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

	For the six months ended 30 June	
	2012 Rmb'000	2011 Rmb'000
Income from joint research and development of a patent	<u>400</u>	<u>400</u>

REVIEW AND PROSPECT

Business review

In the first half of 2012, the production and operation of the Group were stable while its international collaboration projects, research and development and management condition achieved the goals of the Group. The Group developed with a stable economic growth pace.

The Group recorded a turnover of approximately Rmb314,463,000 for the six months ended 30 June 2012, which represented an increase of approximately 3.5% compared to the corresponding period in last year; and a net profit of approximately Rmb24,491,000, which represented a decrease of approximately 10% compared to the corresponding period in last year.

In the second quarter of 2012, raw material price has continuously surged. Market competition was intense. The Group has continuously developed high end final customers to reduce intermediate links and increase its market competitiveness. These measures have changed the situation where turnover was increased while net profit was decreased in the first quarter. The net profit in the second quarter (excluding the impact of the associated company) was more than double of that in the first quarter. The price of raw material that derived from oil has continuously risen at a extend which is higher than the growth in product price in this year, therefore the net profit of the Group did not increase although there is an increase in turnover.

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 and this made the Group earned an after-tax gain of approximately Rmb8,653,000.

Facing the complicated and challenging situation in the domestic and overseas markets, 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, and applied these to all the production process. It has optimized its production technology and made break troughs to effectively control its production cost. It has also enhanced its quality and management environment to further enhance its product quality to satisfy the demand in international market and to give full play of its strength of production of scale and to grasp new development opportunities.

Through continuous effort of all the staff, the Group has obtained accreditation from SGS (Societe Generale de Surveillance S.A.) and the FSSC22000 (Food Safety System Certification) issued by SGS. The Global Food Safety Initiative has approved and encourage to promote the FSSC22000. This implies that the Group will gain recognition from the global high end customers in terms of food safety.

The Group's excellent sales team has carried out the sales work to explore the market and new usage area of its core products, actively seize the market development opportunities, continuously increase the brand awareness and customer recognition of the Group and has laid a solid foundation for the continuously sales 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, development and marketing capability, continue to develop new products 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. Soybean and sweet corn and other natural renewable resources are raw materials of natural organic acid food additive. Natural organic acid food additive is conform to world health and natural trend. It will contribute to the Group's future development. The construction work of this new project has been completed and is planned to commence operation in the second half year. This new project will upgrade the product structure and laid a foundation for the future development.

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, including the new active pharmaceutical ingredients produced by fermentation and medicine intermediaries with strong competitiveness as planned, and create new growth drivers by promoting product upgrade.

(II) Promoting sustainable development by attracting 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. The Group will also proactively attract high-end customers, enhance the competitiveness of its products in high-end markets and improve its performance. Several renowned international enterprises have visited and examined the Group. This will help extending the global sales network of the Group and promote the steady growth in turnover.

(III) Building brand reputation and registering international trademarks

The Group builds its brand name with high product quality and gains customers with its brand name. With its L (+)-tartaric acid and malic acid which being recognised as “Famous Brand Product of Jiangsu Province”, the Group continued to upgrade its brand by making application for its other products. The Group has also formulate strategic plans to upgrade its trademarks registration, from city to national, as well as international registration. The Group will enhance its global brand awareness, continue its brand upgrade, and improve its customers’ satisfaction with and loyalty to Changmao brand.

There will be opportunities and challenges in the future. The Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application area. At the same time, the Group will capitalise on its production and research strength to develop new functional food additives, nutraceutical product, natural food additives, medicinal intermediaries, active pharmaceutical ingredients and nutraceutical products. The Group will continue to extend its production chain and create new growth.

SEGMENTAL INFORMATION

Most of the Group’s products are exported to Western Europe, Australia, the United States and Japan. In terms of percentage, export sales (including sales through import-export agents in the PRC) accounted for approximately 55% (for the six months ended 30 June 2011: 53%) of the Group’s turnover while domestic sales in the PRC accounted for approximately 45% (for the six months ended 30 June 2011: 47%) 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 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 various currency exposures, primarily with respect to United States Dollars (“USD”). Management periodically monitors foreign currency exposures and considers hedging significant foreign currency exposure should the need arises. During the period, the Group used forward contracts to hedge certain of its foreign currency exposure in USD.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had total outstanding bank borrowings of approximately Rmb171,580,000 (as at 31 December 2011: Rmb177 million), all of which were repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The interest rate of the outstanding bank loans is approximately 6.1% per annum (31 December 2011: 6.4%).

Except for the bank borrowings disclosed above, as at 30 June 2012 and 31 December 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 30 June 2012, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb3,263,000. These capital commitments are mainly used for expansion of production lines. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

Except for the financial asset at fair value through profit and loss of the Company of Rmb20,087,000 has been pledged to the bank to secure a bank borrowing amounted to Rmb19,460,000, the Group did not have any charge on its assets during the six months ended 30 June 2012. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 36.1% and 35.7% as at 30 June 2012 and 31 December 2011 respectively. As at 30 June 2012, the Group's cash and cash equivalent amounted to Rmb67,334,000 (31 December 2011: Rmb59,635,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

Including the Directors, as at 30 June 2012, the Group employed a total of 624 employees (30 June 2011: 580 employees). Total amount of staff costs for the six months ended 30 June 2012 was approximately Rmb25,332,000 (for the six months ended 30 June 2011: Rmb18,973,000). The increase in staff cost was mainly due to the increase in number of employees and salary increment. Employees are remunerated in accordance with the nature of the job and also on individual merit. The Company also formulated a staff incentive scheme under which for the year ending 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 Rmb40 million (the "Target Profit"):

- (a) a sum equivalent 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 equivalent 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 equivalent 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.

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 its listed securities for the six months ended 30 June 2012.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012.

SIGNIFICANT INVESTMENTS

There is no significant investments held by the Group as at 30 June 2012 and 31 December 2011.

The Group has no plans for material investments or capital assets.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE PERIOD

On 16 March 2012, the Company entered into a conditional agreement to dispose all of its equity interest in its associate (38.78%), Changzhou Lanling Pharmaceutical Production Co. Ltd, at a consideration of approximately Rmb28,116,000 (the “Disposal”). The Disposal was completed on 12 June 2012. For details of the Disposal, please refer to the circular dated 3 April 2012 issued by the Company. Save for the above, there was no acquisitions and disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2012.

CONTINGENT LIABILITIES

As at 30 June 2012 and 31 December 2011, 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 30 June 2012, the interests (including interests in shares and short positions) of the Directors, the supervisors of the Company (“Supervisors”) or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) Section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares:

	Capacity	Number of Domestic Shares	Approximate percentage shareholding in the Domestic Shares (Note (l))	Number of Foreign Shares	Approximate percentage shareholding in the Foreign Shares (Note (m))
<i>Director</i>					
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	39.3%
Ms. Leng Yi Xin	Interest of spouse and interest of controlled corporation (Note (b))	2,500,000	100%	135,000,000	39.3%
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))
<i>Supervisor</i>					
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.
- (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 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 as at 30 June 2012.
- (m) The percentage is calculated based on the 343,500,000 Foreign Shares in issue as at 30 June 2012.

Save as disclosed above, as at 30 June 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 period was the Company or 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 30 June 2012, the following, not being a Director, Supervisor or chief executives of the Company, had interests or short positions in the shares or underlying 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%
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 30 June 2012.

Save as disclosed above, as at 30 June 2012, the Directors are not aware of any person, not being a Director, Supervisor or chief executives of the Company, have 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 required to be entered in the register maintained 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 30 June 2012, the category of the issued shares of the Company is as follows:

	<i>No. of Shares</i>
H shares (<i>Note (a)</i>)	183,700,000
Domestic Shares (<i>Note (b)</i>)	2,500,000
Foreign Shares (<i>Note (c)</i>)	343,500,000
	<hr/>
	529,700,000
	<hr/> <hr/>

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

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 Corporate Governance 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 during the six months ended 30 June 2012.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2012, 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.

AUDIT COMMITTEE

The Company has established an audit committee in June 2002 with written terms of reference in compliance with GEM Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Prof. Ouyang Ping Kai, Prof. Yang Sheng Li and Ms. Wei Xin.

The primary duties of the audit committee, among others, 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 Auditor of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters of the Group including a review of the unaudited interim results for the six months ended 30 June 2012 with the Directors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 8 August 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.