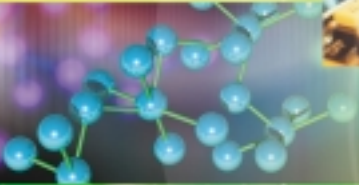




**吉林省輝南長龍生化藥業股份有限公司**  
**Jilin Province Huinan Changlong Bio-pharmacy Company Limited**  
*(a joint stock limited company incorporated in the People's Republic of China)*



**Interim Report 2002**



**吉林省輝南長龍生化藥業股份有限公司**  
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*This report, for which the directors of the Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to Jilin Province Huinan Changlong Bio-pharmacy Company Limited and its subsidiary (“the Group”). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification only



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**INTERIM RESULTS**  
**FOR THE SIX MONTHS ENDED 30TH JUNE, 2002**

**CONDENSED 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 financial statements of the Company and its subsidiary for the six months and three months ended 30 June, 2002 together with the comparative figures for the corresponding periods in 2001 as follows:

	Notes	Six months ended 30 June		Three months ended 30 June	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	3	33,000	38,121	16,623	22,773
Cost of sales		<u>(8,580)</u>	<u>(8,299)</u>	<u>(4,158)</u>	<u>(4,782)</u>
Gross profit		24,420	29,822	12,465	17,991
Other revenue		237	58	219	52
Selling expenses		(10,407)	(10,196)	(6,061)	(5,264)
General and administrative expenses		<u>(3,869)</u>	<u>(3,851)</u>	<u>(1,155)</u>	<u>(1,245)</u>
Profit from operations		10,381	15,833	5,468	11,534
Finance costs		<u>(297)</u>	<u>(365)</u>	<u>(232)</u>	<u>(236)</u>
Profit before taxation		10,084	15,468	5,236	11,298
Taxation	4	<u>(3,704)</u>	<u>(5,104)</u>	<u>(2,104)</u>	<u>(3,909)</u>
Profit attributable to shareholders		<u>6,380</u>	<u>10,364</u>	<u>3,132</u>	<u>7,389</u>
Earnings per share – Basic	5	<u>1.14 cents</u>	<u>2.37 cents</u>	<u>0.56 cents</u>	<u>1.57 cents</u>

\* For identification only

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 June, 2002 RMB'000	(Audited) As at 31 December, 2001 RMB'000
	<i>Notes</i>		
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	42,681	43,706
Purchase know-how and prescription	7	1,860	1,395
		<u>44,541</u>	<u>45,101</u>
<b>Current assets</b>			
Inventories	8	29,373	27,597
Trade receivables	9	61,203	55,115
Other receivables, deposits and prepayments		41,249	32,968
Cash and cash equivalents		54,428	69,164
		<u>186,253</u>	<u>184,844</u>
<b>Current liabilities</b>			
Trade payables	10	11,814	11,670
Other payables, deposits received and accruals		16,887	17,116
Bank loans	11	5,300	8,300
Taxation		16,081	18,527
		<u>50,082</u>	<u>55,613</u>
<b>Net current assets</b>		<u>136,171</u>	<u>129,231</u>
<b>Net assets</b>		<u><u>180,712</u></u>	<u><u>174,332</u></u>
Capital reserves			
<b>Share capital</b>	12	56,025	56,025
<b>Reserves</b>	13	124,687	118,307
<b>Shareholders' funds</b>		<u><u>180,712</u></u>	<u><u>174,332</u></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	<b>For the six months ended</b>	
	<b>30 June 2002</b>	<b>30 June 2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow/(outflow) from operating activities	(3,608)	9,173
Net cash outflow from returns on investments and servicing of finance	(60)	(307)
Tax	(6,150)	–
Net cash outflow from investing activities	<u>(1,918)</u>	<u>(845)</u>
Net cash inflow/(outflow) before financing activities	(11,736)	8,021
Net cash inflow/(outflow) from financing	<u>(3,000)</u>	<u>74,025</u>
Increase/(decrease) in cash and cash equivalents	(14,736)	82,046
Cash and cash equivalents at beginning of the period	<u>69,164</u>	<u>11,249</u>
Cash and cash equivalents at end of the period	<u><u>54,428</u></u>	<u><u>93,295</u></u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u><u>54,428</u></u>	<u><u>93,295</u></u>

Notes:

## 1. ORGANISATION AND OPERATIONS

The Company was established as a state-owned enterprise in the People's Republic of China (the "PRC") in 1989. On 29 December 1995, under the relevant provisions of the Company Law of the PRC, the Company was re-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 at the proportion of one bonus share for every two existing shares. The Company's H shares were listed on GEM on 24 May 2001.

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

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed interim financial statements are prepared in accordance with the requirements as set out in the GEM Listing Rules and the Statement of Standard of Accounting Practice 2.125 "Interim Financial Reporting" as issued by the Hong Kong Society of Accountant. The accounting policies and basis for the preparation of the unaudited condensed consolidated interim financial statements of the Group are consistent with those used in the annual financial statements for the year ended 31 December 2001.

All significant transactions and balances within the Group are eliminated on consolidation.

## 3. TURNOVER AND REVENUE

The Group's turnover comprises the invoiced value of merchandise sold net of Value Added Tax of the PRC and after allowances for returns and discounts.

	Six months ended 30th June,		Three months ended 30th June,	
	2002 RMB '000	2001 RMB '000	2002 RMB '000	2001 RMB '000
Turnover				
Sales of medicine	33,000	38,121	16,623	22,773
Other revenue				
Bank interest income	237	58	219	52
Total revenue for the year	<u>33,237</u>	<u>38,179</u>	<u>16,842</u>	<u>22,825</u>

The Group's turnover and operating profit are almost entirely derived from the sales of biochemical medicines in the PRC. Accordingly, no analysis by business and geographical segments has been provided.

#### 4. TAXATION

	Six months ended 30th June,		Three months ended 30th June,	
	2002 RMB '000	2001 RMB '000	2002 RMB '000	2001 RMB '000
Hong Kong	–	–	–	–
Mainland China	3,704	5,104	2,104	3,909
Tax charge for the period	<u>3,704</u>	<u>5,104</u>	<u>2,104</u>	<u>3,909</u>

The Group did not have assessable profits arising in Hong Kong during the six months and three months ended 30 June 2002 (2001: Nil). Mainland China income tax has been provided at the rate of 33% (2001: 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 30 June 2002 (2001: Nil).

#### 5. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2002 is based on the unaudited profit attributable to shareholders of approximately RMB 6,380,000 and RMB3,132,000 respectively (2001: RMB10,364,000 and RMB7,389,000) and on the weighted average of 560,250,000 and 560,250,000 (2001: 437,593,922 and 469,829,670) shares in issue during the two periods ended 30 June 2002 respectively.

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

#### 6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB '000	Plant and machinery RMB '000	Transportation equipment RMB '000	Furniture, fixtures and equipment RMB '000	Total RMB '000
Cost:					
At 1 January 2002 (Audited)	18,361	30,679	2,290	821	52,151
Additions	0	354	834	131	1,319
Disposals	0	(200)	0	0	(200)
At 30 June 2002	<u>18,361</u>	<u>30,833</u>	<u>3,124</u>	<u>952</u>	<u>53,270</u>
Accumulated depreciation:					
At 1 January 2002 (Audited)	2,335	5,322	564	224	8,445
Charge for the period	485	1,337	270	71	2,163
Written back on disposal	0	(19)	0	0	(19)
At 30 June 2002 (Unaudited)	<u>2,820</u>	<u>6,640</u>	<u>834</u>	<u>295</u>	<u>10,589</u>
Net book value:					
At 30 June 2002 (Unaudited)	<u>15,541</u>	<u>24,193</u>	<u>2,290</u>	<u>657</u>	<u>42,681</u>
At 31 December 2001 (Audited)	<u>16,026</u>	<u>25,357</u>	<u>1,726</u>	<u>597</u>	<u>43,706</u>

The Group's leasehold land and buildings are situated in the PRC and are held under medium-term land use rights.

Leasehold land and buildings include a workshop with a net book value of RMB 647,000 (2001: RMB658,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

## 7. PURCHASED KNOW-HOW AND PRESCRIPTION

	<i>RMB'000</i>
Cost:	
At 1 January 2002 (Audited)	4,850
Additions	750
	<hr/>
At 30 June 2002 (Unaudited)	5,600
	<hr/>
Accumulated amortisation:	
At 1 January 2002 (Audited)	3,455
Amortisation for the period	285
	<hr/>
At 30 June 2002 (Unaudited)	3,740
	<hr/>
Net book value:	
At 30 June 2002 (Unaudited)	1,860
	<hr/> <hr/>
At 31 December 2001 (Audited)	1,395
	<hr/> <hr/>

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

## 8. INVENTORIES

	<b>30 June 2002 (Unaudited) <i>RMB'000</i></b>	<b>31 December 2001 (Audited) <i>RMB'000</i></b>
Inventories comprise:		
At cost:		
Raw materials	11,227	12,954
Work in progress	5,351	5,230
Finished goods	15,456	12,074
	<hr/>	<hr/>
	32,034	30,258
Less: provision for obsolete and slow-moving inventories	(2,661)	(2,661)
	<hr/>	<hr/>
	<b>29,373</b>	<b>27,597</b>
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2002, inventories amounted to RMB12,795,000 (2001: RMB9,413,000) were carried at net realizable value.



## 9. TRADE RECEIVABLES

Trade receivables are stated at cost less provision for doubtful debts. Specific and general provisions for doubtful debts are made based upon the Directors' knowledge of the customers, the creditworthiness and settlement history of the customers, and the ageing of the outstanding trade receivables.

The following is an ageing analysis of trade receivables at the balance sheet date:

	<b>30 June 2002 (Unaudited) RMB '000</b>	<b>31 December 2001 (Audited) RMB '000</b>
Current	6,801	11,447
31-60 days	5,033	9,003
61-90 days	4,110	5,055
More than 90 days	45,259	29,610
	<u>61,203</u>	<u>55,115</u>

## 10. TRADE PAYABLES

The following is an ageing analysis of trade payables at the balance sheet date:

	<b>30 June 2002 (Unaudited) RMB '000</b>	<b>31 December 2001 (Audited) RMB '000</b>
Current	764	2,339
31-60 days	1,256	171
61-90 days	981	354
More than 90 days	8,813	8,806
	<u>11,814</u>	<u>11,670</u>

## 11. BANK LOANS

Bank loans of the Group are unsecured, interest bearing at commercial rates and repayable within one year.

## 12. SHARE CAPITAL

	<b>30 June 2002 (Unaudited) RMB '000</b>	<b>31 December 2001 (Audited) RMB '000</b>
Registered, issued and fully paid:		
387,750,000 domestic shares of RMB0.10 each	38,775	38,775
172,500,000 H shares of RMB0.10 each	17,250	17,250
	<u>56,025</u>	<u>56,025</u>

## 13. RESERVES

	<b>Share premium RMB '000</b>	<b>Retained profits RMB '000</b>	<b>PRC statutory funds</b>		<b>Total RMB '000</b>
			<b>Statutory surplus reserve RMB '000</b>	<b>Staff public welfare fund RMB '000</b>	
At 1 January 2002 (Audited)	51,098	52,695	9,676	4,838	118,307
Net profit for the period (Unaudited)	<u>0</u>	<u>6,380</u>	<u>0</u>	<u>0</u>	<u>6,380</u>
At 30 June 2002 (Unaudited)	<u>51,098</u>	<u>59,075</u>	<u>9,676</u>	<u>4,838</u>	<u>124,687</u>

### a) Statutory surplus reserve

In accordance with the Company Law of the PRC and the Company's articles of association, the Company shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional. The statutory surplus reserve can be utilized to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such issuance.

### b) Statutory public welfare fund

According to the relevant financial regulations of the PRC and the Company's articles of association, the Company is also required to appropriate 5% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund to be utilized to build or acquire capital items, such as dormitories and other facilities for the Company's employees and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the Company.

## 14. COMMITMENTS UNDER OPERATING LEASES

At 30 June 2002, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	<b>30 June 2002 (Unaudited) RMB '000</b>	<b>31 December 2001 (Audited) RMB '000</b>
Within one year	61	61
In the second to fifth year inclusive	<u>0</u>	<u>31</u>
	<b><u>61</u></b>	<b><u>92</u></b>

Operating lease payments represent rentals payable by the Group for certain of its office premises. The lease is negotiated for a term of two years at fixed rental.

## 15. CAPITAL COMMITMENTS

As at 30 June 2002, the Group had capital commitments contracted for but not provided for in respect of the following:

	<b>30 June 2002 (Unaudited) RMB '000</b>	<b>31 December 2001 (Audited) RMB '000</b>
Acquisition of purchased know-how and prescription	<u>15,400</u>	<u>14,030</u>

## INTERIM DIVIDENDS

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATING RESULTS

For the six months ended 30 June 2002, the Group recorded a turnover of approximately RMB33 million, representing a decrease of 13.4% from RMB38 millions for the corresponding period in 2001. Profit attributable to shareholders for the six months ended 30 June 2002 was RMB6.4 million, representing a decrease of 38% from RMB10.4 millions for the corresponding period in 2001. Basic earning per share for the six months ended 30 June 2002 was RMB 1.14 cents. The lower profitability was partly due to the increase of material cost since mid 2001 that led to the decline in gross profit margin from 78% to 74% as compared to the corresponding period in 2001. In addition, the general impact of the global economic downturn and weak market sentiment also contributed to the decrease on the Group's turnover.

## **BUSINESS REVIEW**

The Directors believed that through maintaining the existing product quality and enhancing the Research & Development (“R & D”) efforts are the key factors to the Group’s continuous success. To achieve these directions, the Group places high priority on R & D and is committed to expanding its R & D capabilities. In addition, the Group has expanded its production facilities by acquiring a piece of land for developing new production lines.

### **Research and development**

With broad and professional scientific expertise, insight for innovation, and a result-oriented attitude, our R & D team is always ready to make further improvements to the existing products. The R & D team is also committed in developing and searching new pharmaceutical products with commercial value to expand the product range of the Group. As a result of its effort, a total of 8 technological transfer contracts were concluded since the Group was listed on 24 May 2001. Under these contracts, the Group will be entitled to the protected production rights and hold Certificate of New Medicine upon the completion of the R & D of new medicines. The preparation of proceeding to pre-clinical test for these new medicines is currently under progress and the Directors believe that these products will generate significant revenue and profits for the Group in the coming future.

In addition, the Group also entered into discussions with a number of universities and research institutes in the PRC with the aim to expand the Group’s R & D capabilities through joint research projects. These joint efforts will certainly improve the efficiency and effectiveness of the Group’s existing production processes. The Group considered that such technology expertise exchange would contribute positively to the current business growth and needs.

### **Production Facilities**

In order to expand the production facilities, the Group has acquired a land of approximately 14,000 sq.m located adjacent to the existing production compound in mid 2002. The Group is currently building a new industrial complex on the new site. The Group plans to develop two production lines in this industrial complex. With limited production capacity in the past, the Group’s business has been concentrated on the existing products. Thus, with the addition of the new site that is expected to commence production activities next year, the Group will have capabilities to develop the new medicines founded under the 8 technological transfer contracts.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during the period under review. For the six months ended 30 June 2002, the Group's primary source of funds was cash from the operating activities. As at 30 June 2002, the Group had cash and bank balances and consolidated net asset value of approximately RMB54 million and RMB180 million respectively.

For the six months ended 30 June 2002, the Group mainly generated revenue and incurred costs in Hong Kong dollars and Renminbi. The Directors consider the impact on foreign exchange exposure of the Group is minimal.

As at 30 June 2002, the Group did not create any security on its assets.

As at 30 June 2002, the Group had no material contingent liabilities.

The management of the Company considered that the Group's satisfactory financial position and operating results can provide sufficient financial resources for further expansion of the Group's business operation, as and when required. Should investment opportunities arise requiring additional funding, the management believes that the Group is in a good position to obtain additional financing on favorable terms.

## **GEARING RATIO**

As at 30 June 2002, the Group had a gearing ratio of approximately 2.9 per cent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2002.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING**

The Group's future plans for material investments or capital assets and their expected sources of funding have been stated in the prospectus of the Company dated 14 May 2001 under the section "Business Objectives". Update on the progress of this area has been dealt with under the section "Statement of Business Objectives" in this report .

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company as at 30 June 2002 are set out in note 15 to the financial statement.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2002, there is no change in the Company's share capital. As at 30 June 2002, the Group's operations were financed mainly by shareholders' equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund operations with internal resources.

## **FUTURE PROSPECTS**

A strong marketing and distribution network can accelerate the commercialization of our products. To strengthen its sales and distribution network, the Group implemented management reforms so as to build a customer-oriented corporate structure. Our professional sales teams, which are headed by regional managers, are keen on exploiting new markets and looking for new opportunities. With the contribution from our R & D team of scientists to increase the variety of products offered by the Group, the management is optimistic about nurturing steady growth of the Group's turnover and profit attributable to shareholders, in line with the strong expected growth of the PRC market.

## **STATEMENT OF BUSINESS OBJECTIVES**

Set out below is a comparison between the Group's actual business progress up to 30 June 2002 and its business objectives as set out in the prospectus:

	<b>Business objectives as set out in the prospectus</b>	<b>Actual business progress up to 30 June 2002</b>
<b>Establishment of new production capacity</b>		
Expansion of production capacity of Qianlie Guihuang tablet	Completion of testing and checking for the improvement in the production facilities of Qianlie Guihuang tablet.	The engineering and renovation work is partially completed. During the period under review, the original plan had been revised to slow down the development schedule.

**Business objectives as set out in the prospectus**

**Actual business progress up to 30 June 2002**

**Expansion of sales and distribution network in the PRC and Hong Kong**

Establishment of a sales channel in Hong Kong

Re-design packaging and completion of the marketing study for Hong Kong and overseas market.

The Group has finished the new package design of the Group's key product of Compound Huonaosu capsules. The management has kept in touch with different reputable local distributors and planned to cooperate with them on expanding the Hong Kong market.

Expansion of full-time sales employees

The number of full-time sales employees increase to 120.

As at 30 June 2002, there were 105 full-time sales employees.

Marketing activities for the PRC market

Evaluating the effect of previous marketing plans.

The Group will keep investing in launching television commercials to enhance the brand awareness for the Company's products.

**Research and development of new products**

Development and commercial production of Compound Glycine Theophylline Choline tablet/capsule

Commencing commercial production of Compound Glycine Theophylline choline tablet capsule.

Still pending for the approval from the State Drugs Administration of the People's Republic of China (the "SDA") of Beijing.

Development and commercial production of Tuoluo Yinxie capsule

Commencing commercial production of Tuoluo Yinxie capsule.

Due to the unexpected difficulties occurred during the clinical examination, the progress of the development of this product has slowed down.

Development of other advanced new products

–

Eight technology transfer contracts were concluded during the past one-year.

**Enhancement of the research and development capacity**

Establishment of a new research and development center

Commencing the operation of the animal experiment laboratory and the new research and development center.

The Group has commenced the operation of the animal experiment laboratory in January 2002.

## COMPARISON OF USE OF PROCEEDS

Item in (HK'million)	From 24 May to 30 June 2002	
	Planned use of proceed as set out in the prospectus <i>HK\$</i>	Actual use of proceeds <i>HK\$</i>
Expansion of production capacity of Qianlie Guihuang tablet	20.0	7.5
Establishment of a sales channel in Hong Kong	2.5	2.1
Expansion of the Company's existing sales and distribution network	8.5	14.8
Enhancement of the Company's research and development ability	9.0	11.6
	40.0	36.0

The Group has achieved substantial cost savings in the sourcing of its new equipments for the enhancement of the production line of Qianlie Guihuang tablet. This was due to the stringent vendor selection process of obtaining the best quotation. Besides, due to the uncertainty on the market demand for medicines in relation to the treatment of prostatic diseases, the Group revised the original plan to slow down the development schedule of the new production facilities. The current status of the development is revised to a scale to reflect the current market demand for the product. As a result, part of the engineering work has been delayed and the cost incurred was reduced. Going forward, the Group will continue to review the market condition and make the necessary actions to fulfill the original plan when appropriate.

During the period under review, the Group invested RMB5.6 million in expanding the sales and distribution network. The sales teams were restructured to require all sales representatives to report to regional managers and a permanent establishment has been set up for each sales point located in different regions of the PRC. It is expected that this customer-oriented corporate structure will enhance our relationship with customers.

The Group further invested approximately RMB 7.4 million in R & D through acquiring technological transfer contracts to develop new medicines. Under these contracts, the Group will be entitled to the protected production rights and hold Certificate of New Medicine upon the completion of the R & D of new medicines.



## DIRECTORS' INTERESTS IN SHARES

As at 30 June 2002, 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 domestic 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, supervisors or chief executive, nor their spouses or children under 18 years of age, as at 30 June 2002, had any interest in any shares or debentures of the Company or any associated corporation as defined in the SDI Ordinance.

None of the Directors, 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 during the six months ended 30 June 2002.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, 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	Number of domestic shares	Approximate effective interests in the registered capital of the Company %
Huinan County SAB ( <i>Note</i> )	81,975,000	14.63
Zhang Hong	101,925,000	18.19

*Note:* Apart from the equity interest in the Company, Huinan County SAB does not have any direct or indirect interest in the Company, including representation in the Board of Directors.

## **COMPETING INTEREST**

During the period under review, none of the Directors, the substantial shareholders, nor the initial 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 ("Oriental Patron"), as at 30 June 2002, neither Oriental Patron nor its directors or employees or associates had any interests in the share capital of the Company as at 30 June 2002 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

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

## **AUDIT COMMITTEE**

An audit committee of the Company has been established 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 unaudited interim financial statements for the six months ended 30 June 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2002, the Group had 339 employees (31 December 2001: 335 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the six months ended 30 June 2002, neither the Company nor any of its subsidiary has purchased, sold or redeemed any of the Company's listed shares.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

For the six months ended 30 June 2002, the Group has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures.

By order of the Board

**Zhang Hong**

*Chairman*

Jilin, the PRC  
13 August 2002