



東北虎藥業股份有限公司

NORTHEAST TIGER PHARMACEUTICAL CO., LTD.

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

(Stock Code: 8197)



Interim Report 2012

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

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This report, for which the directors (the "Directors") of Northeast Tiger Pharmaceutical Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 report is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS (Unaudited)

- Turnover of the Company for the six months ended 30 June, 2012 was approximately RMB589,000 (2011: RMB1,330,000), representing a decrease of approximately 55.7% as compared with the same period in the previous year.
- Total comprehensive income/(Loss) attributable to shareholders of the Company ("Shareholders") for the six months ended 30 June, 2012 was approximately RMB4,454,000 (2011: RMB(3,407,000)).
- Earnings/(loss) per share ("Shares") of the Company for the six months ended 30 June, 2012 was approximately RMB0.6 cents.
- The Directors do not recommend the payment of any dividend for the six months ended 30 June, 2012.

RESULTS (UNAUDITED)

The board of Directors ("Board") hereby announces the unaudited consolidated results of the Company for the six months ended 30 June, 2012, together with the comparative figures for the corresponding periods of the previous financial year, as follows:

		Six months ended 30 June, 2012		Three months ended 30 June, 2012	
	Notes	RMB'000	2011 RMB'000	RMB'000	2011 RMB'000
Turnover	b	589	1,330	302	497
Cost of sales		(485)	(1,309)	(292)	(488)
Gross profit		104	21	10	9
Other revenue	c	9,684	11	9,434	11
Distribution and selling expenses		(527)	(1,614)	(178)	(749)
General, administrative and other operating expenses		(3,889)	(147)	(2,261)	2,600
Operating profit/(Loss)	d	5,372	(1,729)	7,005	1,871
Finance costs		(918)	(1,678)	(463)	(845)
Profit/(Loss) before taxation		4,454	(3,407)	6,542	1,026
Taxation	e	-	-	-	-
Profit/(Loss) after taxation		4,454	(3,407)	6,542	1,026
Other comprehensive income		-	-	-	-
Total comprehensive income/(Loss) attributable to shareholders		4,454	(3,407)	6,542	1,026
Dividends		N/A	N/A	N/A	N/A
		RMB	RMB	RMB	RMB
Earnings/(Loss) per Share - basic	f	0.6 cents	(0.5) cents	0.9 cents	0.1 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June, 2012 (Unaudited) RMB'000	31 December, 2011 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Intangible assets, net	h	-	-
Land use rights	i	9,981	10,104
Long-term prepaid rentals		67,736	62,528
Property, plant and equipment	j	38,324	39,716
		116,041	112,348
CURRENT ASSETS			
Inventories		-	-
Biological assets		15,314	12,381
Long-term prepaid rentals-Current portion		2,280	2,280
Trade receivable, net	k	433	280
Advance to staff		-	11
Prepayment and other receivables		(230)	990
Cash and bank deposits		2,898	5,863
		20,695	21,805
LESS: CURRENT LIABILITIES			
Trade payable	l	3,482	3,182
Accruals and other payables		2,056	2,727
Short-term borrowings		10,020	10,020
		15,558	15,929
NET CURRENT ASSETS		5,137	5,876
NON-CURRENT LIABILITIES			
Amount due to a shareholder		17,500	17,500
Long-term borrowings		28,500	30,000
		46,000	47,500
TOTAL NET ASSETS		75,178	70,724
CAPITAL AND RESERVES			
Share capital	m	74,665	74,665
Reserves		513	(3,941)
TOTAL CAPITAL AND RESERVES		75,178	70,724

CONDENSED STATEMENT OF CASH FLOW*Six months ended 30 June*

	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Net cash inflow from operating activities	3,743	344
Net cash outflow from investing activities	(5,208)	(10)
Net cash inflow from financing activities	(1,500)	(4,500)
Decrease in cash and cash equivalents	(2,965)	(4,166)
Cash and cash equivalents at beginning of period	5,863	13,524
Cash and cash equivalents at end of period Represented by Cash and Bank Balances	2,898	9,358

Notes:

a. Accounting policy and basis of presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and certain fixed assets are stated at fair value.

In the current period, the Company adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the HKICPA. The Directors considered the adoption of these SSAPs had no material effect on the results of the current or prior accounting period. Accordingly, no prior period adjustment has been required.

The principal accounting policies used in the preparation of the unaudited financial statement of the Company for the six months ended 30 June, 2012 are consistent with those used in the audited accounts issued for the year ended 31 December, 2011.

b. Turnover

The principal activities of the Group are the production and sales of Chinese medicine products.

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax and discounts). The amount of each significant category of revenue recognised in turnover during the Relevant Period is as follows:

Sales of Chinese medicine products

	Six months ended 30 June,		Three months ended 30 June,	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
- Chinese herb products	100	-	100	-
- Others	489	1,330	202	497
	589	1,330	302	497

All of the Company's revenues are generated in the PRC.

For the six months ended 30 June, 2012, there are two customers individually contributed to 10% or more to the Group's revenue. Total sales to these customers amounted to approximately RMB380,000. There are no other customers individually contributed to 10% or more to the Group's revenue.

For the six months ended 30 June, 2011, there is two customer individually contributed to 10% or more to the Group's revenue. Total sales to this customers amounted to approximately RMB980,000.

The management considers these customers have the strong financial background and good creditability, there are no significant credit risks.

c. Other revenue/(Expenses)

	Six months ended 30 June,		Three months ended 30 June,	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
- Government subsidies	-	-	-	-
- Rental income	820	-	570	-
- Write-off bad debt recovered	8,864	-	8,864	-
- Others	-	11	-	11
	9,684	11	9,434	11

Subsidy income is recognized upon granting of subsidy by the relevant authorities.

d. Operating profit/(loss)

Operating profit/(loss) is stated after charging the following items:

	Six months ended 30 June,		Three months ended 30 June,	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
- Interest Expenses	918	1,678	463	845
- Depreciation of Fixed Assets	1,392	1,434	694	736
- Amortization of Land Use Right	123	122	62	61
- Amortization of Intangible Assets	-	-	-	-

e. Taxation

The Company was established in the Jilin High-Technology Development Zone, the PRC. It is subject to enterprise income tax at a rate of 25%.

The Company provides for taxation on the basis of its income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purpose.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

f. Earnings per Share

The calculation of basic earnings per Share for a relevant period is based on unaudited profit attributable to Shareholders for the period, divided by the respective weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue for the six months and three months ended 30 June, 2012 are 746,654,240 and 746,654,240 respectively (2011: 746,654,240 and 746,654,240 respectively).

No diluted earnings per share were presented as there were no dilutive potential ordinary shares in existence during the relevant periods.

g. Segment reporting

Operating segments, and the amount of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customer, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No segment information is presented as the Group is principally engaged in one operating segment which is the production and sales of Chinese medicine products in PRC.

h. Intangible assets, net

	As at 30 June, 2012 (Unaudited) RMB'000	As at 31 December, 2011 (Audited) RMB'000
Net book value, beginning of period	-	-
Additions	-	-
Impairment losses	-	-
Amortisation	-	-
Net book value, end of period	-	-

i. Land use rights

	As at 30 June, 2012 (Unaudited) RMB'000	As at 31 December, 2011 (Audited) RMB'000
Net book value, beginning of period	10,104	10,350
Additions	-	-
Disposal	-	-
Amortisation	(123)	(246)
Net book value, end of period	9,981	10,104

j. Fixed assets, net

	As at 30 June, 2012 (Unaudited) RMB'000	As at 31 December, 2011 (Audited) RMB'000
Net book value, beginning of period	39,716	38,705
Additions	-	17
Impairment losses	-	-
Disposals	-	(1,460)
Depreciation	(1,392)	2,454
Net book value, end of period	38,324	39,716

k. Accounts receivable, net

	As at 30 June, 2012 (Unaudited) RMB'000	As at 31 December, 2011 (Audited) RMB'000
Accounts receivable	7,420	7,267
Less: Provision for doubtful receivables	(6,987)	(6,987)
	433	280

Aging analysis of accounts receivable is as follow:

	As at 30 June, 2012 (Unaudited) RMB'000	As at 31 December, 2011 (Audited) RMB'000
Aged:		
0-30 days	223	-
31-60 days	210	-
61-90 days	-	-
91-180 days	-	119
181 to 365 days	-	161
over 365 days	6,987	6,987
	7,420	7,267

l. Accounts payable

The aging analysis of accounts payable is as follows:

	As at 30 June, 2012 (Unaudited) RMB'000	As at 31 December, 2011 (Audited) RMB'000
Aged:		
0 to 1 month	300	-
2 to 6 months	-	97
7 to 12 months	718	78
Over 1 year	2,464	3,007
	3,482	3,182

m. Share capital

	Six months ended 30 June, 2012		As at 31 December, 2011	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Issued and fully paid (RMB0.10 each)				
Beginning of period/year	746,654,240	74,665	746,654,240	74,665
Placing of shares	-	-	-	-
Repurchase of shares	-	-	-	-
End of period/year	746,654,240	74,665	746,654,240	74,665

MOVEMENT IN RESERVES

The movements of reserves are as follows:

	Capital Reserve		Statutory public welfare fund	Statutory revenue reserve	Retained earnings	Total reserves
	Share premium	Others				
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January, 2011	19,027	11,326	0	9,685	(51,841)	(11,803)
Total comprehensive income/(Loss) for the period	-	-	-	-	(3,407)	(3,407)
As at 30 June, 2011	19,027	11,326	0	9,685	(55,248)	(15,210)
As at 1 January, 2012	19,027	11,326	0	9,685	(43,979)	(3,941)
Total comprehensive income/(Loss) for the period	-	-	-	-	4,454	4,454
As at 30 June, 2012	19,027	11,326	0	9,685	(39,525)	513

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June, 2012 (2011: nil).

BUSINESS REVIEW AND PROSPECTS**Business review**

The Company is an investment holding company. The year 2012 was an important one in which the Company embarked on a new development. At a time when its existing manufacture and sale of Chinese medicines under the brand name of "Northeast Tiger" businesses were under extreme difficulties, the Company had, upon considering the long-term interests of all shareholders, decided to switch to a new direction and venture into the highly promising breeding of underground ginseng and related Chinese medicine herbs business. After carrying out in-depth studies and probing of the industry, and with much active lobbying, searching and surveying, On 27 September, 2010, Antao County Northeast Tiger Xinxing New Product Co., Ltd. (安圖縣東北虎新興特產有限公司), a wholly-owned subsidiary of the Company entered into the Agreement with the Vendor, pursuant to which the Vendor has agreed to transfer to the Antao County Northeast Tiger Xinxing New Product Co., Ltd. the Forest Concession Right of the Forest Land at the consideration of approximately RMB173,530,000 (equivalent to approximately HK\$197,193,182) for a term of approximately 70 years until 31 December, 2080. The acquisition has been approved at the Extraordinary General Meeting by shareholders of the Company on 6 October, 2011.

The Forest Land is situated at 福滿林場山泉村 (Fu Man Lin Chang Shan Quan Cun*), Antao County, Jilin Province, the PRC. As at the Latest Practicable Date, the Forest Land has not yet been developed and it is now covered with natural forest and underground ginseng underneath the Forest Land. The area of the Forest Land is approximately 2,533.10 hectares (consisting of 2,125.10 hectares located in 山泉村 (Shan Quan Chu*) and 408 hectares located in 鹿柴山 (Lucaishan*)).

The acquired the Forest Concession Right of the Forest Land by the Group can be used to develop three major industries on the Forest Land, namely (A) breeding of traditional Chinese medicine herbs, (B) regeneration logging (更新采伐) on mature timber and (C) tourism industry.

A. Breeding and processing of Traditional Chinese Medicine

Chinese medicine herbs including underground ginseng (林下參), asarum (細辛), acanthopanax (刺五加), fritillaria ussuriensis maxim (平貝母), fragrant solomonseal rhizome (玉竹), and forest frog (林蛙) can be planted or breed on the Forest Land taking into account the weather and soil conditions of the Forest Land. Wild schisandra chinensis (野生五味子) can also be artificially cultivated and managed on the Forest Land.

(i) Underground Ginseng (林下參)

Ginseng is regarded as "King of Herbs" (百草之王) and is a precious Chinese medicine herbs. There are more than 4,000 years of history of using ginseng. Underground ginseng refers to a method where seeding of ginseng seeds is through manual methods on the mountainous area. Ginseng seeds are grown for 10 to 20 years or above without any human interruption. Underground ginseng can also be called transplanted ginseng. The nutrition effect of underground ginseng can be as good as wild ginseng. In the PRC, breeding of underground ginseng was developed in 1990. At first, transplantation of family ginseng (家參) was developed. In view of the increasing demand for ginseng, seeding of ginseng seeds through manual methods and allow ginseng to grow naturally became the trend. In 2004, PRC Government announced 14 cities or counties in Changbai Mountain areas as place of origin of ginseng and "Changbai Mountain Ginseng" became place of origin for protected products nationally. To better control the quality of "Changbai Mountain Ginseng", 《關於振興人參產業的意見》(Opinion Regarding Reinforcing Ginseng Industry) was introduced in 2011. In the above opinion, the brand "Changbai Mountain Ginseng" has to be reinforced in full gear and through various policies, industry production chain will be reinforced. As such, GAP underground ginseng will be further developed in the near future.

(ii) Asarum (細辛)

Asarum belongs to Aristolochiaceae (馬兜鈴科) and asarum, the perennial herb for medicinal plant which is suitable for undergrowth. Wild species are the A. Heterotropoides Fr (遼細辛) which spreads over the Northeast part of the PRC and A. sieboldi Miq (華細辛) spreads over the Shanxi Province of the PRC. Normally, the quality of A. Heterotropoides Fr is better than A. sieboldi Miq, therefore, the breeding is mainly on A. Heterotropoides Fr. Asarum is not only for the domestic demand, but there is also a great demand of asarum from other countries and asarum has been a quick selling product in the traditional Chinese medicine herbs market. Upon conducting a site visit of the Forest Land, the Forest Land suitable for undergrowth of asarum is up to 400 hectares (the available area is 160 hectares), with the production cycle of 4 years. At present, the price of dry asarum product is approximately RMB26-40 per kg. The artificial breeding production can be harvested in 3-4 years, and this kind of breeding can produce fresh asarum of approximately 2.5kg per square meter on the Forest Land.

(iii) Acanthopanax senticosus (刺五加)

Acanthopanax senticosus is acanthopanax and deciduous shrub with perennial rootstock. It is mainly distributed in three provinces of Northeast part of the PRC (Heilongjiang, Jilin and Liaoning), also in Hebei Province and Shanxi Province. Cortex of Acanthopanax Senticosus (cortex acanthopanaxis) is a common valuable Chinese material for producing Chinese medicine. Acanthopanax Senticosus is suitable to be planted in a sparse forestland and the harvesting cycle is normally about 4-6 years. Before the freeze-up starting from late October each year, 133 acanthopanax senticosuses per mu can be planted in the Forest Land and can be harvested once every 5 years. According to on-site investigation of the Forest Land, approximately 350 hectares (the available area is 140 hectares) is suitable for breeding of acanthopanax senticosus. The production value of acanthopanax senticosus is approximately RMB1064 per mu.

(iv) Fritillaria Ussuriensis Maxim (平貝母)

Fritillaria Ussuriensis Maxim is a perennial plant of liliaceae and its subterranean stem can be for medicinal use. Fritillaria Ussuriensis Maxim has 60 days of growth period, can be interplanted or planted in forest land. Artificially cultivated Fritillaria Ussuriensis Maxim can be harvested once in two years. It is estimated that planted use level is 0.35-0.75kg/m², with the output of unit area of 1-2.5kg/m². According to on-site investigation of the Forest Land, approximately 100 hectares is suitable for planting Fritillaria Ussuriensis Maxim and it is estimated that the production cycle is about 2 years. It is estimated that approximately RMB7,000 production value can be generated on each mu of the Forest Land.

(v) *Fragrant Solomonseal Rhizome (玉竹)*

Fragrant Solomonseal Rhizome is a perennial plant of liliaceae and its subterranean stem can be for medical use. It is suitable to survive in a cool, damp, shade environment and is wild in darkness place in valley, river, underwood, brushwood and by a mountain road side. It is suitable to grow in subacid yellow sand soil and can be planted in uncultivated or idle hillside. Fragrant Solomonseal Rhizome can be harvested after 2-3 years' planting. According to onsite investigation of the Forest Land, there is an area of 100 hectares suitable for planting fragrant solomonseal rhizome in the Forest Land and the production cycle is approximately 3 years. The current market price of fragrant Solomonseal Rhizome is approximately RMB24.30 per kg.

(vi) *Management and Conservation of Wild Schisandra Chinensis (野生五味子)*

Schizandra (北五味子) is a common valuable Chinese medicinal material. Schisandra chinensis is nourishing and is the first choice for producing health care products and drugs that are beneficial to brain, can soothe the nerves and regulate the nervous system. Schizandra can also serve as a processing raw material for fruit wines and fruit drinks. Schizandra is a multi-functional, multi-use wild plant with high development and utilization value, a broad application prospect and beneficial in resource conservation. According to on-site investigation, 125 tones (50 kg per hectare) of fresh fruit of schizandra can be produced annually, meaning 25 tones of dry schizandra can be produced. The current market price of dry Schizandra is approximately RMB40-50 per kg. Planting (cultivating) the materials in the Forest Land can enhance taste of product, prolong or shorten harvest time, according to market quotations because of less manpower and material resources, avoid market risk and effectively use forest lands while protecting species resources.

(vii) *Forest frog's oviduct (林蛙油) of Changbai Mountain*

"the Chinese Pharmacology" records: forest frog's oviduct is "can Run lung, promotes saliva or body fluids, the intensifier and nutritious high quality goods for the feeble human body". The forest frog for producing forest frog's oviduct (林蛙油) mainly produces in our country Northeast's Changbai Mountain area, is the Northeast area unique frog Variety. The current market price of forest frog's oviduct is approximately RMB5200 per kg.

B. Tourism Industry

The tourism industry in Jilin Province has been developing gradually in these years. In order to develop local economy, the local county government of Jilin Province has been developing forest tourism and eco-tourism to attract local tourists from other parts of the PRC. Changbai Mountain (長白山) is a famous tourist spot in Jilin Province in view of its beautiful scenery and unique environment. Mingyue Town (明月鎮) of Antao County has rich natural resources that can develop tourism industry. There are three scenery districts nearby, namely 福滿溝生態景區 (Fu Man Natural Scenery District), Mingyue Lake Scenery District (明月湖景區) and Hexi Ski Scenery District (河西滑雪場景區) which is under development. As the Forest Land is geographically near to Mingyue Town, developing relevant tourist facilities for tourists' leisure use can be a good investment option.

C. Timber logging

The area of the Forest Land is 2,529.6 hectares, of which approximately 200,258 m³ is forest stock volume, so developing timber logging. As per consultation with Antao County Forestry Bureau, timber logging is subject to 育林費 (Forestry Fee) representing 21% of sales amount and no other taxes are required, however, logging permits and transportation permit must be obtained.

Based on the specific natural and geographic circumstance of Jilin Province, and the situation of the Group, at present, will focus on breeding and processing of traditional Chinese medicine, especially breeding and processing of underground Ginseng.

The year 2012 saw the unprecedented challenges encountered by pharmaceutical enterprises in China as the State's medical and health system has entered its final stage. By and large, it was a relatively difficult year as, on one hand, enterprises were struck by heightening inflationary pressure, surging prices in raw materials, labors, production and packaging costs, while on the other hand, the NDRC issued the "Notice of Adjustment on the Maximum Retail Price of Certain Pharmaceuticals Related to Antibiotics and Cardiovascular Drugs" (《關於調整部分抗微生物類和循環系統類藥品最高零售價格的通知》) on 28 March, 2011, which stipulated that the maximum retail prices of major antibiotics and medicines for long term use in the PRC be reduced by more than 20% on average, resulting in a sharp decline in the selling price of the majority of pharmaceutical products during the year.

At the same time, along with the progression and stricter enforcement of the reform of the medical and health system, the State gradually tightened the tendering and purchasing measures of provincial pharmaceutical products. Subsequent to Fujian, Sichuan and Chongqing, an increasing number of provinces adopted the new low-price bidding model and reviewed their prices annually, thus intensifying the market competition and driving the prices of pharmaceutical products to continue falling.

In face of rising costs and decreasing prices, gross profit margin and profitability of pharmaceutical enterprises were under direct impact, and the overall industry is facing extraordinary challenges. Under the influences of the policy and market competition, during the year under review, as the corresponding period in 2011, turnover amounted to approximately RMB589,000 (2011: RMB1,330,000), representing a decrease of approximately 55.7%; Other income amounted to approximately RMB9,684,000 (2011: RMB11,000), mainly due to rental income of RMB820,000 from renting out of redundant plant, and recovery of write-off bad debt amounted to RMB8,864,000. Distribution and selling expenses amounted to RMB527,000, decreased respectively of 67.3% due to the drop of sales; General, administrative and other operating expenses increase dramatically to RMB3,889,000 due to developing our breeding and processing of underground ginseng and related Chinese medicine herbs business, relative administrative expenses increased respectively. Finance costs decreased 45.3% due to partial repay loan as well as drop of interest rate. Total comprehensive income attributable to Shareholders amounted to approximately RMB4,454,000 (2011: total comprehensive loss: RMB3,407,000).

Prospects

Currently, the State is finalizing the overall requirements for the reform of the medical and health system: domestic pharmaceutical companies are required to undergo restructuring, strengthen their own research and development capacity, promote new drugs and technology research and development, foster merger and reorganization and increase product quality and international competitiveness, aiming at rationalizing industry structure through five-years' adjustment, while improving the degree of concentration in the industry to promote a long-term stable and healthy growth of the industry with enhanced strength. With broader implementation of the basic drugs system, it is expected that the local primary health care market in the PRC will maintain a rapid growth. Pharmaceutical producers and agents of certain scale and strength will be benefited whilst the degree of concentration of various sub-sectors will be further improved. In addition, China is facing the issue of aging coupled with the society's general increasing awareness in health, which will foster the continuous growth of the domestic pharmaceutical consumption directly.

However, as the reform of the medical and health system was fully enforced, domestic pharmaceutical companies will be required to face and overcome the distress brought by the restructuring in the short- and mid-term. To stand out from the crowd during the industry consolidation, we must promptly transform our business model to enhance production capacity and product quality and to cope with the market changes and develop new strategies while market profits have shrunk gradually. Under the current situation, the Group will remain cautious and press ahead its market development and promotional efforts with the most cost-effective way in a bid to increasing production capacity and its core competitiveness.

Jilin Province is located in the Northeast part of the PRC and is regarded one of the most important provinces in terms of the development of forestry industry in the PRC. According to the information published by Jilin Province Forestry Bureau (吉林省林業廳), the forestry area in Jilin Province is approximately 9,288 million hectares, of which approximately 8,202 million hectares are covered with forest, representing a forest coverage rate of approximately 43.4%. Jilin Province has a total of 34 natural reserve areas of approximately 2.25 million hectares, representing approximately 11.9% of the total area of Jilin Province. Among these 34 natural reserve areas, 7 of which are classified as National level natural reserve areas (國家級自然保護區) and 12 of which are classified as Provincial level natural reserve areas (省級自然保護區) and the remaining. In Jilin Province, there are 46 provincial levels or above forest parks and the total areas are approximately 2.06 million hectares. Among the 46 forest parks, 29 of which are classified as National level forest parks (國家級森林公園) and 17 of which are classified as Provincial level forest parks (省級森林公園).

Antao County is located in the southwestern part of 延邊朝鮮自治區 (Yanbian Chaosian Autonomous Prefecture*), Jilin Province, the PRC. Antao County has an area of 7,438 km². Yanbian Prefecture and Antao County are mainly mountainous areas located in Jilin Province, the PRC. To strive for developing local economy, the local governments of these two areas always encourage all kinds of enterprises to develop forest land resources. At present, the planting of organic food and organic Chinese medicine herbs and forest activities have become the hotspots of local economic growth in Yanbian Prefecture and Antao County. After many years of efforts in attracting outside capital investment, the local government of these two areas have gathered experiences in developing mountainous areas and forest land with private enterprises.

Jilin Province is geographically located in the middle latitude area of Northern continent. Its eastern part is near to Yellow Sea (黃海) and Japan Sea (日本海) and is relatively humid. Its western part is far away from the sea and is nearly to Mongolia Highland (蒙古高原) and is relatively dry. As a result of its unique geographical location, the four seasons in Jilin Province is particularly distinctive. The average yearly temperature in Jilin Province is 2-6 degree celsius. Sun light over a year is in average about 2200-3000 hours, yearly rainfall is about 400-900 mm. As the eastern part of Jilin Province is near to the sea, there are approximately 130 non-frozen days annually and approximately 150 non-frozen days annually in the western part of Jilin Province.

According to the Research on Local Chinese Medicines Herbs (道地藥材的成因研究) and Research on Relationship between Local Chinese Medicines Herbs and Environment (道地藥材與環境相關性研究), normally the breeding of Chinese medicine herbs is affected by factors like sunlight, temperature and rainfall. The traditional Chinese herbs materials including underground ginseng, Asarum (細辛), Acanthopanax senticosus (刺五加), Fritillaria Ussuriensis Maxim (平貝母), Fragrant Solomonseal Rhizome (玉竹), Wild Schisandra Chinensis (野生五味子) etc. to be bred on the Forest Land is recognized as local Chinese medicine herbs suitable for breeding in Jilin Province by the State and the weather condition is suitable for breeding of underground ginseng.

The Directors consider the potential for future growth of ginseng industry can be attributed to a combination of the competitive strengths, including the following:

- (1) upon conducting the feasibility study report and valuation of the Forest Concession Right, underground ginseng currently underneath the Forest Land is of high quality and can generate immediate cash after being sold;
- (2) as the economy of the PRC is developing and people start to have more concern on their health, they are willing to spend on purchasing health-related products or health supplement to improve their health. Ginseng has long been regarded as having a high nutrition value and can cure different kinds of health problems and is widely used in Chinese pharmaceutical products;
- (3) Jilin Province is a province suitable for breeding of underground ginseng and there are no other provinces in the PRC where the climatic environment is suitable for breeding of underground ginseng, therefore, the Directors consider that the competition in ginseng industry is not as severe as other pharmaceutical companies in the PRC; and
- (4) the Company is a famous pharmaceutical company in Jilin Province and the Directors consider that engaging in ginseng industry can expand the business scope of the Group and strengthen its corporate identity as a pharmaceutical enterprise.

The Group's vision is to become one of the leading pharmaceutical enterprises in Jilin Province, the PRC. To achieve this, the Group plans to accomplish its goal through the following strategies:

- (1) expanding production capacities of breeding of underground ginseng;
- (2) maintaining the quality of ginseng seedlings and seeds so that high quality ginseng can be produced;
- (3) continuing to focus on production safety, environmental protection, operational excellence and community relations; and
- (4) strengthening its research and development and develop more ginseng-related products.

The performance of original business of the Group has fallen short of expectation and has not been able to bring about material breakthrough to the Group's business development. For these reasons, we are planning to shift the business direction to focus our resources in developing our breeding and processing of underground ginseng and related Chinese medicine herbs business. With the industry experience and connections of the Group's management, we are fully confident of the long-term development of the underground ginseng and related Chinese medicine herbs business and so our business transformation is indeed a wise decision. In a bid to become a leading and diversified enterprise in the industry, we shall strive to seize opportunities in the field by actively seeking new merger and acquisition targets and developing diversified product range as a way to enhance the Group's competitiveness and increase its income sources.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June, 2012, the Company had total assets of approximately RMB136,736,000 which were financed by current liabilities of approximately RMB15,558,000, long term liability of approximately RMB46,000,000 which included unsecured unlimited-term and interest-free loan of RMB10,000,000 from China Hi-Tech Investment Company and shareholders equity of approximately RMB75,178,000.

The Company generally services its debts primarily through cash generated from its operations. The financial position of the Company remains healthy. As at 30 June, 2012, the Company had cash and bank balances of approximately RMB2,898,000. In order to match up the acquisition mentioned above, the Group is striving to collect the outstanding accounting receivables, and expect to collect more outstanding accounting receivables back in near future. Meanwhile, substantial shareholders of the Company have expressed their intention to provide all necessary financial support to the Group. Taken into consideration of its current financial resources, the Directors believe that the Group shall have adequate fund for its continual operation and development.

Except for the borrowings disclosed above, as at 30 June, 2012, the Company did not have any committed borrowing facilities.

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

As at 30 June, 2012, the interests and short positions of the Directors and supervisors of the Company ("Supervisor") in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares

Name of Directors or Supervisors	Number of Domestic Shares held	Approximate percentage of shareholding (%)
Liu Yang	194,194,580	26.01
Guo Feng	183,482,440	24.57
Zhang Ya Bin	1,618,960	0.22
	379,295,980	50.80

Save as disclosed above, none of the Directors, Supervisors and the chairman or their respective associates had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and Supervisors to be notified to the Company and the Stock Exchange.

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

As at 30 June, 2012, the Company was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2012, the Directors were not aware of any other person who had an interest or short position in the Shares of the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

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

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee. In compliance with Rule 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Company. The audit committee comprises Mr. Lam Kai Yeung, Ms. Niu Shu Min and Mr. Zhao Zhen Xing, all of whom are independent non-executive Directors.

The audit committee had conducted a meeting and reviewed the Company's unaudited results for the period ended 30 June, 2012 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors considered that during the period under review, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those required for securities transactions by directors. The Company has confirmed after making due enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities transaction by directors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the H shares of the Company commenced trading on GEM on 28 February, 2002, the Company has not purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support and to our staff for their unremitting efforts and contribution made to the Company.

By Order of the Board
Liu Yang
Chairman

Jilin, the PRC
13 August, 2012

As at the date of this report, the Company's executive directors are Liu Yang, Guo Feng and Jin Xin and the Company's independent non-executive directors are Lam Kai Yeung, Niu Shu Min and Zhao Zhen Xing.