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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors of 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have bee arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

As the Chairman and on behalf of the Board of Directors (the "Board"), I am pleased to report the activities of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

During the year under review, the Group has spent significant efforts on further promoting its core products, namely Hai Kun Shen Xi capsule (海昆腎喜膠囊) and Compound Huonaoshu capsule (復方活腦舒膠囊). As a result, the total turnover of the Group for the year ended 31 December 2011 was RMB274,294,000, representing a sharp increase of 36.7% as compared with RMB200,630,000 for the previous year. Profit for the year attributable to owners of the Company significantly increased to RMB50,893,000 from RMB35,891,000 last year. For the year ended 31 December 2011, basic earnings per share increased to RMB9.08 cents from RMB6.41 cents last year.

The notable results in 2011 were the outcome of the continued effort of all levels of the management in the past year. In fact, the Board of Directors has already expressed its optimistic view for 2011's profitability in the 2010 annual report. As such, the Board would like to share with the shareholders that with the following competitive advantages, which have enabled the Company to build a strong foundation for it to march into an era of blooming growth in the coming years.

Firstly, in view of the new situation where the State had further advocated the reform on medical circulation to launch the basic drug system and continued to increase the investment in public health care, the Board of Directors of the Company captured the favorable opportunities to introduce the new version of health insurance directory in the country and various provinces (cities and autonomous regions) in the beginning of the year. Taking the advantage of our dominant species being included into the health insurance directory, basic drug directory and medical directory on new rural collaboration of various provinces (cities and autonomous regions), we recognized the year 2011 as the "Year of Speedy Growth" of the Company and determined the goal of rapid development for two dominant species including Hai Kun Shen Xi capsule (海昆腎喜膠囊) and Compound Huonaoshu capsule (復方活腦舒膠囊). We upheld a strategy of academic promotion to further expand into the sales market. During the year, by continuing to capitalize on the opportunities arising from the national professional academic meeting hosted in Nanjing, Xi'an, Beijing and Harbin, we actively promoted our products and assigned professionals to different places to hold product academic seminars, for which the drug instructions were given to the doctors while the patients' profiles were built. We established communication channel with the patients and provided in-depth after-sales services, thus effectively fostering a sales growth in the dominant products.

Secondly, we further strengthened the production management and conscientiously implemented the GMP management protocols, thus maintaining a product qualification rate of 100%.

Thirdly, we accelerated the pace of technological transformation and further enhanced the production capacity. During the year, we followed the new GMP standard to establish a new production line for solid dosage in the Huinan economic development zone, so as to meet the fast-growing demand for dominant species and secure higher results of popular products. The construction project of the production line had been included in the 2011 adjustment and improvement project for the traditional industrial base in the northeastern region by the NDRC.

Fourthly, during the year, the invention patent of "Compound Huonaoshu capsule (復方活腦舒膠囊) and its quality control methods" reported by the Company in 2009 had been authorized by the State Intellectual Property Office, with a term of 20 years. Meanwhile, the Company entered into the agreement with the Qingdao Institute of Oceanography, Chinese Academy of Sciences and acquired the exclusive right of use for five years regarding the patent of "Extraction method of Fucoidan" invented by the institute. The production technology and quality of our dominant species had been further safeguarded.

Fifthly, during the year, the Company continued to be awarded with the honorary title of the "Top Hundred Private Enterprise in Jilin Province" ("吉林省百強民營企業") and "10th Provincial Leading Enterprise of Agricultural Industrialization" ("第十批農業產業化省級重點龍頭企業") by Jilin Provincial Government. It was also named as "AA+ Credit Rating Enterprise" by the Credit Rating and Certification Center of Jilin Province, and "Top 30 Industrial Enterprise" by the Tonghua City Government. It was renowned as the "Tax Champion Enterprise" ("納稅狀元企業") by Huinan County Party Committee and County Government.

Sixthly, the Company was still in the period of preferential tax treatment for the high-tech enterprises.

Looking ahead, the Company will formulate a development goal to invigorate its business development on top of the boom cycle in 2011, which represented a "Year of Speedy Growth". The Board of Directors believes that our management team will perform their duties diligently and prudently to sustain higher growth in turnover and profit attributable to equity holders for the Group in the future. All these moves reflect that the Board of Directors is fully confident of the Group's business expansion and has developed a well-organized long-term plan.

On behalf of the Board, I would like to express my heartfelt thanks to all levels of staff and the management for their efforts and contributions in 2011 and my deep gratitude to our clients, business partners and owners for their utmost support.

By order of the Board
Zhang Hong
Chairman

Jilin Province, the PRC
29 March 2012

ANNUAL RESULTS (AUDITED)

The Board of Directors (the "Board") of the Company are pleased to announce that the audited consolidated results of the Group for the year ended 31 December 2011, together with the comparative figures for the year ended 31 December 2010, as follow:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(Expressed in Renminbi)

	Notes	2011 RMB'000	2010 RMB'000
Turnover	3	**274,294**	200,630
Cost of sales		**(44,207)**	(42,658)
Gross profit		**230,087**	157,972
Other income	4	**5,679**	5,655
Other gains	5	**492**	446
Distribution and selling costs		**(148,464)**	(94,306)
Administrative expenses		**(25,937)**	(26,307)
Profit from operations		**61,857**	43,460
Finance costs	6	**(253)**	(178)
Profit before income tax	7	**61,604**	43,282
Income tax expense	8	**(10,711)**	(7,391)
Profit for the year		**50,893**	35,891
Other comprehensive income		**–**	–
Total comprehensive income for the year		**50,893**	35,891
Profit attributable to:			
Owners of the Company		**50,893**	35,891
Total comprehensive income attributable to:			
Owners of the Company		**50,893**	35,891
Dividend	12	**–**	–
Earnings per share			
– Basic (RMB cents)	9	**9.08**	6.41

CONSOLIDATED BALANCE SHEET
As at 31 December 2011
(Expressed in Renminbi)

	Notes	**2011** **RMB'000**	2010 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Bearer biological assets		**2,615**	2,504
Property, plant and equipment		**82,728**	55,330
Prepaid land lease payments		**2,098**	2,223
Construction in progress		**32,712**	28,959
Intangible assets		**18,714**	24,135
Deposit for acquisition of land use rights		**10,000**	10,000
Other receivables, deposits and prepayments		**2,100**	5,100
		150,967	128,251
Current assets			
Inventories		**30,287**	23,303
Trade receivables	*10*	**101,092**	91,323
Other receivables, deposits and prepayments		**51,596**	21,318
Loans receivables		**33,691**	15,793
Prepaid land lease payments		**125**	125
Available-for-sale financial assets		**20,000**	2,000
Cash and cash equivalents		**70,059**	97,559
		306,850	251,421
Current liabilities			
Trade payables	*11*	**8,909**	6,879
Other payables, deposits received and accruals		**72,484**	64,123
Income tax payable		**12,097**	914
Other tax payables		**13,941**	8,166
Bank borrowings		**1,000**	–
Loans from government authority		**651**	636
Dividend payable		**325**	330
		109,407	81,048
Net current assets		**197,443**	170,373
Total assets less current liabilities		**348,410**	298,624

	Notes	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Loans from government authority		**5,419**	6,054
Deferred tax liabilities		**484**	956
		5,903	7,010
Net assets		**342,507**	291,614
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		**56,025**	56,025
Reserves		**286,482**	235,589
Total equity		**342,507**	291,614

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011
(Expressed in Renminbi)

	Share capital *RMB'000*	Share premium *RMB'000*	Exchange reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Balance at 1 January 2010	56,025	51,098	259	30,365	118,235	255,982
Comprehensive income						
Profit for the year	–	–	–	–	35,891	35,891
Other comprehensive income						
Disposal of a subsidiary	–	–	(259)	–	–	(259)
Total comprehensive income	–	–	(259)	–	35,891	35,632
Appropriation to statutory surplus reserve	–	–	–	2,877	(2,877)	–
At 31 December 2010	56,025	51,098	–	33,242	151,249	291,614
Balance at 1 January 2011	**56,025**	**51,098**	**–**	**33,242**	**151,249**	**291,614**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**50,893**	**50,893**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	**202,142**	**342,507**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2011	**56,025**	**51,098**	**–**	**33,242**	**202,142**	**342,507**

Notes to the Financial Statements

1. GENERAL INFORMATION

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-organised 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 in the proportion of one bonus share for every two existing shares.

The Company's H shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 May 2001.

The Company is principally engaged in the manufacture and distribution of biochemical medicines in the PRC under the brand names of Changlong and Shendi.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which includes all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretation) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Company Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by certain biological assets and available-for-sale financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

(c) Changes in accounting policy and disclosures

In 2011, the Group adopted the new and amended standards, interpretations to the published standards and the improvements to HKFRS which are relevant to its operation.

HKFRS 1 (amendment)	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC)-Int 14 amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

New standards, amendments to standards and interpretations

At the date of authorisation of this consolidated financial statements, the following new or revised HKAS and HKFRS, amendments and interpretation to existing HKAS and HKFRS have been issued but are not yet effective:

HKAS 1 (amendments)	Presentation of Financial Statements (effective from 1 January 2013)
HKAS 1 (amendments)	Amendments to HKAS 1 *Presentation of Financial Standards – Presentation of Items of Other Comprehensive Income* (effective from 1 January 2013)
HKAS 12 (amendments)	Income Taxes (effective from 1 January 2012)
HKAS 19 (revised 2011)	Employee Benefits (effective from 1 January 2013)
HKAS 27 (revised 2011)	Separate Financial Statements (effective from 1 January 2013)
HKAS 28 (revised 2011)	Associates and Joint Ventures (effective from 1 January 2013)
HKAS 32 (amendments)	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from 1 January 2014)
HKFRS 1 (amendment)	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective from 1 January 2012)
HKFRS 7 (amendments)	Disclosure – Transfer of Financial Assets (effective from 1 January 2012)
HKFRS 7 (amendments)	Amendments to HKFRS *7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from 1 January 2013)
HKFRS 9	Financial Instruments (effective from 1 January 2015)
HKFRS 10	Consolidated Financial Statements (effective from 1 January 2013)
HKFRS 11	Joint Arrangements (effective from 1 January 2013)
HKFRS 12	Disclosure of Interests in Other Entities (effective from 1 January 2013)
HKFRS 13	Fair Value Measurement (effective from 1 January 2013)

The Group did not early adopt any of these new or revised HKAS and HKFRS, amendments and interpretation to existing HKAS and HKFRS. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

3. TURNOVER

The principal activities of the Group are manufacture and distribution of biochemical medicines. Revenue represents the invoiced value of merchandise sold less allowances for returns, discounts, value-added tax and other sales related taxes.

	2011	2010
	RMB'000	*RMB'000*
Sales of medicine	**274,294**	200,630

4. OTHER INCOME

	2011	2010
	RMB'000	*RMB'000*
Recovery of bad debts previously written off	**992**	163
Bank interest income	**706**	294
Government subsidy *(Note)*	**1,842**	2,320
Interest income on loan receivables	**1,674**	2,696
Yield gain on available-for-sale financial assets	**220**	39
Others	**245**	143
	5,679	5,655

Note: During the year ended 31 December 2011, the Group received subsidies from various local municipal government bodies in the PRC, which aimed at the general financing of the business and technology development of the Group.

5. OTHER GAINS

	2011	2010
	RMB'000	*RMB'000*
Fair value losses on biological assets – deers	**(42)**	(38)
Gains on disposal of property, plant and equipment	**534**	271
Gain on disposal of a subsidiary	**–**	213
	492	446

6. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest expenses on loans from government authority	**253**	178

7. PROFIT BEFORE INCOME TAX

	2011 *RMB'000*	2010 *RMB'000*
Operating profit before income tax for the year is arrived at after-charging/ (crediting):–		
Cost of inventories sold (excluding additional provision for, and write off of obsolete and slow-moving inventories)	**40,407**	40,439
Provision for obsolete and slow-moving inventories	**2,897**	2,864
Write off of obsolete and slow-moving inventories	**2,745**	–
Impairment loss on loans receivables	**2,550**	–
Impairment loss on trade receivables	**168**	2,721
Impairment loss on other receivables	**1,762**	3,009
Impairment loss on deposit and prepayment	**1,067**	–
Impairment loss on property, plant and equipment	**472**	705
Provision for tax recoverable	**–**	3,554
Auditor's remuneration:–		
Provision for the year	**300**	254
Under-provision in prior years	**–**	21
Amortisation of intangible assets (included in cost of sales)	**3,961**	7,255
Impairment loss on intangible assets	**1,460**	1,960
Research and development cost	**545**	503
Amortisation of prepaid land lease payments (included in cost of sales)	**125**	125
Depreciation of property, plant and equipment	**5,964**	5,955
Employee benefits expenses (excluding directors' and supervisors' remuneration):		
Salaries and allowances	**67,003**	44,665
Pension scheme contributions	**575**	669
Fair value losses on biological assets – deers	**42**	38
Gain on disposal of property, plant and equipment	**(534)**	(271)

8. INCOME TAX EXPENSE

(a) Income tax represents:

	2011 *RMB'000*	2010 *RMB'000*
PRC enterprise income tax		
– Current year	**11,183**	8,441
– Over-provision in prior years	**–**	(507)
Deferred taxation	**(472)**	(543)
	10,711	7,391

The PRC enterprise income tax is provided according to the relevant laws and regulations in the PRC.

On 16 March 2007, the National People's Congress approved the PRC Enterprise Income Tax Law, which became effective from 1 January 2008. In accordance with the new tax law, an unified enterprise income tax rate of 25% is applied to both domestic-invested enterprises and foreign-invested enterprises.

On 24 July, 2009, the Company was accredited as a "National New and High-tech Enterprise" by the Jilin Provincial Science and Technology Bureau (吉林省科學技術廳) and is entitled to a reduced PRC Enterprise Income tax rate of 15% for the year ended 31 December 2011 (2010: 15%).

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2011	2010
	RMB'000	*RMB'000*
Profit before income tax	**61,604**	43,282
National tax calculated at PRC enterprise income tax rate of 15% (2010: 15%)	**9,241**	6,492
Tax effect of non-taxable income	**–**	(537)
Tax effect of non-deductible expenses	**1,942**	2,486
Deferred tax on temporary differences in prior year	**(472)**	(543)
Over-provision in prior years	**–**	(507)
Income tax expense	**10,711**	7,391

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to owners of the Group for the year of RMB50,893,000 (2010: RMB35,891,000) and 560,250,000 shares in issue during the year (2010: 560,250,000 shares).

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2011 and 2010.

10. TRADE RECEIVABLES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**111,444**	101,507
Less: Provision for impairment	**(10,352)**	(10,184)
Trade receivables – net	**101,092**	91,323

(i) The Group's policy is to allow an average credit period of 180 days to its trade customers.

(ii) The movements in the provision for impairment for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**10,184**	13,717
Additional provision	**168**	2,721
Written off	**–**	(6,254)
At 31 December	**10,352**	10,184

Provision for doubtful debts had been made for the estimated irrecoverable amounts arising from the sale of goods. The provision was determined by the directors with reference to past default experience.

(iii) The ageing analysis of trade receivables, based on the invoice date and net of provision for impairment of trade receivables, is as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Current	**20,763**	31,717
31-90 days	**27,511**	18,871
91-180 days	**28,400**	13,751
More than 180 days	**24,418**	26,984
	101,092	91,323

(iv) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**76,674**	64,339
Less than 1 month past due	**5,390**	5,736
1 to 3 months past due	**6,602**	7,025
Over 3 months past due	**5,843**	6,218
	94,509	83,318

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(v) The Directors consider the carrying amount of trade receivables approximates their fair value.

11. TRADE PAYABLES

The ageing analysis of trade payables, based on the invoice date, is as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Current	**3,595**	2,031
31-90 days	**1,112**	723
Over 90 days	**4,202**	4,125
	8,909	6,879

The average credit period from the Group's trade creditors is 90 to 180 days.

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

12. DIVIDENDS

No dividend has been proposed or paid by the Company in respect of the year ended 31 December 2011 (2010: Nil).

BUSINESS REVIEW

For the year ended 31 December 2011, the Group's turnover increased to RMB274,294,000 from approximately RMB200,630,000 while the profit for the year attributable to owners of the Company increased to RMB50,893,000 from RMB35,891,000. For the year ended 31 December 2011, basic earnings per share increased to RMB9.08 cents from RMB6.41 cents last year.

For the year ended 31 December 2011, the manufacturing and sales of Hai Kun Shen Xi capsule (海昆腎喜膠囊) continued to be the Group's core source of revenue. The medicine of Hai Kun Shen Xi capsule has penetrated into the market, the sales of which rose by 61% as compared with 2010. The sales of Compound Huonaoshu capsule (復方活腦舒膠囊) reached RMB47,551,000 for the year ended 31 December 2011, which became the second best seller of the Group in 2011. Other products such as Yi Da La Feng injection (依達拉奉注射液), Xue Shuan Xin Mai Ning capsule (血栓心脈寧膠囊), Dong Gui Long Hui tablet (當歸龍薈丸), Qian Lie Gui Huang tablet (前列桂黃片) also contributed sales amount of RMB19,429,000 in 2011, details of which were further elaborated under the Section "Financial Review".

OPERATION REVIEW

Good Manufacturing Practice (GMP)

During the year ended 31 December 2011, the Company has already obtained GMP certificates for the following:

1. Tablets (片劑) – valid until 8 August 2015

2. Capsules (膠囊劑) – valid until 8 August 2015

3. Sterile Bulk (Cefalotin sodium, Cefpiramide) (無菌原料藥(頭孢噻吩鈉、頭孢匹胺)) – valid until 8 August 2015

4. Pills (Water Pills), Membrane (丸劑(水丸)、膜劑) – valid until 8 August 2015

5. Powder for injection (Cephalosporins) (頭孢菌素類粉針劑) – valid until 23 August 2012

6. Lyophilized powder for injection (凍乾粉針劑) – valid until 31 December 2013

7. Small volume Parenteral Solution (小容量注射劑) – valid until 31 December 2013

8. Sterile Bulk (Yan Suan Tou Bao Jia Tong) (無菌原料藥(鹽酸頭孢甲肟), Bulk (Yi Da La Feng) (原料藥) (依達拉奉) – valid until 30 December 2013

9. Bulk drug (Fucoidan, Extractum for fructus gardenlae)原料藥(褐藻多糖酸酯、梔子提取物) – valid unit 31 December 2015

RESEARCH AND DEVELOPMENT

The Research and Development (R&D) department is essential for the future success of a pharmaceutical company. In the past, our R&D department had successfully developed the medicine, Compound Huonaoshu capsule, which had generated huge profit to the Company and finally led to the listing of the Company in Hong Kong. In the year of 2003, our R&D department completed the development of Hai Kun Shen Xi capsule, which has now become the first largest contributor of revenue and its revenue jumped by 61% as compared with last year. Yi Da La Feng Bulk has obtained the production approval, and Tou Bao Bulk has commenced commercial production for the year ended 31 December 2011.

In addition to our internal R&D resources, the Group also embarked on joint efforts with other reputable R&D companies to develop new potential pharmaceutical products. As at 31 December 2011, the major products currently under research and development were as follows:

Medicine	Type	Form
Yan Suan Tou Bao Bi Wo (鹽酸頭孢吡肟)	Chemical Medicine Class 4	Raw material
Yan Suan Tou Bao Bi Wo for injection (注射用鹽酸頭孢吡肟)	Chemical Medicine Class 4	Powder for injection
Li Dan Qing Wan (利膽清丸)	Chinese Medicine Class 3	Medical pill

PRODUCTION FACILITIES

During the year, 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.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group's recorded a revenue amounted to approximately RMB274,294,000 (2010: RMB200,630,000), a growth of approximately 37% as compared with the figure of the previous year. The audited profit for the year attributable to owners of the Company was approximately RMB50,893,000, representing an increase of 42% as compared with RMB35,891,000 of the previous year. The basic earnings per share amounted to RMB9.08 cents (2010: RMB6.41 cents), representing an increase of RMB2.67 cents over the previous year.

The obvious growth in turnover was mainly attributable to the increase in the revenue from our core revenue generator, namely Hai Kun Shen Xi capsule (海昆腎喜膠囊). The medicine of Hai Kun Shen Xi capsule had penetrated into the market, with the sales of which in 2011 rising by 61% as compared with 2010.

For the year ended 31 December 2011, the sales of Compound Huonaoshu capsule amounted to approximately RMB47,551,000.

The Board of Directors is pleased with the financial performance in 2011. It believes that the remarkable growth in profitability is attributed to the following reasons.

Firstly, with the inclusion of our dominant species into the health insurance directory of various provinces (cities and autonomous regions) and the implementation of relevant management measures during the "Year of Speedy Growth", the sales volume of Hai Kun Shen Xi capsule, being the Group's leading products, relatively showcased a robust growth.

Secondly, the Group continued to extend its investment in academic promotion and make further efforts to distribute products to medical institutions. Accordingly, we further enlarged our sales network and enjoyed a higher share in the public drug market.

For instance, the Group continued to take part in the national professional academic meeting in Nanjing, Xi'an, Beijing and Harbin. The Company also sent professionals to hold seminars throughout the country and received notable success. Through academic promotion activities, the Group has not only upgraded its corporate image, but has also tapped business opportunities and explored business networks. A host of new clients from medical institutions in different regions are sought by us through such meetings.

Thirdly, the Group continued to implement the plan of recruiting temporary sales staff in line with its needs, in order to assist regional sales staff in expanding their sales network, and in hence, to capture and secure a larger share in the sales market.

The gross profit margin for the year ended 31 December 2011 was approximately 84%, representing a 5% increase as compared with that of 79% for the year ended 31 December 2010.

For the year ended 31 December 2011, the Group recorded other income and gains of approximately RMB6,171,000, contrasting to a figure of RMB6,101,000 for the year ended 31 December 2010.

Distribution and selling costs rose to approximately RMB148,464,000 for the year ended 31 December 2011 from approximately RMB94,306,000 in last year. These expenses accounted for 54% of turnover in 2011, which represented a 7% increase from 47% as compared with the corresponding period of last year. The increase in distribution and selling costs of approximately RMB54,158,000 was mainly due to the growth in staff remuneration as a result of the recruitment of temporary sales persons.

For the year ended 31 December 2011, administrative expenses decreased to approximately RMB25,937,000 from approximately RMB26,307,000 last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this year. As at 31 December 2011, cash and bank balances of the Group amounted to RMB70,059,000 (2010: RMB97,559,000) with total borrowings of RMB7,070,000 (2010: RMB6,690,000) which were interest bearing at commercial rates and unsecured. As at 31 December 2011, the Group had total assets of RMB457,817,000 (2010: RMB379,672,000) which were financed by current liabilities of RMB109,407,000 (2010: RMB81,048,000), long term borrowings of RMB5,419,000 (2010: RMB6,054,000), deferred tax liabilities of RMB484,000 (2010: RMB956,000) and shareholders' equity of RMB342,507,000 (2010: RMB291,614,000).

GEARING RATIO

As at 31 December 2010, the Group had a net cash and cash equivalents of RMB97,559,000. As at 31 December 2011, the Group had a net cash and cash equivalents of RMB70,059,000. As at 31 December 2011, the ratio of the total liabilities to the total assets of the Group was 25% (2010: 23%) which was calculated by dividing the Group's total liabilities of RMB115,310,000 (2010: RMB88,058,000) by the Group's total equity and liabilities of RMB457,817,000 (2010: RMB379,672,000). The Group's gearing ratio which derived from the total borrowings to total net assets was 2.1% (2010: 2.3%).

EMPLOYEES

The Group has a total of 420 full-time employees and has employed some temporary sales persons. For the year ended 31 December 2011, the total remuneration of employees, including directors' remuneration amounting to approximately RMB68,393,000 (2010: approximately RMB45,905,000).

Remuneration is determined by reference to market conditions 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.

SEGMENTAL INFORMATION

The Group has only one business segment which is the manufacture and distribution of biochemical medicines in the PRC. In 2011, turnover of the Group was generated entirely from sales in the PRC and all identifiable assets of the Group are located in the PRC. Accordingly, no business or geographical segmental analysis is prepared for the year.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2011. As at 31 December 2011, the Group had no other future plans for material investments or significant changes in capital assets of subsidiaries and affiliated companies.

CAPITAL STRUCTURE

The operations of the Group 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 operations with internal resources.

CHARGE OF ASSETS

As at 31 December 2011 and 2010, the Group had no security over its assets.

FOREIGN EXCHANGE RISK

For the years ended 31 December 2011 and 2010, the Group mainly generated revenue and incurred costs in Renminbi. The directors consider the impact on foreign exchange exposure of the Group is minimal. Accordingly the Group did not employ any financial instruments for hedging purposes.

CONTINGENT LIABILITIES

As at 31 December 2011 and 2010, the Group had no material contingent liabilities.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

At 31 December 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 pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (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
Zhang Hong	Personal	Beneficial owner	101,937,000	26.29	18.19
Zhang Xiao Guang	Personal	Beneficial owner	42,315,000	10.91	7.55
Wu Guo Wen	Personal	Beneficial owner	900,000	0.232	0.161
Chen Qi Ming	Personal	Beneficial owner	300,000	0.077	0.054

Save as disclosed above, as at 31 December 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

Saved as disclosed under the headings "Directors' and supervisors' interests in shares" above, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director, supervisor and chief executive 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 31 December 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 representatives in the Board of Directors.

Save as disclosed above, as at 31 December 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

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.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the article of association of the Company or the laws of the PRC, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CONNECTED TRANSACTIONS

During the year, the Group had no material related party transactions, which constituted connected transactions under the GEM Listing Rules.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practice (the "Code") contained in Appendix 15 to the GEM Listing Rules throughout the financial year ended 31 December 2011 subject to the deviations disclosed hereof.

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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 throughout the year ended 31 December 2011.

BOARD OF DIRECTORS AND BOARD MEETINGS

The Directors of the Company during the year and up to the date of this announcement were:

Executive Directors
Mr. Zhang Hong *(Chairman)*
Mr. Zhang Xiao Guang
Mr. Tian Xin Guo
Mr. Chen Qi Ming
Mr. Wu Guo Wen
Mr. Zhao Bao Gang

Independent Non-Executive Directors
Mr. Shen Yu Xiang
Mr. Xue Chang Qing
Mr. Yan Li Jin

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Board considers that each INED of the Company is independent in character and judgement. The Company has received from each INED a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's business development, operation and financial performance. Board papers are circulated not less than 7 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the board meetings. Minutes of board meetings are kept be the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

AUDIT COMMITTEE

The Audit Committee was established in 2001 and currently comprises three members, Mr. Shen Yu Xiang, Mr. Xue Chang Qing and Mr. Yan Li Jin. All of them are INEDs. The chairman of the Audit Committee is Mr. Shen Yu Xiang. The Board considers that each Audit Committee has broad commercial experience and there is a suitable mix of expertise in business, legal, accounting and financial management in the Audit Committee.

None of the members of the Audit Committee has any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the business. The Audit Committee oversees the financial reporting process and the adequacy and effectiveness of the Company's system of internal control. During the year, the Audit Committee carried out their own independent review of the interim and annual financial statements and financial reports and statements included in circulars of the company published during the year. And with the assistance of the internal audit department, which reports directly to the committee, the Audit Committee completed its review of the adequacy and effectiveness of the Company's systems of internal control and reported its findings and recommendations to the Board.

AUDITORS

A resolution will be submitted to Annual General Meeting of the company to re-appoint the auditors, Reanda Lau & Au Yeung (HK) CPA Limited.

By order of the Board of
Jilin Province Huinan Changlong Bio-pharmacy Company Limited
Zhang Hong
Chairman

Jilin Province, the PRC
29 March 2012

As at the date of this announcement, the Board comprises six executive directors, being Zhang Hong, Zhang Xiao Guang, Tian Xin Guo, Wu Guo Wen, Chen Qi Ming, Zhao Bao Gang and three independent non-executive directors, being Shen Yu Xiang, Xue Chang Qing and Yan Li Jin.

This announcement will remain on the "Latest Company Announcements" page on the GEM Website at www.hkgem.com for at least 7 days from the date of its posting.