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 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.

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 Rmb653,218,000 for the year ended 31 December 2012

- Net profit of approximately Rmb49,455,000 for the year ended 31 December 2012

- The Directors recommend the payment of a final dividend of Rmb0.028 (inclusive of tax) per share for the year ended 31 December 2012

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 2012 together with the audited comparative figures for the year ended 31 December 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	**2012** **Rmb'000**	2011 Rmb'000
Turnover	2	**653,218**	620,233
Cost of sales	4	**(525,765)**	(506,045)
Gross profit		**127,453**	114,188
Other income	3	**5,834**	4,785
Other gains, net	3	**13,375**	615
Selling expenses	4	**(16,247)**	(12,731)
Administrative expenses	4	**(61,355)**	(52,395)
Operating profit		**69,060**	54,462
Finance income		**645**	554
Finance costs		**(10,722)**	(9,303)
Finance costs, net	5	**(10,077)**	(8,749)
Share of profit of an associate		**342**	739
Profit before income tax		**59,325**	46,452
Income tax expense	6	**(9,757)**	(4,749)
Profit for the year		**49,568**	41,703
Other comprehensive income – currency translation difference		**(129)**	(31)
Total comprehensive income for the year		**49,439**	41,672
Profit for the year attributable to:			
Equity holders of the Company		**49,455**	41,105
Non-controlling interests		**113**	598
		49,568	41,703
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**49,326**	41,074
Non-controlling interests		**113**	598
		49,439	41,672
Earnings per share for profit attributable to equity holders of the Company – basic and diluted	7	**Rmb0.093**	Rmb0.078
Dividends	8	**14,832**	12,713

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	**2012**	2011
	Note	***Rmb'000***	*Rmb'000*
ASSETS			
Non-current assets			
Patents		**4,899**	6,223
Property, plant and equipment		**259,261**	268,505
Land use rights		**21,903**	22,429
Construction in progress		**50,920**	47,793
Prepayments		**13,991**	3,096
Investment in an associate		**–**	29,146
Deferred income tax assets		**877**	804
		351,851	377,996
Current assets			
Inventories		**108,480**	148,661
Trade and bills receivables	9	**74,550**	62,068
Other receivables and prepayments		**14,638**	12,995
Derivative financial instruments		**507**	150
Pledged bank balances		**4,094**	2,500
Cash and bank balances		**108,178**	59,635
		310,447	286,009
Total assets		**662,298**	664,005
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,970**	52,970
Reserves	10	**409,238**	372,625
		462,208	425,595
Non-controlling interests		**1,745**	1,632
Total equity		**463,953**	427,227

CONSOLIDATED BALANCE SHEET *(Continued)*
As at 31 December 2012

	Note	**2012**	2011
		Rmb'000	*Rmb'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**655**	820
Current liabilities			
Trade and bills payables	11	**20,878**	31,397
Other payables and accrued charges		**30,008**	26,573
Income tax payable		**2,348**	988
Bank borrowings		**144,456**	177,000
		197,690	235,958
Total liabilities		**198,345**	236,778
Total equity and liabilities		**662,298**	664,005
Net current assets		**112,757**	50,051
Total assets less current liabilities		**464,608**	428,047

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

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

(b) New standards and interpretations not yet adopted

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

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

2. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

The Asia Pacific region includes Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand.

The analysis of turnover by geographic location is based on the country area in which the customer is located. No analysis of contribution by geographic location has been presented as the ratio of profit to turnover achieved for individual geographic location is not substantially out of line with the Group's overall ratio of profit to turnover.

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

3. OTHER INCOME AND OTHER GAINS, NET

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

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

4. EXPENSES BY NATURE

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

Included in research and development costs are mainly expenditures incurred for the formulation, design, evaluation and application of various forms of natural organic acids for commercial use. Management assessed that those internal projects are in the research and initial development stage, and did not recognise any of those expenditure as an asset.

5. FINANCE COSTS, NET

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

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:

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

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

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

7. EARNINGS PER SHARE

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

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

8. DIVIDENDS

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

	2012	2011
	Rmb'000	*Rmb'000*
Final, proposed, of Rmb0.028 (2011: Rmb0.024) per share	**14,832**	12,713

9. TRADE AND BILLS RECEIVABLES

	2012	2011
	Rmb'000	*Rmb'000*
Trade receivables	**73,220**	62,068
Bills receivables	**1,330**	–
	74,550	62,068

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

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

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

10. RESERVES

	Share premium	Statutory common reserve	Capital reserve	Translation reserve	Retained earnings	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1 January 2011	102,559	49,504	461	25	201,779	354,328
Transfer of profit to statutory reserve	–	4,118	–	–	(4,118)	–
Profit for the year	–	–	–	–	41,105	41,105
Other comprehensive income – currency translation difference- Group	–	–	–	(31)	–	(31)
Final dividend for the year ended 31 December 2010	–	–	–	–	(22,777)	(22,777)
At 31 December 2011	102,559	53,622	461	(6)	215,989	372,625
Representing:						
2011 proposed final dividend					12,713	
Others					203,276	
					215,989	
At 1 January 2012	**102,559**	**53,622**	**461**	**(6)**	**215,989**	**372,625**
Transfer of profit to statutory reserve	**–**	**5,261**	**–**	**–**	**(5,261)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**49,455**	**49,455**
Other comprehensive income – currency translation difference- Group	**–**	**–**	**–**	**(129)**	**–**	**(129)**
Final dividend for the year ended 31 December 2011	**–**	**–**	**–**	**–**	**(12,713)**	**(12,713)**
At 31 December 2012	**102,559**	**58,883**	**461**	**(135)**	**247,470**	**409,238**
Representing:						
2012 proposed final dividend					**14,832**	
Others					**232,638**	
					247,470	

11. TRADE AND BILLS PAYABLES

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

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

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

BUSINESS REVIEW AND OUTLOOK

RESULTS FOR THE YEAR

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

BUSINESS REVIEW

(I) Production

As for production, the Group's yearly target is to focus on increasing the efficiency of the production lines, increasing the production volume and reducing the wastage rate and energy consumption. It has optimized its production technology and breakthrough bottlenecks, reducing energy consumption as compared with the same period of last year while increasing total production volume, thus it effectively controlled its production cost. Through technology upgrade, maleic anhydride workshop utilised the steam generated from oxidation reaction to drive turbine-driven fans for production as an alternative energy which manages to reduce the cost. After a series of technology improvement and alteration and expansion, the Group has increased the production volume of its core product tartaric acid significantly and achieved a better economic efficiency. In addition, the quality of aspartame has been further enhanced after technology upgrade, strengthening the Group's market competitiveness. As for other products, the production was also adjusted accordingly to cater for market demand. In 2012, the Group continued to enjoy economies of scale effectively.

(II) Market Expansion

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

(III) Research and Development and Projects

1. Natural organic acids project

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

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

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

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

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

4. Alternative sweetener project

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

(IV) Management

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

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

(V) Investment projects

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

FUTURE AND PROSPECT

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

(I) Accelerating technology innovation and promoting product upgrade

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

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

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

(III) Building brand reputation and registering international trademarks

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

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

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

There will be opportunities and challenges in the future. The Group will continue the production of food additives as its core business and will increase the competitiveness of its existing products by exploring new markets and new application area. At the same time, the Group will capitalise on its research and production strength to develop new functional food additives, natural food additives and nutraceutical products. The Group will continue to extend its production chain, expand its scale and strengthen its power, create new record and achieve new breakthroughs.

FINANCIAL REVIEW

Turnover and gross profit margin

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

Expenses

Selling and administrative expenses in 2012 increased as compared to that of 2011 due to the continuous growth of business, 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 and other gains, net

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

Income tax

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

Net profit

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

SEGMENTAL INFORMATION

Most of the Group's products are exported to Western Europe, Australia, the United States and Japan. As expressed as a percentage of turnover, export sales (including sales through import-export agents in the PRC) accounted for approximately 50% (2011: 53%) of the Group's turnover while domestic sales in the PRC accounted for approximately 50% (2011: 47%) of turnover.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had total outstanding bank borrowings of Rmb 144,456,000 (2011: Rmb177,000,000). Rmb29,456,000 of these bank loans (2011:Nil) are secured by a USD bank deposit of Rmb4,089,000. They were all repayable within one year. The Company expects to renew the bank borrowings in due time if necessary. The average effective interest rate of all the outstanding bank loans as at 31 December 2012 was approximately 5.8% (2011: 6.4%) per annum.

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

The Group generally finances its operations with equity fundings and bank borrowings. Excess cash held by the Group is generally placed at banks to earn interest income.

As at 31 December 2012, the Group had capital commitments for property, plant and equipment amounting to approximately Rmb40,684,000 (2011: Rmb7,970,000). These capital commitments are mainly used for expansion of production lines and the building of new factory in Lianyungang. The Group intends to finance the capital commitment by cash flows generated from the Group's operations and/or bank financings.

The Group did not have any charge on its assets during the year ended 31 December 2012. The liabilities-to-assets ratio (calculated based on total liabilities divided by total assets) was 29.9% as at 31 December 2012 (2011: 35.7%). As at 31 December 2012, the Group's cash and cash equivalents amounted to Rmb106,578,000 (2011: Rmb 59,635,000). The Directors believe that the Group is in a healthy financial position.

EMPLOYEES

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

Under the staff incentive scheme for each of the three years ended 31 December 2013, so long as the audited profits (or, where applicable, combined or consolidated profits) attributable to the shareholders (after taxation and non-controlling interest (if any) but before extraordinary and exceptional items and payment of the bonuses referred to below) amount to not less than Rmb 40 million (the "Target Profit"):

(a) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable to Mr. Rui Xin Sheng as a bonus for the relevant year;

(b) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable to the deputy general manager and all the Directors (other than Mr. Rui Xin Sheng and the independent non-executive Directors) for the time being of the Company as a bonus for the relevant year; and

(c) a sum equivalents to 5% of the amount in excess of the Target Profit will be payable as bonus to all the employees (including supervisors, but excluding the Directors and the independent supervisors) of the Company and its subsidiaries (if any) from time to time, the basis of apportionment of which will be determined by the Board at its discretion.

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 2012.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 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 2012.

DIVIDEND

The Directors recommend the payment of a final dividend of Rmb0.028 (inclusive of tax) per share in cash, totalling approximately Rmb14,832,000 for the year ended 31 December 2012. 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 2013 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 28 May 2013.

According to the Law on Corporate Income Tax of the People's Republic of China and its implementing rules which came into effect on January 1, 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing dividends to non-resident enterprise shareholders whose names appear on the register of members of H share of the Company. Any H shares registered in the name of 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. Should any holder of H shares wish to change their shareholder status, please consult their agent or trust institution over the relevant procedure. The Company will withhold payment of the corporate income tax strictly in accordance with the relevant laws or requirements of the relevant governmental departments and based on what has been registered on the Company's H share register of members at 4:30 p.m. on 28 May 2013.

According to the regulation promulgated by the State General Administration of Taxation of the PRC (Guo Shui Han 2011 No.348(國稅函2011348號)), the Company is required to withhold and pay the individual income tax for its individual H shareholders and the Individual H Shareholders are entitled to certain tax preferential treatments according to the tax agreements between those countries where the Individual H Shareholders are residents and China and the provisions in respect of tax arrangements between the mainland China and Hong Kong (Macau). The Company would withhold and pay the individual income tax at the tax rates of 10% on behalf of the Individual H Shareholders who are Hong Kong residents, Macau residents or residents of those countries having agreements with China for personal income tax rates in respect of dividend of 10%. For Individual H Shareholders who are residents of those countries having agreements with China for personal income tax rates in respect of dividend of lower than 10%, the Company would withhold and pay the individual income tax at the tax rates of 10% on behalf of them. According to the requirements of the Notice of the State Administration of Taxation in relation to the Administrative Measures (Tentative) on Preferential Treatment Entitled by Non-residents (Guo Shui Fa 2009 No.124) (《國家稅務總局關於印發<非居民享受稅收協議待遇管理辦法(試行)>的通知》(國稅發2009124號)) and the Guo Shui Han 2001 No. 348 documents, once the individual shareholders have submitted applications and the relevant materials, the withholding agent would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice, and upon approval by the tax authorities, over withheld tax amounts will be refunded. For Individual H Shareholders who are residents of those countries having agreements with China for personal income tax rates in respect of dividend of higher than 10% but lower than 20%, the Company would withhold the individual income tax at the agreed-upon effective tax rate. For Individual H Shareholders who are residents of those countries without any taxation agreements with China or having agreements with China for personal income tax in respect of dividend of 20% and other situations, the Company would withhold the individual income tax at a tax rate of 20%. The Company assumes no liability whatsoever in respect of any claims arising from any inaccurate determination of, the status of the shareholders of the Company or any disputes over the withholding and payment of tax.

Shareholders are recommended to consult their tax advisors regarding the ownership and disposal of H shares of the Company in the PRC and in Hong Kong and other tax effects.

CLOSURE OF H SHARE REGISTER

The H Share register of shareholders of the Company will be closed from 23 May 2013 to 28 May 2013 (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 22 May 2013.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2012 will be held on 16 May 2013. 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 2012 and 2011.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

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

CONTINGENT LIABILITIES

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

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

As at 31 December 2012, the interests (including interests in shares and short positions) of the Directors, 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))*
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))*

	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))*
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 2012.

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

Save as disclosed above, as at 31 December 2012, none of the Directors, Supervisors or chief executives of the Company have interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (including interests in shares and short positions) which were required to notify the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) section 352 of the SFO to be entered in the register referred to in that section; or (c) Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement (including share option scheme) to enable the Directors or Supervisors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31 December 2012, the followings, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO 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 2012.

Save as disclosed above, as at 31 December 2012, the Directors are not aware of any person, not being a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares or underling shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO 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 2012, the category of the issued shares of the Company is as follows:

	No. of Shares
H shares *(Note (a))*	183,700,000
Domestic Shares *(Note (b))*	2,500,000
Foreign Shares *(Note (c))*	343,500,000
	529,700,000

Notes:

(a) Overseas listed foreign shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and are traded in Hong Kong dollars and listed on GEM.

(b) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in Rmb and issued to the promoters of the Company.

(c) Ordinary shares in the capital of the Company, with a Rmb-denominated par value of Rmb0.10 each, which were credited as fully paid up in a currency other than Rmb and issued to the promoters of the Company.

Although the到境外上市公司章程必備條款(the Mandatory Provisions of the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission of the State Council of the PRC and the State Commission for Restructuring the Economic System of the PRC provide for the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (which definitions have been adopted in the Articles of Association of the Company), the rights attached to Foreign Shares (which are subject to certain restrictions on transfer and may become H Shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission and the Stock Exchange) have not yet been expressly dealt with under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Foreign Shares do not contravene any PRC laws or regulations.

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 ("H Shares") 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.

CORPORATE GOVERNANCE CODE COMPLIANCE

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

Code provision A.2.1 of CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Rui Xin Sheng, the chairman of the Board, also acts as the general manager (chief executive officer) of the Company. Since Mr. Rui Xin Sheng is well aware of the Group's business and operation, the Company considers that it is in the best interest of the Company for Mr. Rui Xin Sheng to act as the general manager of the Company.

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 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.

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 2012 and to recommend the Board the appointment of external auditors.

By order of the Board
Rui Xin Sheng
Chairman

The PRC, 6 March 2013

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.