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 2012

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

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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 been 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 2012.

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 2012 was RMB353,247,000, representing a sharp increase of 28.8% as compared with RMB274,294,000 for the previous year. Profit for the year attributable to owners of the Company increased to RMB58,754,000 from RMB50,893,000 last year. For the year ended 31 December 2012, basic earnings per share increased to RMB10.49 cents from RMB9.08 cents last year.

The notable results in 2012 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 2012's profitability in the 2011 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 go further in the coming years.

Firstly, in view of the new situation where the State had further advocated the reform on health care system and the full implementation of the new version of health insurance directory and the national basic drug directory, the Board of Directors of the Company, taking the advantage of our dominant species being included into the health insurance directory, basic drug directory and medical directory of new rural collaboration of various provinces (cities and autonomous regions), captured the favorable opportunities to strengthen our position in the market of hospital clinical drugs and determined the principle and goal of 'bolstering the Hai Kun Shen Xi capsule (海昆腎喜膠囊) and refining the Compound Huonaoshu capsule (復方活腦舒膠囊), enhancing the blood serum tablet (血脈清片), and developing the active injecting drug (活針劑) as well as subspecies of Chinese medical herbs (中藥小品種)'. We upheld a strategy of academic promotion to further expand into the sales market of hospital clinical drugs. Through accelerating the commercialization of species and the development of injecting drug (針劑) and subspecies of Chinese medical herbs (中藥小品種), we have achieved a stable sales growth.

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

Thirdly, in this September, the new production line for solid dosage obtained the Good Manufacturing Practice Certificate and started production which guaranteed the development of the subspecies popular products.

Fourthly, we accelerated the pace of technological transformation and further expanded the production capacity. During the year, we followed the new GMP standard to establish four new production lines for Small volume Parenteral Solution (小溶量注射劑), subpackaging of sterile powder for injection (無菌粉針分裝), subpackaging of Lyophilized powder for injection (凍乾粉針分裝), subpackaging of Tou Bao Sterile Bulk (頭孢無菌原料藥) in the Huinan economic development zone. With the further enhancement of production capacity, rapid development in the future is ensured.

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 passed the review of high-tech enterprises and is entitled to the preferential tax treatment in the coming three years.

Looking ahead, the Company will formulate a development goal to invigorate its business development on top of accelerating the progress of building new production lines in 2012. 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 2012 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
27 March 2013

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 2012, together with the comparative figures for the year ended 31 December 2011, as follow:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(Expressed in Renminbi)

	Notes	**2012** *RMB'000*	2011 *RMB'000*
Turnover	*3*	**353,247**	274,294
Cost of sales		**(63,593)**	(44,207)
Gross profit		**289,654**	230,087
Other income	*4*	**9,924**	5,679
Other gains	*5*	**53**	492
Distribution and selling costs		**(203,658)**	(148,464)
Administrative expenses		**(26,808)**	(25,937)
Profit from operations		**69,165**	61,857
Finance costs	*6*	**(296)**	(253)
Profit before income tax	*7*	**68,869**	61,604
Income tax expense	*8*	**(10,115)**	(10,711)
Profit for the year		**58,754**	50,893
Other comprehensive income		**–**	–
Total comprehensive income for the year		**58,754**	50,893
Profit attributable to:			
Owners of the Company		**58,754**	50,893
Total comprehensive income attributable to:			
Owners of the Company		**58,754**	50,893
Earnings per share			
– Basic (RMB cents)	*9*	**10.49**	9.08
Dividends	*12*	**7,003**	–

CONSOLIDATED BALANCE SHEET

As at 31 December 2012
(Expressed in Renminbi)

	Notes	2012 RMB'000	2011 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Bearer biological assets		**2,850**	2,615
Property, plant and equipment		**107,462**	82,728
Prepaid land lease payments		**17,789**	2,098
Construction in progress		**66,777**	32,712
Intangible assets		**15,855**	18,714
Deposit for acquisition of land use rights		**–**	10,000
Other receivables, deposits and prepayments		**–**	2,100
		210,733	150,967
Current assets			
Inventories		**35,342**	30,287
Trade receivables	*10*	**106,209**	101,092
Other receivables, deposits and prepayments		**54,209**	51,596
Loans receivables		**39,732**	33,691
Prepaid land lease payments		**453**	125
Available-for-sale financial assets		**–**	20,000
Cash and cash equivalents		**89,374**	70,059
		325,319	306,850
Current liabilities			
Trade payables	*11*	**7,953**	8,909
Other payables, deposits received and accruals		**83,589**	72,484
Deferred income		**313**	–
Income tax payable		**9,933**	12,097
Other tax payables		**11,095**	13,941
Bank borrowings		**6,000**	1,000
Loans from government authority		**666**	651
Dividend payable		**2,337**	325
		121,886	109,407
Net current assets		**203,433**	197,443
Total assets less current liabilities		**414,166**	348,410

	2012	2011
	RMB'000	*RMB'000*
Non-current liabilities		
Loans from government authority	**4,784**	5,419
Deferred income	**15,063**	–
Deferred tax liabilities	**61**	484
	19,908	5,903
Net assets	**394,258**	342,507
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	**56,025**	56,025
Reserves	**338,233**	286,482
Total equity	**394,258**	342,507

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(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 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	–	–	–	–	50,893	50,893
Transactions with owners						
Appropriation to statutory surplus reserve	–	–	–	–	–	–
At 31 December 2011	56,025	51,098	–	33,242	202,142	342,507
Balance at 1 January 2012	**56,025**	**51,098**	**–**	**33,242**	**202,142**	**342,507**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**58,754**	**58,754**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	**58,754**	**58,754**
Transactions with owners						
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**
Special dividends	**–**	**–**	**–**	**–**	**(7,003)**	**(7,003)**
At 31 December 2012	**56,025**	**51,098**	**–**	**33,242**	**253,893**	**394,258**

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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, requirements of the Hong Kong Company Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (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 measured at fair value.

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

(c) Changes in accounting policy and disclosures

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2012.

HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets

The adoption of the new and revised HKFRSs in the current year has no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

New standards, amendments to standards and interpretations

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle except for HKAS1 (Amendments)(2)
HKFRS 7 (Amendments)	Disclosures – Offseting Financial Assets and Financial Liabilities(2)
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures(4)
HKFRS 9	Financial Instruments(4)
HKFRS 10	Consolidated Financial Statements(2)
HKFRS 11	Joint Arrangements(2)
HKFRS 12	Disclosure of Interests in Other Entities(2)
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements Disclosure of Interests and Other Entities: Transitional Guidance(2)
HKFRS 10, HKFRS 11 and HKAS 27 (Amendments)	Investment Entities(3)
HKFRS 13	Fair Value Measurement(2)
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income(1)
HKAS 19 (as revised in 2011)	Employee Benefits(2)
HKAS 27 (as revised in 2011)	Separate Financial Statements(2)
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures(2)
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities(3)
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine(2)

(1) Effective for annual periods beginning on or after 1 July 2012.
(2) Effective for annual periods beginning on or after 1 January 2013.
(3) Effective for annual periods beginning on or after 1 January 2014.
(4) Effective for annual periods beginning on or after 1 January 2015.

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.

	2012	2011
	RMB'000	*RMB'000*
Sales of medicine	**353,247**	274,294

4. OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Recovery of bad debts previously written off	**221**	992
Bank interest income	**393**	706
Government subsidy *(Note)*	**2,014**	1,842
Recognition of deferred income	**104**	–
Interest income on loans receivables	**3,417**	1,674
Yield gain on available-for-sale financial assets	**99**	220
Reversal of provision of trade receivables	**2,380**	–
Reversal of provision of other receivables	**990**	–
Others	**306**	245
	9,924	5,679

Note: During the year ended 31 December 2012 and 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

	2012	2011
	RMB'000	*RMB'000*
Fair value losses on biological assets – deers	**–**	(42)
Gains on disposal of property, plant and equipment	**53**	534
	53	492

6. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest expenses on loans from government authority	**214**	236
Interest expenses on bank borrowings	**82**	17
	296	253

7. PROFIT BEFORE INCOME TAX

	2012	2011
	RMB'000	*RMB'000*
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)	**58,780**	40,407
Provision for obsolete and slow-moving inventories	**103**	2,897
Write off of obsolete and slow-moving inventories	**7,376**	2,745
Impairment loss on loans receivables	**304**	2,550
Impairment loss on trade receivables	**–**	168
Impairment loss on other receivables	**–**	1,762
Impairment loss on deposit and prepayment	**320**	1,067
Impairment loss on property, plant and equipment	**–**	472
Auditor's remuneration:–		
Provision for the year	**265**	300
Over-provision in prior years	**(43)**	–
Amortisation of intangible assets (included in cost of sales)	**2,859**	3,961
Impairment loss on intangible assets	**–**	1,460
Research and development cost	**1,070**	545
Amortisation of prepaid land lease payments (included in cost of sales)	**235**	125
Depreciation of property, plant and equipment	**6,443**	5,964
Employee benefits expenses (excluding directors' and supervisors' remuneration):		
Salaries and allowances	**90,242**	67,003
Pension scheme contributions	**1,048**	575
Fair value losses on biological assets – deers	**–**	42
Gain on disposal of property, plant and equipment	**(53)**	(534)
Write off of property, plant and equipment	**892**	–

8. INCOME TAX EXPENSE

(a) Income tax represents:

	2012	2011
	RMB'000	*RMB'000*
PRC enterprise income tax		
– Current year	**10,538**	11,183
Deferred taxation	**(423)**	(472)
	10,115	10,711

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.

On 12 March 2012, 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 three consecutive years commenced since year 2012.

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

	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**68,869**	61,604
National tax calculated at PRC enterprise income tax rate of 15% (2011: 15%)	**10,330**	9,241
Tax effect of non-deductible expenses	**208**	1,942
Deferred tax on temporary differences in prior year	**(423)**	(472)
Income tax expense	**10,115**	10,711

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the profit attributable to owners of the Group for the year of RMB58,754,000 (2011: RMB50,893,000) and 560,250,000 shares in issue during the year (2011: 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 2012 and 2011.

10. TRADE RECEIVABLES

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**114,181**	111,444
Less: Provision for impairment	**(7,972)**	(10,352)
Trade receivables – net	**106,209**	101,092

(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	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**10,352**	10,184
Additional provision	**–**	168
Reversal	**(2,380)**	–
At 31 December	**7,972**	10,352

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	
	2012	2011
	RMB'000	*RMB'000*
Current	**34,303**	20,763
31-90 days	**24,978**	27,511
91-180 days	**20,640**	28,400
More than 180 days	**26,288**	24,418
	106,209	101,092

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

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**79,921**	76,674
Less than 1 month past due	**5,666**	5,390
1 to 3 months past due	**6,940**	6,602
Over 3 months past due	**6,142**	5,843
	98,669	94,509

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 and the Company	
	2012	2011
	RMB'000	*RMB'000*
Current	**2,971**	3,595
31-90 days	**679**	1,112
Over 90 days	**4,303**	4,202
	7,953	8,909

The average credit period from the Group's and the Company'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 final dividend has been proposed or paid by the Company in respect of the year ended 31 December 2012 (2011: Nil).

	2012	2011
	RMB'000	*RMB'000*
Special dividend declared of HK$0.0138 (2011: Nil) per ordinary share	**7,003**	–
	7,003	–

On 14 August 2012, the Board declared the payment of a special dividend equivalent to approximately RMB1.25 cents per ordinary share (2011: Nil), totalling approximately RMB7,003,000 (2011: Nil). The declared special dividend is calculated based on the total number of shares in issue as at 17 October 2012. The payment of the declared special dividend was approved by the shareholders at the Company's Extraordinary General Meeting.

The aggregate amounts of the dividends declared during 2012 have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordinance.

BUSINESS REVIEW

For the year ended 31 December 2012, the Group's turnover increased to RMB353,247,000 from approximately RMB274,294,000 while the profit for the year attributable to owners of the Company increased to RMB58,754,000 from RMB50,893,000. For the year ended 31 December 2012, basic earnings per share increased to RMB10.49 cents from RMB9.08 cents last year.

For the year ended 31 December 2012, 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 25% as compared with 2011. The sales of Compound Huonaoshu capsule (復方活腦舒膠囊) reached RMB51,334,000 for the year ended 31 December 2012, which became the second best seller of the Group in 2012. Other products such as Edaravone 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 RMB45,711,000 in 2012, details of which were further elaborated under the Section "Financial Review".

OPERATION REVIEW

Good Manufacturing Practice (GMP)

During the year ended 31 December 2012, the Company has already obtained GMP certificates for the following:

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

2. Capsules (硬膠囊劑) – 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 31 December 2013

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 (Edaravone) (原料藥) (依達拉奉) – valid until 30 December 2013

9. Bulk drug (Fucoidan, Extractum for fructus gardeniae) 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 25% as compared with last year.

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 2012, 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, the new production line for solid dosage obtained the Good Manufacturing Practice and started production. In the meantime, four new production lines for Small volume Parenteral Solution (小溶量注射劑), subpackaging of sterile powder for injection (無菌粉針分裝), subpackaging of Lyophilized powder for injection (凍乾粉針分裝), subpackaging of Tou Bao Sterile Bulk (頭孢無菌原料藥) were established in the Huinan economic development zone. This has further expanded our production capacity.

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group's recorded a revenue amounted to approximately RMB353,247,000 (2011: RMB274,294,000), a growth of approximately 29% as compared with the figure of the previous year. The audited profit for the year attributable to owners of the Company was approximately RMB58,754,000, representing an increase of 15% as compared with RMB50,893,000 of the previous year. The basic earnings per share amounted to RMB10.49 cents (2011: RMB9.08 cents), representing an increase of RMB1.41 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 2012 rising by 25% as compared with 2011.

For the year ended 31 December 2012, the sales of Compound Huonaoshu capsule amounted to approximately RMB51,334,000.

The Board of Directors is pleased with the financial performance in 2012. It is believed that the remarkable growth in profitability is attributed to the following reasons.

Firstly, the full implementation of the new health insurance directory of the state, the incorporation of our dominant species into the health insurance directory of various provinces (cities and autonomous regions) and the rapid growth of our injection products contributed to the sharp increase in sales of the Company.

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 Company took part in the national professional academic meeting and sent professionals to hold seminars throughout the country. 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 2012 was approximately 82%, representing a 2% decrease as compared with that of 84% for the year ended 31 December 2011.

For the year ended 31 December 2012, the Group recorded other income and gains of approximately RMB9,977,000, contrasting to a figure of RMB6,171,000 for the year ended 31 December 2011.

Distribution and selling costs rose to approximately RMB203,658,000 for the year ended 31 December 2012 from approximately RMB148,464,000 in last year. These expenses accounted for 58% of turnover in 2012, which represented a 4% increase from 54% as compared with the corresponding period of last year. The increase in distribution and selling costs of approximately RMB55,194,000 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 2012, administrative expenses increased to approximately RMB26,808,000 from approximately RMB25,937,000 last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this year. As at 31 December 2012, cash and bank balances of the Group amounted to RMB89,374,000 (2011: RMB70,059,000) with total borrowings of RMB11,450,000 (2011: RMB7,070,000) which were interest bearing at commercial rates and unsecured. As at 31 December 2012, the Group had total assets of RMB536,052,000 (2011: RMB457,817,000) which were financed by current liabilities of RMB121,886,000 (2011: RMB109,407,000), long term borrowings of RMB4,784,000 (2011: RMB5,419,000), deferred tax liabilities of RMB61,000 (2011: RMB484,000) and shareholders' equity of RMB394,258,000 (2011: RMB342,507,000).

GEARING RATIO

As at 31 December 2012, the Group had a net cash and cash equivalents of RMB89,374,000. As at 31 December 2012, the ratio of the total liabilities to the total assets of the Group was 26% (2011: 25%) which was calculated by dividing the Group's total liabilities of RMB141,794,000 (2011: RMB115,310,000) by the Group's total equity and liabilities of RMB536,052,000 (2011: RMB457,817,000). The Group's gearing ratio which derived from the total borrowings to total net assets was 2.9% (2011: 2.1%).

EMPLOYEES

The Group has a total of 516 full-time employees and has employed some temporary sales persons. For the year ended 31 December 2012, the total remuneration of employees, including directors' remuneration amounting to approximately RMB91,689,000 (2011: approximately RMB68,393,000).

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 2012, 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 2012. As at 31 December 2012, 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 2012 and 2011, the Group had no security over its assets.

FOREIGN EXCHANGE RISK

For the years ended 31 December 2012 and 2011, 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 2012 and 2011, 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 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 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 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

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 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 *(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 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

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 CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieve high standards of corporate governance to safeguard the interest of its shareholders and enhance its corporate value. Throughout the year ended 31 December 2012 and up to the date of this announcement, the Company has complied with the code provisions in the former Code on Corporate Governance Practices (the "Former CG Code") and the revised Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules which came into effect on 1 April 2012 subject to the deviations disclosed hereof.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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 2012.

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

As at the date of this announcement, the Board comprised nine Directors, six of whom are Executive Directors, three of whom are INEDs of the Company. Details of backgrounds and qualifications of each Director are set out on the section headed "Biographical Details of Directors and Senior Management" of this announcement.

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
27 March 2013

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.