



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)



Interim Report 2001



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This announcement, for which the directors of Jilin Province Huinan Changlong Bio-pharmacy Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”) for the purpose of giving information with regard to Jilin Province Huinan Changlong Bio-pharmacy Company Limited. 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 report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification only



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INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The directors of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (“the Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six and three months ended 30th June, 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	<i>Notes</i>	Six months ended		Three months ended	
		30th June,		30th June,	
		2001	2000	2001	2000
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	38,121	43,179	22,773	32,725
Cost of Sales		<u>(8,299)</u>	<u>(8,449)</u>	<u>(4,782)</u>	<u>(6,260)</u>
Gross profit		29,822	34,730	17,991	26,465
Other revenue		58	493	52	488
Selling expenses		(10,196)	(12,025)	(5,264)	(8,545)
General and administrative expenses		<u>(3,851)</u>	<u>(3,492)</u>	<u>(1,245)</u>	<u>(2,355)</u>
Profit from operation		15,833	19,706	11,534	16,053
Finance cost		<u>(365)</u>	<u>(537)</u>	<u>(236)</u>	<u>(415)</u>
Profit before taxation		15,468	19,169	11,298	15,638
Taxation	3	<u>(5,104)</u>	<u>(6,327)</u>	<u>(3,909)</u>	<u>(5,161)</u>
Net profit attributable to the shareholders		<u><u>10,364</u></u>	<u><u>12,842</u></u>	<u><u>7,389</u></u>	<u><u>10,477</u></u>
Earnings per share	4	<u><u>2.37 cents</u></u>	<u><u>3.18 cents</u></u>	<u><u>1.57 cents</u></u>	<u><u>2.59 cents</u></u>

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Notes:

1. Basis of Preparation

The Company was established as a state-owned enterprise in the People's Republic of China (the "PRC"). On 29th December, 1995, under the relevant provisions of the PRC Company Law, the Company was re-organized from a state-owned enterprise to a limited liability company. Further on 16th August, 1996, with the approval of the Economic Restructuring Commission of Jilin Province, the Company was then converted into a company limited by share capital. The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 24th May, 2001.

The principal accounting policies adopted in preparing the unaudited results conform with accounting standards issued by the Hong Kong Society of Accountants.

2. Turnover

Turnover represents the invoiced value of goods sold, net of value-added tax, trade discounts and returns.

3. Taxation

	Six months ended 30th June,		Three months ended 30th June,	
	2001 RMB '000	2000 RMB '000	2001 RMB '000	2000 RMB '000
Hong Kong	–	–	–	–
Mainland China	5,104	6,327	3,909	5,161
Tax charge for the period	<u>5,104</u>	<u>6,327</u>	<u>3,909</u>	<u>5,161</u>

The Group did not have assessable profits arising in Hong Kong during the six months and three months ended 30th June, 2001 (2000: NIL). Mainland China income tax has been provided at the rate of 33% (2000: 33%) on the estimated assessable profit for the period.

The Group did not have any significant unprovided deferred tax liabilities for the six months and three months ended 30th June, 2001 (2000: NIL).

4. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the six months and three months ended 30th June, 2001 of approximately RMB10,364,000 and RMB7,389,000 respectively (2000: RMB12,842,000 and RMB10,477,000) and on the weighted average of 437,593,922 and 469,829,670 shares in issue during the aforementioned two periods ended 30th June, 2001 respectively (2000: 405,000,000 shares and 405,000,000 shares).

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

5. Reserves

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Staff public welfare fund <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2000	–	3,711	1,855	179	5,745
Net profit for the period	–	–	–	2,365	2,365
At 31st March, 2000 and at 1st April, 2000	–	3,711	1,855	2,544	8,110
Net profit for the period	–	–	–	10,477	10,477
At 30th June, 2000	<u>–</u>	<u>3,711</u>	<u>1,855</u>	<u>13,021</u>	<u>18,587</u>
At 1st January, 2001	–	7,144	3,572	29,111	39,827
Net profit for the period	–	–	–	2,975	2,975
At 31st March, 2001 and at 1st April, 2001	–	7,144	3,572	32,086	42,802
Issue of H shares	68,368	–	–	–	68,368
Share Issue expenses	(16,415)	–	–	–	(16,415)
Net profit for the period	–	–	–	7,389	7,389
At 30th June, 2001	<u>51,953</u>	<u>7,144</u>	<u>3,572</u>	<u>39,475</u>	<u>102,144</u>

6. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months and three months ended 30th June, 2001 (2000: NIL).

BUSINESS REVIEW AND PROSPECTS

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

For the six months ended 30th June, 2001, the Group has achieved a turnover of approximately RMB38 million (2000: RMB43 million) and net profit attributable to shareholders of approximately RMB10.4 million (2000: RMB12.8 million). The major reasons contributing to the decrease of turnover and in profit attributable to shareholders were as follows:

- In April 2001, the Group has adopted a stringent credit policy to require debts aged over 180 days to be settled before further credit sales can be approved. This has resulted in declined turnover as salesmen had diverted certain level of attention in debts collection.

- Since May 2001, the selling prices of bio-pharmacy products has declined in order to meet the stiff competition in the PRC market.

With regard to the Company's proposed establishment of a sales channel in Hong Kong, the Company has established a wholly owned subsidiary in Hong Kong and rented an office space in Sheung Wan in early July 2001.

The Group has been successful in the research and development of new products during the six months ended 30th June, 2001. Two new products, namely Fu Fan Lian Ben Bian Zuo Rongye (復方聯苯苄唑溶液) and Gliclaxide tablets (格列齊特片), were launched into the market during the second quarter. The directors believe that these products will generate significant revenue and profits for the Group in the coming future.

Financial Position

The financial position of the Group has been very healthy. As at 30th June, 2001, the Group had cash and bank balances and consolidated net asset value of approximately RMB93 million and RMB164.9 million respectively. This forms a solid foundation for the Group's forthcoming expansion and development.

Future prospects

Successfully listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong is a vital step for the Group to expand, and the brand name, Changlong now enjoys greater brand awareness which will enhance its future growth.

At present, the Group is in a strong financial position, which will provide support to its initiatives in business operation, product range expansion and in research and development. The Group with its competitive strengths, its close relationship with various research laboratories, pharmaceutical institutions, medical experts and universities in the PRC, and its strong management team, has been able to introduce new products and improve its market presence.

Meanwhile, the Group has put greater efforts on television advertising since June 2001. For instance, advertisement for Qianlie Guihuang tablet has been broadcasting on CCTV channel 6 while another commercial for Compound Huonaosu capsule has been broadcasting on Cable TV of Shandong Province, Fujian Province, Yunnan Province and Sichuan Province. With such promotional efforts, the directors expect that significant turnover will be recorded in the second half of the year.

STATEMENT OF BUSINESS OBJECTIVES

Set out below is a comparison between the Group's actual business progress up to 30th June, 2001 and its business objectives as set out in the prospectus:

	Business objectives as set out in the prospectus	Actual business progress up to 30th June, 2001
Establishment of new production capacity		
Expansion of production capacity of Qianlie Guihuang tablet	Commencing the preparation work to define the scope of the engineering and renovation work	The scope definition work is currently in its finalization stage and the renovation work is expected to implement by late August 2001.
Expansion of sales and distribution network in the PRC and Hong Kong		
Establishment of a sales channel in Hong Kong	Implementation of a search for an appropriate sales office in Hong Kong	A Hong Kong sales office had been registered as a wholly owned subsidiary, namely Changlong Bio-pharmacy (Hong Kong) Company Limited on 29th June, 2001. Negotiations of distributorship agreements are currently in progress with reputable distributors.
Expansion of full-time sales employees	The number of full-time sales employees increase to 85	As at 30th June, 2001, there were 83 full-time sales employees. The number of full-time sales employees is expected to increase to 90 by the third quarter.
Marketing activities for the PRC market	Designing marketing plans for individual principal products of the Company	Advertisement for Qianlie Guihuang tablet has been broadcasting on CCTV channel 6 while another commercial for Compound Huonaosu capsule has been broadcasting on Cable TV of Shandong Province, Fujian Province, Yunnan Province and Sichuan Province.

Research and development of new products

Development and commercial production of Compound Glycine Theophylline Choline tablet/capsule	Obtaining the approval from SDA for commercial production of Compound Glycine Theophylline Choline tablet/capsule	The SDA of Beijing is still processing our application for commercial production. The approval is expected to be granted not later than the end of 2001.
Development and commercial production of Tuoluo Yinxie capsule	Implementing the clinical examination for Tuoluo Yinxie capsule	The Company is currently at its 2nd stage of implementing the clinical examination.

Enhancement of the research and development capacity

Establishment of a new research and development center	In the process of establishing an animal experiment laboratory	The Group had completed the establishment of the animal experiment laboratory.
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COMPARISON OF USE OF PROCEEDS

Item in (HK'million)	From 24th May, to 30th June, 2001	
	Planned use of proceed as set out in the prospectus	Actual use of proceeds
	HK\$	HK\$
Expansion of production capacity of Qianlie Guihuang tablet	1	0.20
Establishment of a sales channel in Hong Kong	0.5	0.29
Expansion of the Company's existing sales and distribution network	0.5	0.45
Enhancement of the Company's research and development ability	1	0.78
	<u>3</u>	<u>1.72</u>

Up to 30th June, 2001, the Group had only utilized about HK\$1.72 million of the Placing proceeds. The under utilization is mainly due to:

1. Expansion of production capacity of Qianlie Guihuang tablet

The Group has obtained substantial cost savings at the planning and development stages by utilizing the in-house research and development team instead of consulting outside contractors. This has enabled the Group to save about 80% of the planned cost.

2. Establishment of a sales channel in Hong Kong

The Hong Kong sales office is registered as a wholly-owned subsidiary named Changlong Bio-pharmacy (Hong Kong) Company Limited (“Changlong HK”) on 29th June, 2001. Changlong HK will be responsible to penetrate into the Hong Kong and overseas markets. The Company has incurred setup cost of approximately HK\$290,000 to date although the planned cost is HK\$500,000. The variance is caused by the late setup of the Hong Kong sales office and the remaining cost will be incurred in the third quarter.

3. Savings on establishment of an animal experiment laboratory

The Company has obtained a saving of HK\$220,000 on the establishment of the animal experiment laboratory. The cost incurred was HK\$780,000 while the planned cost was HK\$1 million.

DISCLOSURE OF THE DIRECTORS’, SUPERVISORS’ AND CHIEF EXECUTIVE’S INTERESTS IN THE REGISTERED CAPITAL OF THE COMPANY

As at 30th June, 2001, the interests of the Directors, Supervisors and Chief Executive in the registered capital of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.4 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the H Shares are listed, were as follows:

Director	Type of interests	Percentage of interest in the Company’s share capital	Number of shares
Zhang Hong	Personal	18.19	101,925,000
Zhang Xiao Guang	Personal	9.10	51,000,000
Qiao Hong Kuan	Personal	7.12	39,900,000

Save as disclosed above, none of the Directors, the Supervisors or Chief Executive, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities in the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, according to the register required to be kept under Section(16)1 of the SDI Ordinance, shareholders with an interest of 10% or more of the issued shared capital of the Company were as follows:

Name	<i>Note</i>	Number of Shares	Approximate effective interests in the registered capital of the Company
Huinan County SAB	<i>Note 1</i>	81,975,000	14.63
Zhang Hong		101,925,000	18.19

Note 1: 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.

COMPETING INTEREST

During the period under review, none of the directors or the substantial shareholders, management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

SPONSORS' INTEREST

As updated and notified by the Company's sponsors, Oriental Patron Asia Limited ("OP"), as at 30th June, 2001, neither OP nor their directors or employees or associates had any interests in the share capital of the Company.

Pursuant to the agreement dated 11th May, 2001 made between OP as the sponsor and the Company, OP received fees for acting as the Company's retained sponsor for the period from 24th May, 2001 to 31st December, 2003.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group. The Group's quarterly results for the three months ended 30th June, 2001 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

From the date of listing on 24th May, 2001 to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

By order of the Board
Zhang Hong
Chairman

Hong Kong, 8th August, 2001