



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

2003

Bio-pharmacy





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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 subsidiaries (“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.

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE, 2003

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 subsidiaries (the “Group”) for the six months and three months ended 30 June 2003 together with the comparative figures for the corresponding periods in 2002 as follows:

	Note	Six months ended 30 June		Three months ended 30 June	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	3	31,281	33,000	15,937	16,623
Cost of sales		(7,139)	(8,580)	(3,335)	(4,158)
Gross profit		24,142	24,420	12,602	12,465
Other revenue		416	237	359	219
Selling expenses		(12,078)	(10,407)	(6,696)	(6,061)
General and administrative expenses		(5,240)	(3,869)	(1,368)	(1,155)
Profit from operations	4	7,240	10,381	4,897	5,468
Finance costs		(523)	(297)	(523)	(232)
Profit before taxation		6,717	10,084	4,374	5,236
Taxation	5	(2,501)	(3,704)	(1,737)	(2,104)
Profit attributable to shareholders		<u>4,216</u>	<u>6,380</u>	<u>2,637</u>	<u>3,132</u>
Earnings per share – Basic	6	<u>0.75 cents</u>	<u>1.14 cents</u>	<u>0.47 cents</u>	<u>0.56 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 June 2003 RMB'000	(Audited) As at 31 December 2002 RMB'000
	<i>Note</i>		
Assets and liabilities			
Non-current assets			
Property, plant and equipment	7	44,921	44,919
Construction in progress		8,019	4,668
Purchase know-how and prescription	8	12,290	3,275
		<u>65,230</u>	<u>52,862</u>
Current assets			
Inventories	9	36,820	32,146
Trade receivables	10	57,862	57,494
Other receivables, deposits and prepayments		41,945	49,523
Cash and cash equivalents		51,357	32,157
		<u>187,984</u>	<u>171,320</u>
Current liabilities			
Trade payables	11	10,923	11,164
Other payables, deposits received and accruals		13,442	14,848
Bank loans	12	30,000	–
Taxation		9,714	13,251
		<u>64,079</u>	<u>39,263</u>
Net current assets		<u>123,905</u>	<u>132,057</u>
Net assets		<u>189,135</u>	<u>184,919</u>
Capital reserves			
Share capital	13	56,025	56,025
Reserves	14	133,110	128,894
Shareholders' funds		<u>189,135</u>	<u>184,919</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2003

	For the six months ended	
	30 June 2003	30 June 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow / (outflow) from operating activities	3,367	(9,818)
Net cash outflow from investing activities	(14,167)	(1,918)
Net cash inflow / (outflow) from financing	30,000	(3,000)
Increase / (decrease) in cash and cash equivalents	19,200	(14,736)
Cash and cash equivalents at beginning of the period	32,157	69,164
Cash and cash equivalents at end of the period	<u>51,357</u>	<u>54,428</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>51,357</u>	<u>54,428</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>RMB '000</i>	Share premium <i>RMB '000</i>	PRC statutory funds		Retained profits <i>RMB '000</i>	Total <i>RMB '000</i>
			Statutory surplus reserve <i>RMB '000</i>	Staff public welfare fund <i>RMB '000</i>		
At 1 January 2002 (Audited)	56,025	51,098	9,676	4,838	52,695	174,332
Net profit for the six months ended 30 June 2002	—	—	—	—	6,380	6,380
At 30 June 2002 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>9,676</u>	<u>4,838</u>	<u>59,075</u>	<u>180,712</u>
At 1 January 2003 (Audited)	56,025	51,098	11,241	5,620	60,935	184,919
Net profit for the six months ended 30 June 2003	—	—	—	—	4,216	4,216
At 30 June 2003 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>11,241</u>	<u>5,620</u>	<u>65,151</u>	<u>189,135</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. ORGANISATION AND OPERATIONS

The Company was established as a state-owned enterprise in the People's Republic of China (the "PRC") in 1989. On 29 December 1995, under the relevant provisions of the Company Law of the PRC, the Company was re-organized from a state-owned enterprise to a limited liability company. On 16 August 1996, with the approval of the Economic Restructuring Commission of Jilin Province, the Company was further converted into a joint stock limited company. On 20 April 1999, the Company made a bonus issue from capitalisation of retained profits at the proportion of one bonus share for every two existing shares. The Company's H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 24 May 2001.

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated 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 2002.

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 30 June		Three months ended 30 June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover				
Sales of medicine	31,281	33,000	15,937	16,623
Other revenue				
Bank interest income	144	237	87	219
Total revenue for the year	<u>31,425</u>	<u>33,237</u>	<u>16,024</u>	<u>16,842</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. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30 June		Three months ended 30 June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cost of inventories sold	6,210	7,633	2,890	3,669
Depreciation	2,922	2,163	1,749	1,319
Amortisation of purchased know-how and prescription	1,413	285	906	140
	<u>10,545</u>	<u>10,081</u>	<u>5,545</u>	<u>5,128</u>

5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Hong Kong	0	0	0	0
Mainland China	2,501	3,704	1,737	2,104
	<u>2,501</u>	<u>3,704</u>	<u>1,737</u>	<u>2,104</u>
Tax charge for the period	2,501	3,704	1,737	2,104

The Group did not have assessable profits arising in Hong Kong during the six months and three months ended 30 June 2003 (2002: Nil). Mainland China income tax has been provided at the rate of 33% (2002: 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 2003. (2002: Nil)

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2003 is based on the unaudited profit attributable to shareholders of approximately RMB 4,216,000 and RMB 2,637,000 respectively (2002: RMB 6,380,000 and RMB 3,132,000) and on the weighted average of 560,250,000 and 560,250,000 (2002: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2003 respectively.

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

7. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>RMB'000</i>	Plant and Transportation machinery <i>RMB'000</i>	equipment <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1 January 2003 (Audited)	21,106	32,190	2,527	984	56,807
Additions	850	1,960	0	114	2,924
Disposals	0	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003 (Unaudited)	21,956	34,150	2,527	1,098	59,731
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation					
At 1 January 2003 (Audited)	2,980	8,046	482	380	11,888
Charge for the period	329	2,297	120	176	2,922
Written back on disposal	0	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003 (Unaudited)	3,309	10,343	602	556	14,810
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 30 June 2003 (Unaudited)	<u>18,647</u>	<u>23,807</u>	<u>1,925</u>	<u>542</u>	<u>44,921</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002 (Audited)	<u>18,126</u>	<u>24,144</u>	<u>2,045</u>	<u>604</u>	<u>44,919</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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 625,000 (2002: RMB 636,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

8. PURCHASED KNOW-HOW AND PRESCRIPTION

	<i>RMB'000</i>
Cost	
At 1 January 2003 (Audited)	7,150
Additions	<u>10,428</u>
At 30 June 2003 (Unaudited)	17,578
Accumulated amortisation:	
At 1 January 2003 (Audited)	3,875
Amortisation for the period	<u>1,413</u>
At 30 June 2003 (Unaudited)	5,288
Net book value:	
At 30 June 2003 (Unaudited)	<u><u>12,290</u></u>
At 31 December 2002 (Audited)	<u><u>3,275</u></u>

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

9. INVENTORIES

	30 June 2003 (Unaudited) <i>RMB'000</i>	31 December 2002 (Audited) <i>RMB'000</i>
Inventories comprise:		
At cost:		
Raw materials	9,530	9,662
Work in progress	6,976	6,823
Finished goods	<u>24,975</u>	<u>20,322</u>
	41,481	36,807
Less: provision for obsolete and slow-moving inventories	<u>(4,661)</u>	<u>(4,661)</u>
	<u><u>36,820</u></u>	<u><u>32,146</u></u>

As at 30 June 2003, inventories amounting to approximately RMB 20,314,000 (2002: RMB 15,661,000) were carried at net realizable value.

10. 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 aging of the outstanding trade receivables.

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

	30 June 2003 (Unaudited) RMB'000	31 December 2002 (Audited) RMB'000
Current	23,836	35,472
31-60 days	2,123	4,143
61-90 days	1,902	3,691
More than 90 days	30,001	14,188
	<u>57,862</u>	<u>57,494</u>

11. TRADE PAYABLES

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

	30 June 2003 (Unaudited) RMB'000	31 December 2002 (Audited) RMB'000
Current	3,663	2,369
31-60 days	333	463
61-90 days	195	301
More than 90 days	6,732	8,031
	<u>10,923</u>	<u>11,164</u>

12. BANK LOANS

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

13. SHARE CAPITAL

	30 June 2003 (Unaudited) RMB'000	31 December 2002 (Audited) RMB'000
Registered, issued and fully paid:		
387,750,000 domestic shares of RMB 0.10 each	38,775	38,775
172,500,000 H shares of RMB 0.10 each	17,250	17,250
	<u>56,025</u>	<u>56,025</u>

14 RESERVES

	Share premium RMB'000	Retained profits RMB'000	PRC statutory funds		Total RMB'000
			Statutory surplus reserve RMB'000	Staff public welfare fund RMB'000	
At 1 January 2003 (Audited)	51,098	60,935	11,241	5,620	128,894
Net profit for the period (Unaudited)	–	4,216	–	–	4,216
At 30 June 2003 (Unaudited)	<u>51,098</u>	<u>65,151</u>	<u>11,241</u>	<u>5,620</u>	<u>133,110</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 percent 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 percent 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 percent 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 percent 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.

15. COMMITMENTS UNDER OPERATING LEASES

At 30 June 2003, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	30 June 2003 (Unaudited) RMB'000	31 December 2002 (Audited) RMB'000
Within one year	26	31
In the second to fifth year inclusive	78	–
	<u>104</u>	<u>31</u>

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.

16. CAPITAL COMMITMENTS

As at 30 June 2003, the Group had capital commitments contracted for but not provided for in respect of the following:

	30 June 2003 (Unaudited) RMB'000	31 December 2002 (Audited) RMB'000
Acquisition of purchased know-how and prescription	19,984	30,412
Acquisition of property, plant and equipment	3,278	6,088
	<u>23,262</u>	<u>36,500</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 2003. (2002:nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended 30 June 2003, the Group recorded a turnover of approximately RMB 31.3 million, representing a decrease of 5.2% from RMB 33 million for the corresponding period in 2002. Profit attributable to shareholders for the six months ended 30 June 2003 was RMB 4.22 million, representing a decrease of 33.9% from RMB 6.38 million for the corresponding period in 2002. Basic earning per share was RMB 0.75 cents.

The decrease in the Group's profitability was mainly attributed to the increase in selling and distribution expenses and general and administrative expenses. The increase in selling and distribution expenses by RMB 1.6 million was mainly due to the increase of promotional and advertising activities for the new medicine of Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊), which was granted the production permit by the State Drugs Administration of the People's Republic of China (the "SDA") in May 2003. The increase in general and administrative expenses by RMB 1.3 million was due to the purchase of purchase know-how and prescription by approximately RMB 12 million from RMB 5.6 million at cost value as at 30 June 2002 to RMB 17.6 million at cost value as at 30 June 2003. This had led to the increase in amortization expenses by approximately RMB 1.1 million, which contributed to the increase of general and administrative expenses in this reporting period.

BUSINESS REVIEW

Research and development

The Directors believed that the Group's continuous success is built on its sophisticated and innovative Research & Development (R & D) capabilities. Our R & D team is committed to developing and experimenting new pharmaceutical products with significant commercial value to expand its product range. As a result of its effort, the new medicine of Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊) has been granted the Certificate of the New Medicines (新藥證書) by the SDA with a protection period of five years since May 2003.

Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊), in which the Group had invested more than RMB 20 million in the research and development of this medicine, has an important medical breakthrough in the curing of renal failure and uremia. With the issuance of the production permit as a Chinese Medicine Class 2 from the SDA, the Directors believe that

this medicine has the potential to be as successful as Compound Huonaosu capsule (復方活腦素膠囊) to become the Group's another core revenue generator. In fact, the Group has rescheduled its marketing activities by prioritizing the advertising resources to promote this new medicine. Since early 2003, the Group has already begun to plan and develop the advertising program for this medicine. To align with the commencement of production in June 2003, the advertisements of this medicine has been frequently seen in the Chinese Medicine Post (中國醫藥報) and the Healthy Post (健康報) in PRC.

Production Facilities

The Group has substantially completed the construction of a new industrial complex, which is located adjacent to the existing production compound, in 30 June 2003. This industrial complex is composed of two workshops. One workshop is assigned to produce the new medicine of Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊) and the production activity of this workshop has already been commenced since June 2003. The other workshop is designed to produce another new medicine currently named as Yan Suan Tou Ban Jia Wo (鹽酸頭孢甲芴), which is categorized as Biochemical medicine Class 4. This workshop is currently in the process of installing production lines and the related machinery and equipment had already been acquired.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had total outstanding bank borrowings of RMB 30 million (as at 30 June 2002: RMB 5.3 million), all of which were unsecured short-term bank borrowings. The interest rates of the outstanding bank loan were approximately 5% per annum.

Except for the bank borrowings disclosed above, as at 30 June 2003 and 2002, the Group did not have any committed borrowing facilities.

The Group has maintained a sound financial position during this period. As at 30 June 2003, the Group had cash and bank balances and consolidated net asset value of approximately RMB 51.4 million and RMB 189 million respectively.

For the six months ended 30 June 2003, 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 2003, the Group did not create any security on its assets.

As at 30 June 2003, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2003, the Group had a gearing ratio of approximately 15.9 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2003.

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 2003 are set out in note 16 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2003, there was no change in the Company's share capital. As at 30 June 2003, the Group's operations were financed mainly by shareholders' equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund the operation with internal resources.

FUTURE PROSPECTS

Looking ahead, the Group will, on one hand, continue to focus on fundamentals to maintain profitability and in the long run, will be expecting a new era for "Changlong" when the new products become mature. The Directors believe that the Group's ability to optimize its R & D 's resources and drive the R & D teams to develop new products will be critical to the group's long-term success. Taking the advantages of the full scale operation of the two new workshops by the end of this year, and the new stream of revenue for the Group that can be derived from the more than 20 joint research projects undertaking by the Group's R & D department, 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

The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 21 May 2001.

	Business objectives for the six months ended 30 June 2003 as disclosed in the Prospectus	Actual business progress for the six months ended 30 June 2003
Establishment of new production capacity		
Expansion of production capacity of Qianlie Guihuang tablet	Continuing any appropriate development and improvement in the production facilities of Qianlie Guihuang tablet.	The increase in present capacity is still far behind from the expected production capacity stated in the Prospectus. This is due to a slow down of production schedule under the uncertain market demand for medicines in relation to the treatment of prostatic diseases. Going forward, the group will continue to review the market condition and take the necessary actions to fulfill the original plan when appropriate.

Business objectives for the six months ended 30 June 2003 as disclosed in the Prospectus

Actual business progress for the six months ended 30 June 2003

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

Establishment of a sales channel in Hong Kong

Actual implementation of the Company's marketing plan for Hong Kong and overseas market.

To cope with the Group's marketing plan, the Group's website of www.jlchanglong.com has been redesigned to provide first hand information of the Company's products. The new website will be launched before the end of August 2003 and the management believes that the redesigned web page will be more informative and market-oriented.

Expansion of full-time sales employees

The number of full-time sales employees maintain at 150.

As the Group's performance is not as good as expected, the management has to slow down the expansion process by freezing the Group's headcount. As at 30 June 2003, there were 125 full-time sales employees.

Marketing activities for the PRC market

Continuing to design new marketing plans for individual principal products of the Company

The Group's marketing resources has been prioritized for the new product, Hai Kun Shen Xi Jino Nong (海昆腎喜膠囊). The Group has designed a series of advertising campaign for this product and the first launch of television commercials and press articles have already been begun.

Business objectives for the six months ended 30 June 2003 as disclosed in the Prospectus

Actual business progress for the six months ended 30 June 2003

Research and development of new products

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

Evaluating the production technique of Compound Glycine Theophylline Choline tablet/Capsule.

The State Drugs Approval Centre is still processing our application for production permit. The Company has submitted the final batch of supplementary information on 9 January 2003. The approval is expected to be granted not later than the end of 2003.

Development and commercial production of Tuoluo Yinxie capsule

Evaluating the production technique of Tuoluo Yinxie capsule.

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

Enhancement of competitiveness by research and development of new products

Development of other advanced new products.

On 21 May 2003, the SDA has issued the new medicine certificate for Hai Kun Shen Xi Jino Nong (海昆腎喜膠囊). The Group has invested RMB 20 million in the research and development of this new product. Hai Kun Shen Xi Jino Nong (海昆腎喜膠囊) has an important medical breakthrough in the curing of renal failure and remia.

COMPARISON OF USE OF PROCEEDS

From the date of listing on 24 May 2001, the Group had invested approximately HK\$ 19.7 million, HK\$ 27.3 million and HK\$ 2.7 million on various projects in the financial year ended 2001, 2002 and six months ended 30 June 2003, respectively. The use of proceeds for the six months ended 30 June 2003 were as follows:

Item in (HK'million)	From 1 January 2003 to 30 June 2003	
	Planned use of proceed as set out in the prospectus HKD	Actual use of proceeds HKD
Expansion of production capacity of Qianlie Guihuang tablet	2	0.2
Establishment of a sales channel in Hong Kong	1	0.5
Expansion of the Company's existing sales and distribution network	0.5	2
	3.5	2.7
	3.5	2.7

DIRECTORS' INTERESTS IN SHARES

At 30 June 2003, the interests and short positions of the directors 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 5.4 of the GEM Listing Rules were as follows:

Long positions in shares

Director	Type of Interests	Capacity	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Zhang Hong	Personal	Beneficial owner	101,925,000	26.28	18.19
Zhang Xiao Guang	Personal	Beneficial owner	51,000,000	13.15	9.10
Qiao Hong Kuan	Personal	Beneficial owner	39,900,000	10.29	7.12

Save as disclosed above, as at 30 June 2003, none of the directors and chief executives of the Company has any interests and short positions in the shares, underlying shares or 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 5.40 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and chief executives or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiary a party to any arrangement to enable the directors and chief executives to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons (other than the directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares

Name of shareholder	Capacity/Nature of Interest	Number of Domestic Shares	Percentage of Domestic shares	Percentage of total registered share capital
Huinan County SAB <i>(Note)</i>	Beneficial owner	81,975,000	21.14	14.63
Zhang Hong	Beneficial owner	101,925,000	26.28	18.19
Zhang Xiao Guang	Beneficial owner	51,000,000	13.15	9.10
Qiao Hong Kuan	Beneficial owner	39,900,000	10.29	7.12

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

Save as disclosed above, as at 30 June 2003, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTEREST

During the period under review, none of the directors or the management shareholders, significant shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any 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 2003, neither Oriental Patron nor its directors or employees or associates had any interests in the share capital of the Company as at 30 June 2003 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 2002 to 31 December 2003.

AUDIT COMMITTEE

An audit committee of the Company had 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 2003 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 2003, the Group had 359 employees (31 December 2002: 359 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 2003, neither the Company nor its subsidiaries 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 2003, 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
11 August 2003