



吉林省輝南長龍生化藥業股份有限公司
Jilin Province Huinan Changlong Bio-pharmacy Company Limited
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8049)

Interim Report 2011

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This report, for which the directors of Jilin Province Huinan Changlong Bio-pharmacy 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to Jilin Province Huinan Changlong Bio-pharmacy Company Limited and its subsidiary (“the Group”). The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

UNAUDITED INTERIM RESULTS

The directors of Jilin Province Huinan Changlong Bio-pharmacy Company Limited ("the Company") are pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months and three months ended 30 June 2011 together with the comparative figures for the corresponding periods in 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2011 and 30 June 2010

	Note	Six months ended 30 June		Three months ended 30 June	
		2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Turnover	3	104,251	99,420	59,128	63,967
Cost of sales		(13,744)	(16,641)	(8,588)	(11,082)
Gross profit		90,507	82,779	50,540	52,885
Other revenue	3	1,124	81	831	67
Distribution and selling costs		(52,138)	(50,848)	(29,826)	(35,139)
Administrative expenses		(4,209)	(7,407)	(2,602)	(3,709)
Profit from operations	5	35,284	24,605	18,943	14,104
Finance costs		(10)	–	(10)	–
Profit before taxation		35,274	24,605	18,933	14,104
Taxation	6	(5,272)	(3,139)	(2,821)	(1,563)
Profit attributable to equity holders of the Company		30,002	21,466	16,112	12,541
Earnings per share – Basic	7	5.35 cents	3.83 cents	2.87 cents	2.23 cents
Dividends	8	0	0	0	0

Note: Calculation of the earnings per share in 2010 and 2011 was based on 560,250,000 shares and 560,250,000 shares respectively.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2011 and 31 December 2010

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Assets and liabilities		
Non-current assets		
Bearer biological assets	9 2,541	2,504
Property, plant and equipment	10 57,724	55,330
Prepaid lease payments	11 2,223	2,223
Construction in progress	12 39,481	28,959
Intangible assets	13 23,651	24,135
Deposit for acquisition on land use rights	10,000	10,000
Other receivables, deposits and prepayments	5,100	5,100
	140,720	128,251
Current assets		
Inventories	14 28,680	23,303
Trade receivables	15 101,312	91,323
Other receivables, deposits and prepayments	66,821	21,318
Prepaid lease payments	11 125	125
Loans	19,347	15,793
Available-for-sale financial assets	20,000	2,000
Cash and cash equivalents	58,501	97,559
	294,786	251,421
Current liabilities		
Trade payables	16 7,911	6,879
Other payables, deposits received and accruals	84,849	64,123
Income tax payable	4,052	914
Other tax payables	8,166	8,166
Borrowings	636	636
Dividend payable	330	330
	105,944	81,048
Net current assets	188,842	170,373
Total assets less current liabilities	329,562	298,624



		30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
	<i>Note</i>		
Non-current liabilities			
Borrowings		6,690	6,054
Deferred tax liabilities		956	956
		7,646	7,010
Net assets		321,916	291,614
Equity:			
Share capital	17	56,025	56,025
Reserves		265,591	235,589
Total equity		321,616	291,614



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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2011 and 30 June 2010

	For the six months ended	
	30 June 2011	30 June 2010
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	(21,058)	33,921
Net cash outflow from investing activities	(18,000)	(3,569)
Net cash outflow from financing activities	0	0
	<hr/>	<hr/>
(Decrease)/Increase in cash and cash equivalents	(39,058)	30,352
Cash and cash equivalents at beginning of the period	97,559	19,921
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	58,501	50,273
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	58,501	50,273
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2011 and 30 June 2010

	Share capital RMB'000	Share premium RMB'000	PRC statutory funds		Retained profits RMB'000	Total RMB'000
			Exchange reserve RMB'000	Statutory surplus reserve RMB'000		
At 1 January 2010 (Audited)	56,025	51,098	259	30,365	118,235	255,982
Net profit for the six months ended 30 June 2010 (Unaudited)	—	—	—	—	21,466	21,466
At 30 June 2010 (Unaudited)	56,025	51,098	259	30,365	139,701	277,448
Net profit for the six months ended 31 December 2010 (Unaudited)	—	—	—	—	14,425	14,425
Exchange differences arising on translation or overseas operations recognised directly in equity	—	—	—	—	—	—
Disposal of a subsidiary	—	—	(259)	—	—	(259)
Appropriation to statutory surplus reserve	—	—	—	2,877	(2,877)	—
Dividend	—	—	—	—	—	—
Balance as at 31 December 2010 (Audited)	56,025	51,098	—	33,242	151,249	291,614
Net profit for the six months ended 30 June 2011 (Unaudited)	—	—	—	—	30,002	30,002
At 30 June 2011 (Unaudited)	56,025	51,098	—	33,242	181,251	321,616

NOTES TO CONDENSED INTERIM ACCOUNTS:

1. ORGANISATION AND OPERATIONS

The Company was established as a state-owned enterprise in the People's Republic of China (the "PRC") in 1989. On 29 December 1995, under the relevant provisions of the Company Law of the PRC, the Company was re-organized from a state-owned enterprise to a limited liability company. On 16 August 1996, with the approval of the Economic Restructuring Commission of Jilin Province, the Company was further converted into a joint stock limited company. On 20 April 1999, the Company made a bonus issue from capitalisation of retained profits at the proportion of one bonus share for every two existing shares. The Company's H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 24 May 2001.

The Group is principally engaged in the manufacture and distribution of biochemical medicines in the PRC under the brandnames of Changlong and Shendi.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments which have been measured at fair value.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the period under review are consistent with those followed in the Company's 2010 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2011 are unaudited and have been reviewed by the audit committee of the Company.

3. TURNOVER AND REVENUE

The Group's turnover comprises the invoiced value of merchandise sold net of value-added tax and after allowances for returns and discounts.

	Six months ended 30 June		Three months ended 30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of medicine	104,251	99,420	59,128	63,967
Other revenue				
Other income	1,124	81	831	67
Total revenue for the year	<u>105,375</u>	<u>99,501</u>	<u>59,959</u>	<u>64,034</u>

4. SEGMENT INFORMATION

The Group has only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. For the six months ended 30 June 2011, turnover of the Group is generated entirely from sales in the PRC and all identifiable assets of the Group are located in PRC. Accordingly, no business or geographical segmental analysis is prepared for the period.

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	Six months ended 30 June		Three months ended 30 June	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Depreciation	1,668	2,614	834	1,307
Amortisation of purchased know-how and prescription	484	2,637	242	1,318
Amortization of prepaid lease payments	125	125	62	62

6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended 30 June		Three months ended 30 June	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
PRC income tax	5,272	3,139	2,821	1,563

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 15% (2010: 15%).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2011 (2010: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2011 is based on the unaudited profit attributable to shareholders of approximately RMB30,002,000 and RMB16,112,000 respectively (2010: RMB21,466,000 and RMB12,541,000) and on the weighted average of 560,250,000 and 560,250,000 (2010: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2011 respectively.

There is no diluted earnings per share because there were no dilutive potential shares in existence during the relevant periods.

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

9. BEARER BIOLOGICAL ASSETS

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Biological asset – deer	231	194
Ginseng	1,758	1,758
Vineyard	552	552
	2,541	2,504

10. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group were:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Net book value, beginning of period/year	55,330	60,554
Transferred from construction in progress	–	342
Additions & Disposals	4,062	518
Depreciation	(1,668)	(5,379)
Impairment	–	(705)
	57,724	55,330

11. Prepaid lease payments

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Net book value, beginning of period/year	2,348	2,473
Amortisation	(125)	(125)
	<u>2,223</u>	<u>2,348</u>
Net book value, end of period/year	2,223	2,348
Net book value at end of period/year	2,348	2,348
Portion classified as current assets	(125)	(125)
	<u>2,223</u>	<u>2,223</u>
Non-current assets	2,223	2,223

The Group's medium-term land use rights are located in the PRC.

12. Construction in progress

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Net book value, beginning of period/year	28,959	26,399
Transfer to property, plant and equipment	-	(342)
Additions	10,522	3,009
Disposals	-	(107)
	<u>39,481</u>	<u>28,959</u>
Net book value, end of period/year	39,481	28,959

13. Intangible Assets

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Cost		
At 1 January	71,985	71,985
Additions	—	—
	71,985	71,985
At 30 June 2011/31 December 2010	71,985	71,985
Accumulated amortization:		
At 1 January	47,850	38,635
Amortisation for the period/year	484	7,255
Impairment loss recognised	—	1,960
	48,334	47,850
At 30 June 2011/31 December 2010	48,334	47,850
Net book value:		
At 30 June 2011/31 December 2010	23,651	24,135

Purchased know-how and prescription were all acquired by cash from independent third parties.

14. INVENTORIES

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	6,796	8,208
Work in progress	8,106	13,538
Finished goods	20,127	10,770
	35,029	32,516
Less: provision for obsolete and slow-moving inventories	(6,349)	(9,213)
	28,680	23,303

As at 30 June 2011, inventories amounting to approximately RMB28,680,000 (2010: RMB22,546,000) were carried at net realizable value.

15. TRADE RECEIVABLES

Trade receivables are stated at cost less provision for doubtful debts. Provisions for doubtful debts are made based upon the directors' knowledge of the customers, the creditworthiness and settlement history, and the aging of the outstanding trade receivables.

The following is an aged analysis of trade receivables, net of provision for impairment for trade receivables, at the balance sheet dates:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Current	35,187	31,717
31-90 days	20,935	18,871
91-180 days	15,255	13,751
More than 180 days	29,935	26,984
	101,312	91,323

The directors consider the carrying amount of trade receivables approximates their fair value.

16. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet dates:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Current	2,337	2,031
31-90 days	831	723
More than 90 days	4,743	4,125
	7,911	6,879

Trade payables principally comprise amounts outstanding for trade purchases. The directors consider that the carrying amount of trade payables approximates their fair value.

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17. SHARE CAPITAL

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Registered, issued and fully paid:		
387,750,000 domestic shares of RMB0.10 each	38,775	38,775
172,500,000 H shares of RMB0.10 each	17,250	17,250
	<hr/> 56,025 <hr/>	<hr/> 56,025 <hr/>

18. CAPITAL COMMITMENTS

As at 30 June 2011, the Group had capital commitments contracted for but not provided for in respect of the following:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Acquisition of purchased know-how and prescription	2,940	2,940
Acquisition of property, plant and equipment	–	1,055
Acquisition of land use right	1,372	1,372
Additional capital contribution of subsidiary	–	15,000
	<hr/> 4,312 <hr/>	<hr/> 20,367 <hr/>

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended 30 June 2011, the Group recorded a turnover of approximately RMB104 million, representing an increase of 4.86% from RMB99 million for the corresponding period in 2010. Profit attributable to shareholders for the six months ended 30 June 2011 was RMB30,002,000, representing an increase of RMB8,536,000 from RMB21,466,000 for the corresponding period in 2010.

The gross profit margin for the six months ended 30 June 2011 was approximately 86.8% representing a 3.8% increase as compared to that of 83% for the period ended 30 June 2010. The reason for the increase of gross profit margin was mainly due to a change of product sales mix whereby the sale of products with higher margin had increased. The Board believes that there were no significant fluctuation for the production and material cost.

The selling expense as a percentage of turnover was 50% in 2011. This represented a decrease from 51% when compared to the same period last year. General and administrative expenses decreased from RMB7,407,000 for the six months ended 30 June 2010 to RMB4,209,000 for the same period in 2011.

BUSINESS REVIEW

Production Facilities

In 2011, the Board reviewed all the production facilities, and completed the renovation of two solid workshops, the technological transformation of the production line of Hai Kun Shei Xi capsule (海昆腎喜膠囊) and the improvement project of the sewage treatment station.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2011, the Group's primary source of funds was cash from the operating activities. As at 30 June 2011, the Group had cash and bank balances and consolidated net asset value of approximately RMB58,501,000 and RMB321,616,000 respectively.

For the six months ended 30 June 2011, the Group mainly generated revenue and incurred costs in Hong Kong dollars and Renminbi. The Directors consider the impact on foreign exchange exposure of the Group is minimal.

As at 30 June 2011, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2011, the Group had short-term bank borrowings of RMB7,326,000 (2010: RMB6,990,000) and a gearing ratio of approximately 2 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2011.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 30 June 2011 are set out in note 18 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2011, there was no change in the Company's share capital. As at 30 June 2011, the Group's operations were financed mainly by shareholders' equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund the operation with internal resources.

FUTURE PROSPECTS

There has been an increase in the Group's turnover and profit attributable to equity holders of the Company as compared with the same period last year. In addition, the sales of Hai Kun Shen Xi capsule has reached approximately RMB71,293,000 for the six months ended 30 June 2011 as compared to approximately RMB58,950,000 for the six month ended 30 June 2010. The Group believed that Hai Kun Shen Xi capsule has reached maturity in the market and it has great potential to reach another record high in the second half of 2011.

The Directors would like to take this opportunity to express their gratitude to the management and staff for their dedication and contribution to the Group, and to thank our fellow business partners and equity holders for their continuing support. The Directors will endeavor to explore every potential opportunity for business growth, creating a promising future and successful results in the years ahead.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2011, the interests and short positions of the Directors, supervisors and 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 (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares

Director	Type of Interests	Capacity	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Mr. Zhang Hong	Personal	Beneficial owner	101,937,000	26.29	18.19
Mr. Zhang Xiao Guang	Personal	Beneficial owner	42,315,000	10.91	7.55
Mr. Wu Guo Wen	Personal	Beneficial owner	900,000	0.232	0.161
Mr. Chen Qi Ming	Personal	Beneficial owner	300,000	0.077	0.054

Save as disclosed above, as at 30 June 2011, none of the Directors, supervisors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and chief executives or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors, supervisors and chief executives to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the following persons (other than the Directors, supervisors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares

Name of shareholder	Capacity/ Nature of Interest	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Huinan County SAB (Note)	Beneficial owner	81,975,000	21.14	14.63

Note: Apart from the equity interest in the Company, Huinan County SAB does not have any direct or indirect interest in the Company, including representation in the Board of Directors.

Save as disclosed above, as at 30 June 2011, the Directors were not aware of any other person (other than the Directors, supervisors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTEREST

During the period under review, none of the Directors, the management shareholders, the significant shareholders or the substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business, which competes or may compete with the business of the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2011, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has 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.

BOARD PRACTICES AND PROCEDURES

During the period under review, the Company had not fully complied with the board practices and procedures as set out in Rules 5.34 of the GEM Listing Rules in respect of the Code on Corporate Governance Practices (the "CCGP"). The main deviations from the code provision set out in the CCGP were as follows:

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Hong assumes the role of both the chairman and the chief executive officer of the Company. The Board is of the view that this has not compromised accountability and independent decision making for the following reasons:

- the Audit Committee composes exclusively of independent non-executive directors;
- the independent directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

Mr. Zhang Hong, the chairman, is a substantial shareholder of the Company and has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 24 May 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprise three independent non executive directors, namely Shen Yu Xiang, Xue Chang Qing and Yan Li Jin, Shen Yu Xiang is the Chairman of the audit committee. The primary duties of the Committee are to review and provide supervision over the financial reporting procedures and internal control system of the Group.

The committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited results of the Group for the period ended 30 June 2011.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Group had 406 employees (31 December 2010: 406 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2011, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By order of the Board
Zhang Hong
Chairman

Jilin, the PRC
12 August 2011