



**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 2012**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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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 2012 together with the comparative figures for the corresponding periods in 2011 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2012 and 30 June 2011

	Note	Six months ended 30 June		Three months ended 30 June	
		2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Turnover	3	<b>140,595</b>	104,251	<b>72,561</b>	59,128
Cost of sales		<b>(22,693)</b>	(13,744)	<b>(12,427)</b>	(8,588)
Gross profit		<b>117,902</b>	90,507	<b>60,134</b>	50,540
Other revenue	3	<b>7,788</b>	1,124	<b>1,386</b>	831
Distribution and selling costs		<b>(78,037)</b>	(52,138)	<b>(29,157)</b>	(29,826)
Administrative expenses		<b>(8,867)</b>	(4,209)	<b>(4,099)</b>	(2,602)
Profit from operations	5	<b>38,786</b>	35,284	<b>28,264</b>	18,943
Finance costs		<b>(150)</b>	(10)	<b>(150)</b>	(10)
Profit before taxation		<b>38,636</b>	35,274	<b>28,114</b>	18,933
Taxation	6	<b>(5,795)</b>	(5,272)	<b>(4,217)</b>	(2,821)
Profit attributable to equity holders of the Company		<b>32,841</b>	30,002	<b>23,897</b>	16,112
Earnings per share – Basic	7	<b>5.86 cents</b>	5.35 cents	<b>4.26 cents</b>	2.87 cents
Dividends	8	<b>7,003</b>	0	<b>7,003</b>	0

Note: Calculation of the earnings per share in 2011 and 2012 was based on 560,250,000 shares and 560,250,000 shares respectively.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012 and 31 December 2011

	Note	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets	9	2,615	2,615
Property, plant and equipment	10	81,791	82,728
Prepaid lease payments	11	2,098	2,098
Construction in progress	12	54,731	32,712
Intangible assets	13	16,893	18,714
Deposit for acquisition on land use rights		–	10,000
Other receivables, deposits and prepayments		2,100	2,100
<b>Total non-current assets</b>		<b>160,228</b>	150,967
<b>Current assets</b>			
Inventories	14	37,563	30,287
Trade receivables	15	109,300	101,092
Other receivables, deposits and prepayments		77,544	51,596
Prepaid lease payments	11	125	125
Loans receivables		33,691	33,691
Available-for-sale financial assets		–	20,000
Cash and cash equivalents		86,398	70,059
<b>Total current assets</b>		<b>344,621</b>	306,850
<b>Current liabilities</b>			
Trade payables	16	12,785	8,909
Other payables, deposits received and accruals		89,711	72,484
Income tax payable		12,097	12,097
Other tax payables		7,029	13,941
Bank Borrowings		1,000	1,000
Loans from government authority		651	651
Dividend payable		325	325
<b>Total current liabilities</b>		<b>123,598</b>	109,407
<b>Net current assets</b>		<b>221,023</b>	197,443
<b>Total assets less current liabilities</b>		<b>381,251</b>	348,410



	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
	<i>Note</i>	
<b>Non-current liabilities</b>		
Loan from government authority	5,419	5,419
Deferred tax liabilities	484	484
	5,903	5,903
Net assets	375,348	342,507
Equity:		
<b>Share capital</b>	56,025	56,025
<b>Reserves</b>	319,323	286,482
<b>Total equity</b>	375,348	342,507



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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2012 and 30 June 2011

	For the six months ended	
	30 June 2012	30 June 2011
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	<b>25,600</b>	(21,058)
Net cash outflow from investing activities	<b>(9,261)</b>	(18,000)
Net cash outflow from financing activities	<b>0</b>	0
	<hr/>	<hr/>
Increase/(Decrease) in cash and cash equivalents	<b>16,339</b>	(39,058)
Cash and cash equivalents at beginning of the period	<b>70,059</b>	97,559
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>86,398</b>	58,501
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Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>86,398</b>	58,501
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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2012 and 30 June 2011

	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 2011 (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
Net profit for the six months ended 31 December 2011 (Unaudited)	–	–	–	–	20,891	20,891
Exchange differences arising on translation or overseas operations recognised directly in equity	–	–	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–
Appropriation to statutory surplus reserve	–	–	–	–	–	–
Dividend	–	–	–	–	–	–
Balance as at 31 December 2011 (Audited)	56,025	51,098	–	33,242	202,142	342,507
Net profit for the six months ended 30 June 2012 (Unaudited)	–	–	–	–	32,841	32,841
At 30 June 2012 (Unaudited)	56,025	51,098	–	33,242	234,983	375,348

## 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 2011 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2012 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	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Turnover</b>				
Sales of medicine	140,595	104,251	72,561	59,128
<b>Other revenue</b>				
Other income	7,788	1,124	1,386	831
Total revenue for the year	<u>148,383</u>	<u>105,375</u>	<u>73,947</u>	<u>59,959</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 2012, 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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Depreciation	3,015	1,668	1,508	834
Amortisation of purchased know-how and prescription	1,821	484	910	242
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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
PRC income tax	5,795	5,272	4,217	2,821

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 15% (2011: 15%).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2012 (2011: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2012 is based on the unaudited profit attributable to shareholders of approximately RMB32,841,000 and RMB23,897,000 respectively (2011: RMB30,002,000 and RMB16,112,000) and on the weighted average of 560,250,000 and 560,250,000 (2011: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2012 respectively.

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

## 8. DIVIDENDS

On 14 August 2012, a special dividend of RMB1.25 cents per share (including tax) (2011: Nil), totaling approximately RMB7,003,125 (2011: Nil) in respect of previous financial year was proposed. The proposed dividend distribution is subject to the shareholders' approval at the Extraordinary General Meeting on 5 October 2012.

## 9. BEARER BIOLOGICAL ASSETS

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Ginseng	2,070	2,070
Vineyard	545	545
	<b><u>2,615</u></b>	<b><u>2,615</u></b>

## 10. PROPERTY, PLANT AND EQUIPMENT

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

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Net book value, beginning of period/year	82,728	55,330
Transferred from construction in progress	-	30,193
Additions & Disposals	2,078	3,570
Depreciation	(3,015)	(5,893)
Impairment	-	(472)
	<b><u>81,791</u></b>	<b><u>82,728</u></b>

## 11. PREPAID LEASE PAYMENTS

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Net book value, beginning of period/year	<b>2,223</b>	2,348
Amortisation	<b>(125)</b>	(125)
	<b><u>2,098</u></b>	<u>2,223</u>
Net book value, end of period/year		
	<b><u>2,223</u></b>	2,223
Portion classified as current assets	<b>(125)</b>	(125)
	<b><u>2,098</u></b>	<u>2,098</u>
Non-current assets		

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

## 12. CONSTRUCTION IN PROGRESS

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Net book value, beginning of period/year	<b>32,712</b>	28,959
Transfer to property, plant and equipment	-	(30,193)
Additions	<b>22,019</b>	33,964
Disposals	-	(18)
	<b><u>54,731</u></b>	<u>32,712</u>
Net book value, end of period/year		

### 13. INTANGIBLE ASSETS

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Cost		
At 1 January	<b>71,985</b>	71,985
Additions	<u>—</u>	<u>—</u>
At 30 June 2012/31 December 2011	<u><b>71,985</b></u>	<u>71,985</u>
Accumulated amortization:		
At 1 January	<b>53,271</b>	47,850
Amortisation for the period/year	<b>1,821</b>	3,961
Impairment loss recognised	<u>—</u>	<u>1,460</u>
At 30 June 2012/31 December 2011	<u><b>55,092</b></u>	<u>53,271</u>
Net book value:		
At 30 June 2012/31 December 2011	<u><b>16,893</b></u>	<u>18,714</u>

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

### 14. INVENTORIES

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	<b>5,918</b>	7,312
Work in progress	<b>26,710</b>	23,165
Finished goods	<u><b>10,915</b></u>	<u>5,790</u>
	<b>43,543</b>	36,267
Less: provision for obsolete and slow-moving inventories	<u><b>(5,980)</b></u>	<u>(5,980)</u>
	<u><b>37,563</b></u>	<u>30,287</u>

As at 30 June 2012, inventories amounting to approximately RMB37,563,000 (2011: RMB30,287,000) 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:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Current	<b>22,625</b>	20,763
31–90 days	<b>29,518</b>	27,511
91–180 days	<b>28,800</b>	28,400
More than 180 days	<b>28,357</b>	24,418
	<b><u>109,300</u></b>	<u>101,092</u>

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:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Current	<b>4,779</b>	3,595
31–90 days	<b>3,271</b>	1,112
More than 90 days	<b>4,735</b>	4,202
	<b><u>12,785</u></b>	<u>8,909</u>

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

## 17. SHARE CAPITAL

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Registered, issued and fully paid:		
387,750,000 domestic shares of RMBO.10 each	<b>38,775</b>	38,775
172,500,000 H shares of RMBO.10 each	<b>17,250</b>	17,250
	<b>56,025</b>	56,025

## 18. CAPITAL COMMITMENTS

As at 30 June 2012, the Group had capital commitments contracted for but not provided for in respect of the following:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Acquisition of intangible assets	<b>2,940</b>	2,940
Acquisition of property, plant and equipment	-	57
Acquisition of land use right	<b>1,372</b>	1,372
Acquisition of construction in progress	-	2,270
	<b>4,312</b>	6,639

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## **DIVIDENDS**

### **Entitlement to Special Dividend**

The Board has recommended the payment of a special dividend of RMB1.25 cents per share (including tax) in respect of the year ended 30 June 2012. Subject to the approval of shareholders at the forthcoming EGM, the dividend cum-date and ex-date will be 10 October 2012 and 11 October 2012 respectively. The registers of members of the Company for entitlement of dividend will be closed from 12 October 2012 to 17 October 2012 (both days inclusive). All properly completed H shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 11 October 2012, for registration.

### **WITHHOLDING OF INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS AND NON-RESIDENT INDIVIDUAL SHAREHOLDERS IN RESPECT OF THE PROPOSED SPECIAL DIVIDEND**

#### **Non-resident Corporate Shareholders**

Pursuant to the Law on Corporate Income Tax of the PRC and the relevant implementing regulations, which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the special dividend to non-resident corporate shareholders whose names appear on the H Share register of members on 17 October 2012. The Company will distribute the special dividend to such non-resident corporate shareholders after withholding a 10% income tax. In order to determine the list of holders of H Shares who are entitled to receive the special dividend, the H Share register of members of the Company will be closed from 12 October 2012 to 17 October 2012, both days inclusive, during which period no transfer of the Company's H Shares will be effected. In order for holders of H Shares to be qualified for the special dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 11 October 2012, for registration.

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## Non-resident Individual Shareholders

Pursuant to the regulation promulgated by the State General Administration of Taxation of the PRC (Guo Shui Han [2011] No.348), the Company is required to withhold and pay the non-resident individual income tax for the non-resident individual H shareholders and the non-resident individual H shareholders are entitled to certain tax preferential treatments according to the double tax treaties between those countries where the non-resident individual H shareholders are residents and China and the provisions in respect of double tax treaties between the mainland China and Hong Kong or Macau. The Company would withhold and pay the individual income tax at the tax rates of 10% on behalf of the non-resident individual H shareholders who are Hong Kong residents, Macau residents or residents of those countries having double tax treaties with China for personal income tax rates in respect of dividend of 10%. For non-resident 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 make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (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[2009]124號)). For non-resident individual H shareholders who are residents of those countries having double tax treaties 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 non-resident individual H shareholders who are residents of those countries without any double tax treaties with China or having double tax treaties 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%.

In order to determine the list of holders of H shares of the Company who are entitled to receive the special dividend, the H share register of members of the Company will be closed from 12 October 2012 to 17 October 2012, both days inclusive, during which period no transfer of the Company's H Shares will be effected.

The Company will determine the country of domicile of the individual H shareholders based on the registered address as recorded in the register of members of the Company (the "Registered Address") on 17 October 2012 and will withhold and pay the individual income tax based on the register of members of the Company as at 17 October 2012. If the country of domicile of the individual H shareholder is not the same as the Registered Address, the individual H shareholder shall notify the Company's H share registrar and provide relevant supporting documents Company's H share registrar in Hong Kong, Computershare Hong Kong Investors Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 11 October 2012, for registration. If the individual H shareholders do not provide the relevant supporting documents to the share registrar of the Company's H shares within the time period stated above, the Company will determine the country of domicile of the individual H shareholders based on the recorded Registered Address on 17 October 2012.



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The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment such appropriate income tax and the special dividend will only be payable to the shareholders whose names appear on the Company's H share register of members on 17 October 2012.

The proposal dividend distribution is subject to the shareholders' approval at the Extraordinary General Meeting on 5 October 2012. The Special dividend will be paid on or before 30 November 2012.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination, of the status of the shareholders or any disputes over the mechanism of withholding.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OPERATING RESULTS**

For the six months ended 30 June 2012, the Group recorded a turnover of approximately RMB140,595,000, representing an increase of 35% from RMB104,251,000 for the corresponding period in 2011. Profit attributable to shareholders for the six months ended 30 June 2012 was RMB32,841,000, representing an increase of RMB2,839,000 from RMB30,002,000 for the corresponding period in 2011.

The gross profit margin for the six months ended 30 June 2012 was approximately 83.8% representing a 3% decrease as compared to that of 86.8% for the period ended 30 June 2011. The Board believes that there were no significant fluctuation for the production and material cost.

The selling expense as a percentage of turnover was 55% in 2012. This represented an increase from 50% when compared to the same period last year. General and administrative expenses increased from RMB4,209,000 for the six months ended 30 June 2011 to RMB8,867,000 for the same period in 2012.

## **BUSINESS REVIEW**

### **Production Facilities**

In 2011, in addition to optimizing the existing production facilities for unlocking their full potential, we have established a new production line for solid dosage which is in strict compliance with the new GMP standard in the Huinan economic development zone, so as to satisfy the rapid and ever-growing demand for dominant species with a view to achieving better results for popular products.

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## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2012, the Group's primary source of funds was cash from the operating activities. As at 30 June 2012, the Group had cash and bank balances and consolidated net asset value of approximately RMB86,398,000 and RMB375,348,000 respectively.

For the six months ended 30 June 2012, 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 2012, the Group had no material contingent liabilities.

## **GEARING RATIO**

As at 30 June 2012, the Group had short-term bank borrowings of RMB7,070,000 (2011: RMB7,326,000) 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 2012.

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company as at 30 June 2012 are set out in note 18 to the financial statement.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2012, there was no change in the Company's share capital. As at 30 June 2012, 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 RMB92,183,000 for the six months ended 30 June 2012 as compared to approximately RMB71,293,000 for the six month ended 30 June 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.

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## DIRECTORS' INTERESTS IN SHARES

At 30 June 2012, 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 2012, 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.

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## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, 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 <i>(Note)</i>	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 2012, 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 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 5.48 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.

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## **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 2012.

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## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2012, the Group had 422 employees (31 December 2011: 420 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 2012, 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  
14 August 2012