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



常茂生物化學工程股份有限公司
Changmao Biochemical Engineering Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8208)

TERMINATION OF THE COOPERATION AGREEMENT AND TRANSFER OF THE PATENT

TERMINATION OF THE COOPERATION AGREEMENT

Reference is made to the announcement of the Company dated 29 June 2010 in relation to the Cooperation Agreement between SML, a directly non-wholly owned subsidiary of the Company, and Lanling Pharmaceutical, a connected person of the Company. Pursuant to the Cooperation Agreement, SML and Lanling Pharmaceutical agreed to jointly research and develop the New Drug Products.

The Board announces that on 24 January 2013, SML and Lanling Pharmaceutical entered into the Termination Agreement to terminate the Cooperation Agreement due to the relatively slow progress of the research and development and the uncertain commercial viability of the New Drug Products.

TRANSFER OF THE PATENT

The Board announces that on 24 January 2013, SML and Lanling Pharmaceutical entered into the Patent Transfer Agreement in relation to the transfer of the Patent from SML to Lanling Pharmaceutical at a consideration of RMB1 million.

As at the date of this announcement, Mr. Yu is a non-executive Director, and together with his spouse are interested in 66,000,000 Foreign Shares, representing approximately 19.21% of the total Foreign Shares in issue and approximately 12.46% of the total Shares in issue. As Mr. Yu and his associates hold the entire interest of Lanling Pharmaceutical as at the date of this announcement, Lanling Pharmaceutical is an associate of Mr. Yu and thus a connected person of the Company under the GEM Listing Rules and the transfer of the Patent constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. As the

**For identification purpose*

relevant percentage ratio in respect of the Patent Transfer Agreement exceed 0.1% but are less than 5%, the Patent Transfer Agreement is subject to the announcement and reporting requirements but is exempt from independent shareholders' approval requirement.

Mr. Yu is regarded as having a material interest in the Patent Transfer Agreement and the transaction contemplated thereunder and had abstained from voting on the relevant board resolution. Other than Mr. Yu, none of the Directors has a material interest in the Patent Transfer Agreement and the transaction contemplated thereunder.

TERMINATION OF THE COOPERATION AGREEMENT

Reference is made to the announcement of the Company dated 29 June 2010 in relation to the Cooperation Agreement between SML, a directly non-wholly owned subsidiary of the Company, and Lanling Pharmaceutical, a connected person of the Company. Pursuant to the Cooperation Agreement, SML and Lanling Pharmaceutical agreed to jointly research and develop the New Drug Products .

According to the Cooperation Agreement, Lanling Pharmaceutical is responsible for, among other things, the capital requirement of RMB7.5 million for the research and development of the New Drug Products in the following manner:

- (a) RMB2 million shall be invested upon entering into the Cooperation Agreement (the "First Payment");
- (b) an annual RMB1 million shall be invested over the term of the Cooperation Agreement (the "Annual Payment"); and
- (c) the balance of RMB2.5 million shall be invested for new drug preclinical study over the term of the Cooperation Agreement according to the overall development plan to be agreed by the parties (the "Preclinical Studies Fee").

Up to 24 January 2013, Lanling Pharmaceutical had invested (i) the First Payment of RMB2 million; (ii) the Annual Payment of RMB2 million for the past 2 years since the signing of the Cooperation Agreement; and (iii) Preclinical Studies Fee of RMB1.55 million pursuant to the development plan, in accordance with the terms of the Cooperation Agreement. After over 2 years of research and development under the Cooperation Agreement, SML and Lanling Pharmaceutical mutually agreed to terminate the Cooperation Agreement in view of the relatively slow progress of the research and development and the uncertain commercial viability of the New Drug Products. Accordingly, on 24 January 2013, SML and Lanling Pharmaceutical entered into the Termination Agreement to terminate the Cooperation Agreement. Pursuant to the Termination Agreement, the Lanling Pharmaceutical will have no further obligation to make the remaining balance of the Annual Payment and the Preclinical Studies Fee of RMB1.95 million.

TRANSFER OF THE PATENT

On 24 January 2013, SML and Lanling Pharmaceutical entered into the Patent Transfer Agreement in relation to the transfer of the Patent from SML to Lanling Pharmaceutical at a consideration of RMB1 million. Details of the Patent Transfer Agreement are set out below.

Date

24 January 2013

Parties

Transferor: SML, a directly non-wholly owned subsidiary of the Company

Transferee: Lanling Pharmaceutical, a limited liability company incorporated in the PRC.

As at the date of this announcement, Mr. Yu is a non-executive Director, and together with his spouse are interested in 66,000,000 Foreign Shares, representing approximately 19.21% of the total Foreign Shares in issue and approximately 12.46% of the total Shares in issue. As Mr. Yu and his associates hold the entire interest of Lanling Pharmaceutical as at the date of this announcement, Lanling Pharmaceutical is an associate of Mr. Yu and thus a connected person of the Company under the GEM Listing Rules.

Asset to be transferred

The Patent of Lentinan Hexaose owned by SML with zero book value in the accounts of SML. The Patent was granted to SML in the United States on 29 April 2008 and in the PRC on 18 March 2009.

Consideration

The consideration for the transfer of the Patent is RMB1 million payable by Lanling Pharmaceutical by bank transfer. Lanling Pharmaceutical shall satisfy half of amount of the consideration by April 2013 and the remaining half by April 2014.

The consideration was determined after arm's length negotiations between the parties to the Patent Transfer Agreement taking into account the book value of the Patent and the development potential of the Patent.

Pursuant to the Patent Transfer Agreement, SML shall assist Lanling Pharmaceutical on the technical advancement of the Patent during the period from 24 January 2013 to 30 November 2014. Lanling Pharmaceutical shall be responsible all the related expenses incurred by SML in the course of providing technical assistance.

SML and Lanling Pharmaceutical agreed to jointly apply to the relevant government authorities for the change of ownership of the Patent.

REASONS FOR AND BENEFITS OF THE TRANSFER OF THE PATENT

The Group is principally engaged in the production and sale of organic acids. SML is principally engaged in research and development of medicine and nutraceutical products.

Lanling Pharmaceutical is principally engaged in the production and sale of antibiotics and synthetic drugs in the form of injections, capsules, tablets and granules as well as active pharmaceutical ingredients.

Taking into account the relatively slow progress of the research and development and the uncertain commercial viability of the New Drug Products, the Directors consider that it is beneficial to the Group to cease devoting further resources to research and develop products with the Patent. The transfer of the Patent to Lanling Pharmaceutical enables the Group to divest from research and development projects of the Patent and receive net proceeds of approximately RMB 1 million, which will be applied as general working capital.

The Directors are of the view that the terms of the Patent Transfer Agreement were determined after arm's length negotiations between the parties and on normal commercial terms and fair and reasonable as far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

As at the date of this announcement, Mr. Yu is a non-executive Director, and together with his spouse are interested in 66,000,000 Foreign Shares, representing approximately 19.21% of the total Foreign Shares in issue and approximately 12.46% of the total Shares in issue. As Mr. Yu and his associates hold the entire interest of Lanling Pharmaceutical as at the date of this announcement, Lanling Pharmaceutical is an associate of Mr. Yu and thus a connected person of the Company under the GEM Listing Rules and the transfer of the Patent constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. As the relevant percentage ratio in respect of the Patent Transfer Agreement exceed 0.1% but are less than 5%, the Patent Transfer Agreement is subject to the announcement and reporting requirements but is exempt from independent shareholders' approval requirement.

Mr. Yu is regarded as having a material interest in the Patent Transfer Agreement and the transaction contemplated thereunder and had abstained from voting on the relevant board resolution. Other than Mr. Yu, none of the Directors has a material interest in the Patent Transfer Agreement and the transaction contemplated thereunder.

DEFINITIONS

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

“Board”	the board of the Directors
“Company”	常茂生物化學工程股份有限公司 (Changmao Biochemical Engineering Company Limited*), a joint stock limited company incorporated in the PRC with the H Shares currently listed on the GEM (stock code: 8208)
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Cooperation Agreement”	the cooperation agreement dated 29 June 2010 entered into between SML and Lanling Pharmaceutical in relation to the joint research and development of the New Drug Products
“Director(s)”	the director(s) of the Company

**For identification purpose*

“Domestic Share(s)”	ordinary share(s) with a par value of RMB0.10 each in the capital of the Company which is(are) subscribed for in RMB by PRC citizens and/or entities
“Foreign Share(s)”	ordinary share(s) with a par value of RMB0.10 each in the capital of the Company which is(are) subscribed for in a currency other than RMB by non-PRC citizens and/or entities
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) in the capital of the Company which is(are) subscribed for and traded in HK\$ and listed on the GEM
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Lanling Pharmaceutical”	常州蘭陵製藥有限公司 (Changzhou Lanling Pharmaceutical Production Co., Ltd.), an enterprise incorporated in the PRC, wholly owned by Mr. Yu and his associates as at the date of this announcement
“Mr. Yu”	Mr. Yu Xiao Ping, being a non-executive Director and together with his spouse interested in the entire issued capital of Jomo Limited, a company that was incorporated in Hong Kong and is the registered holder and beneficial owner of 66,000,000 Foreign Shares, representing approximately 12.46% of the total Shares in issue as at the date of this announcement
“New Drug Products”	the new drug products to be researched and developed using the Patent
“Patent”	the patent of Letinan Hexaose owned by SML
“Patent Transfer Agreement”	the transfer agreement dated 24 January 2013 entered into between SML and Lanling Pharmaceutical in relation to the transfer of the Patent from SML to Lanling Pharmaceutical
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

“Share(s)”	collectively, Domestic Share(s), H Share(s) and Foreign Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“SML”	上海醫學生命科學研究中心有限公司 (Shanghai Medical Life Science Research Centre Limited*), an enterprise established in the PRC, 57.44% interest of which is held by the Company as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreement”	the termination agreement dated 24 January 2013 entered into between SML and Lanling Pharmaceutical in relation to the termination of the Cooperation Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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

The PRC, 24 January 2013

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

This announcement will remain 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.

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