



Interim Report  
2004



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)*



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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. 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, 2004

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, 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	<i>Note</i>	<b>Six months ended 30 June</b>		<b>Three months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	32,540	31,281	16,583	15,937
Cost of sales		<u>(7,361)</u>	<u>(7,139)</u>	<u>(3,549)</u>	<u>(3,335)</u>
Gross profit		25,179	24,142	13,034	12,602
Other revenue		63	416	53	359
Selling expenses		(11,206)	(12,078)	(5,635)	(6,696)
General and administrative expenses		<u>(6,058)</u>	<u>(5,240)</u>	<u>(2,653)</u>	<u>(1,368)</u>
Profit from operations	4	7,978	7,240	4,799	4,897
Finance costs		<u>(162)</u>	<u>(523)</u>	<u>(137)</u>	<u>(523)</u>
Profit before taxation		7,816	6,717	4,662	4,374
Taxation	5	<u>(3,174)</u>	<u>(2,501)</u>	<u>(2,133)</u>	<u>(1,737)</u>
Profit attributable to shareholders		<u>4,642</u>	<u>4,216</u>	<u>2,529</u>	<u>2,637</u>
Earnings per share – Basic	6	<u>0.83 cents</u>	<u>0.75 cents</u>	<u>0.45 cents</u>	<u>0.47 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 June, 2004 RMB '000	(Audited) As at 31 December, 2003 RMB '000
	<i>Note</i>		
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets – mature	7	488	488
Property, plant and equipment	8	55,863	57,418
Construction in progress	9	3,605	3,305
Purchase know-how and prescription	10	15,626	16,766
		<hr/>	<hr/>
		75,582	77,977
<b>Current assets</b>			
Inventories	11	29,658	26,150
Trade receivables	12	81,994	72,816
Other receivables, deposits and prepayments		43,769	35,956
Cash and cash equivalents		12,479	22,385
		<hr/>	<hr/>
		167,900	157,307
<b>Current liabilities</b>			
Trade payables	13	11,959	11,021
Other payables, deposits received and accruals		19,915	16,945
Bank loans	14	10,000	10,000
Taxation		3,340	3,692
		<hr/>	<hr/>
		45,214	41,658
Net current assets		<hr/>	<hr/>
		122,686	115,649
Net assets		<hr/>	<hr/>
		198,268	193,626
<b>Capital reserves</b>			
Share capital	15	56,025	56,025
Reserves	16	142,243	137,601
		<hr/>	<hr/>
Shareholders' funds		<hr/>	<hr/>
		198,268	193,626

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

	<b>For the six months ended</b>	
	<b>30 June 2004</b>	<b>30 June 2003</b>
	<i>RMB '000</i>	<i>RMB '000</i>
Net cash inflow/(outflow) from operating activities	(8,681)	3,367
Net cash outflow from investing activities	(1,225)	(14,167)
Net cash inflow from financing	0	30,000
Increase/(decrease) in cash and cash equivalents	(9,906)	19,200
Cash and cash equivalents at beginning of the period	22,385	32,157
Cash and cash equivalents at end of the period	<u>12,479</u>	<u>51,357</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>12,479</u>	<u>51,357</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2004

	<b>PRC statutory funds</b>					
			<b>Staff</b>			
	<b>Share</b>	<b>Share</b>	<b>Statutory</b>	<b>public</b>	<b>Retained</b>	<b>Total</b>
	<b>Capital</b>	<b>premium</b>	<b>surplus</b>	<b>welfare</b>	<b>profits</b>	<b>Total</b>
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
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 (Unaudited)	–	–	–	–	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>
At 1 January 2004 (Audited)	56,025	51,098	13,069	6,534	66,900	193,626
Net profit for the six months ended 30 June 2004 (Unaudited)	–	–	–	–	4,642	4,642
At 30 June 2004 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>13,069</u>	<u>6,534</u>	<u>71,542</u>	<u>198,268</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 25 "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 2003.

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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Turnover</b>				
Sales of medicine	32,540	31,281	16,583	15,937
<b>Other revenue</b>				
Bank interest income	63	144	53	87
Total revenue for the year	<u>32,603</u>	<u>31,425</u>	<u>16,636</u>	<u>16,024</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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories sold	6,380	6,210	3,050	2,890
Depreciation	2,480	2,922	1,258	1,749
Amortisation of purchased know-how and prescription	1,140	1,413	570	906
Provision for obsolete and slow-moving inventories	4	0	4	0
	<u>4</u>	<u>0</u>	<u>4</u>	<u>0</u>

#### 5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Hong Kong	0	0	0	0
Mainland China	3,174	2,501	2,133	1,737
Tax charge for the period	<u>3,174</u>	<u>2,501</u>	<u>2,133</u>	<u>1,737</u>

The Group did not have assessable profits arising in Hong Kong during the six months and three months ended 30 June 2004 (2003: Nil). Mainland China income tax has been provided at the rate of 33% (2003: 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 2004 (2003: Nil).

#### 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2004 is based on the unaudited profit attributable to shareholders of approximately RMB4,642,000 and RMB2,529,000 respectively (2003: RMB4,216,000 and RMB2,637,000) and on the weighted average of 560,250,000 and 560,250,000 (2003: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2004 respectively.

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

#### 7. BEARER BIOLOGICAL ASSET

	30 June 2004 (Unaudited) RMB'000	31 December 2003 (Audited) RMB'000
Biological asset – deer	<u>488</u>	<u>488</u>

## 8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Transportation equipment <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1 January 2004 (Audited)	32,093	37,304	2,852	1,221	73,470
Additions	377	433	0	115	925
At 30 June 2004 (Unaudited)	<u>32,470</u>	<u>37,737</u>	<u>2,852</u>	<u>1,336</u>	<u>74,395</u>
Accumulated depreciation:					
At 1 January 2004 (Audited)	4,266	10,456	778	552	16,052
Charge for the period	441	1,783	152	104	2,480
At 30 June 2004 (Unaudited)	<u>4,707</u>	<u>12,239</u>	<u>930</u>	<u>656</u>	<u>18,532</u>
Net book value:					
At 30 June 2004 (Unaudited)	<u>27,763</u>	<u>25,498</u>	<u>1,922</u>	<u>680</u>	<u>55,863</u>
At 31 December 2003 (Audited)	<u>27,827</u>	<u>26,848</u>	<u>2,074</u>	<u>669</u>	<u>57,418</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 RMB603,000 (2003: RMB614,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

## 9. CONSTRUCTION IN PROGRESS

	<i>RMB'000</i>
At 1 January 2004 (Audited)	3,305
Additions	<u>300</u>
At 30 June 2004 (Unaudited)	<u>3,605</u>



## 10. PURCHASED KNOW-HOW AND PRESCRIPTION

RMB'000

Cost:	
At 1 January 2004 (Audited)	21,949
Additions	<u>0</u>
At 30 June 2004 (Unaudited)	<u><u>21,949</u></u>
Accumulated amortisation:	
At 1 January 2004 (Audited)	5,183
Amortisation for the period	<u>1,140</u>
At 30 June 2004 (Unaudited)	<u><u>6,323</u></u>
Net book value:	
At 30 June 2004 (Unaudited)	<u><u>15,626</u></u>
At 31 December 2003 (Audited)	<u><u>16,766</u></u>

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

## 11. INVENTORIES

	<b>30 June 2004 (Unaudited) RMB'000</b>	<b>31 December 2003 (Audited) RMB'000</b>
Inventories comprise:		
At cost:		
Raw materials	8,985	9,478
Work in progress	5,904	5,745
Finished goods	<u>23,448</u>	<u>19,602</u>
	38,337	34,825
Less: provision for obsolete and slow-moving inventories	<u>(8,679)</u>	<u>(8,675)</u>
	<u><u>29,658</u></u>	<u><u>26,150</u></u>

As at 30 June 2004, inventories amounting to approximately RMB14,769,000 (2003: RMB10,927,000) were carried at net realizable value.

## 12. 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:

	<b>30 June 2004 (Unaudited) RMB'000</b>	<b>31 December 2003 (Audited) RMB'000</b>
Current	9,253	55,312
31-60 days	3,134	5,399
61-90 days	2,537	2,148
More than 90 days	67,070	9,957
	<u>81,994</u>	<u>72,816</u>

## 13. TRADE PAYABLES

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

	<b>30 June 2004 (Unaudited) RMB'000</b>	<b>31 December 2003 (Audited) RMB'000</b>
Current	722	923
31-60 days	69	70
61-90 days	1,925	1,078
More than 90 days	9,243	8,950
	<u>11,959</u>	<u>11,021</u>

## 14. BANK LOANS

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

## 15. SHARE CAPITAL

	<b>30 June 2004 (Unaudited) RMB'000</b>	<b>31 December 2003 (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>

## 16. RESERVES

	Share premium <i>RMB'000</i>	Retained profits <i>RMB'000</i>	PRC statutory funds		Total <i>RMB'000</i>
			Statutory surplus reserve <i>RMB'000</i>	Staff public welfare fund <i>RMB'000</i>	
At 1 January 2004 (Audited)	51,098	66,900	13,069	6,534	137,601
Net profit for the period (Unaudited)	0	4,642	0	0	4,642
At 30 June 2004 (Unaudited)	<u>51,098</u>	<u>71,542</u>	<u>13,069</u>	<u>6,534</u>	<u>142,243</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.

## 17. COMMITMENTS UNDER OPERATING LEASES

	30 June 2004 (Unaudited) <i>RMB'000</i>	31 December 2003 (Audited) <i>RMB'000</i>
Minimum lease payments paid under operating leases	<u>30</u>	<u>73</u>

At 30 June 2004, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	30 June 2004 (Unaudited) <i>RMB'000</i>	31 December 2003 (Audited) <i>RMB'000</i>
Within one year	30	30
In the second to fifth year inclusive	30	0
	<u>60</u>	<u>30</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.

## 18. CAPITAL COMMITMENTS

As at 30 June 2004, the Group had capital commitments contracted for but not provided for in respect of the following:

	<b>30 June 2004</b>	<b>31 December 2003</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Acquisition of purchased know-how and prescription	23,661	23,661
Acquisition of property, plant and equipment	745	1,178
	<u>24,406</u>	<u>24,839</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 2004 (2003: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATING RESULTS

For the six months ended 30 June 2004, the Group recorded a turnover of approximately RMB32.54 million, representing an increase of 4% from RMB31.28 million for the corresponding period in 2003. Profit attributable to shareholders for the six months ended 30 June 2004 was RMB4.64 million, representing an increase of 10% from RMB4.22 million for the corresponding period in 2003. Basic earning per share was RMB0.83 cents.

For the six months ended 30 June 2004, the Group recorded a steady growth in both turnover and profit. During the first two quarters of 2004, the Group's turnover was RMB32,540,000, an increase of 4% when compared to the same period last year. Gross profit margin increased slightly from 77.2% in 2003 to 77.4% in 2004, mainly due to the loyalty discounts from suppliers. The selling expense as a percentage of turnover was 34.4% in 2004. This represented a slightly improvement from 38.6% when compared to the same period last year. General and administrative expenses increased from RMB5,240,000 for the six months ended 30 June 2003 to RMB6,058,000 for the same period in 2004. Interest charges decreased from RMB 523,000 for the period ended 30 June 2003 to RMB162,000 for the same period in 2004 because the Group's outstanding bank borrowing decreased to RMB10 million as at 30 June 2004 from RMB30 million as at 30 June 2003. Though there was an increase in general and administrative expenses, the combination of an increase in turnover, decrease in selling expenses as a percentage of turnover and the decrease in interest expenses led to an increase in profit attributable to shareholders by RMB426,000 to RMB4,642,000.

## **BUSINESS REVIEW**

### **Sales performance**

The manufacturing and selling of Compound Huonaoshu capsule (復方活腦舒膠囊) continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule (復方活腦舒膠囊) for the period ended 30 June 2004 was approximately RMB17.5 million, which represents approximately 54% of the Group's total revenue. In addition, Xueshuan Xinmaining capsule (血栓心脈寧膠囊), Naofusu (腦復素), Qianlie Guihuang tablet (前列桂黃片) and Hai Kun Shen Xi capsule (海昆腎喜膠囊) are also considered as the most important products and contributed significantly to the Group's revenue. The sales of Xueshuan Xinmaining capsule (血栓心脈寧膠囊) reached approximately RMB4.8 million for the six months ended 30 June 2004 while that of Naofusu (腦復素) and Qianlie Guihuang tablet was over RMB1.5 million each. In addition, the new medicine of Hai Kun Shen Xi capsule (海昆腎喜膠囊) had realized sales amounted of RMB3.5 million for the first two quarters of 2004. The Directors believe that this medicine has the potential to be the second core revenue generator after Compound Huonaoshu capsule (復方活腦舒膠囊) at the end of the year.

### **Research and development**

During the first half of 2004, our Research & Development ("R & D") team has not completed the development of a new pharmaceutical product nor has been granted any Certificate of the New Medicines by the SDA. However, this does not represent a change in the management's direction to built sophisticated and innovative R & D capabilities. In fact, our R & D team has not slowed down on exploring new product with new curative effect and continuous product improvement. The Directors believe that the development of a few new pharmaceutical products shall be completed by our R & D team in the second half of 2004 from its existing over 20 research projects undertaking by the Group's R & D team on an ongoing basis.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2004, the Group had total outstanding bank borrowings of RMB10 million (as at 30 June 2003: RMB 30 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 2004 and 2003, the Group did not have any committed borrowing facilities.

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2004, the Group's primary source of funds was cash from the operating activities. As at 30 June 2004, the Group had cash and bank balances and consolidated net asset value of approximately RMB12.5 million and RMB198 million respectively.

For the six months ended 30 June 2004, 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 2004, the Group did not create any security on its assets.

As at 30 June 2004, the Group had no material contingent liabilities.

## **GEARING RATIO**

As at 30 June 2004, the Group had a gearing ratio of approximately 5 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2004.

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company as at 30 June 2004 are set out in note 18 to the financial statement.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2004, there was no change in the Company's share capital. As at 30 June 2004, 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**

The Directors believe that the 10% profit increment compared with the same period previous year fell short of the Group's expectation. In the second half of the year, the Group will continue to focus on profit maximization through incremental sales, margin improvement, functional cost saving, monitoring and implementing the appropriate corrective cost control measures etc. In addition, another new medicine named as Yan Suan Tou Ban Jia Wo (鹽酸頭孢甲脞) will be launched in the coming month and the Directors believe it will enhance our brand awareness as well as generate new stream of revenue to the Group. The Directors maintain an optimistic view in achieving satisfactory achievement for the rest of the year.

The Directors would like to take this opportunity to express their gratitude to the management and staff for their dedication and contribution to the Group, and to thank our fellow business partners and shareholders for their continuing support. We will endeavor to explore every potential opportunity for business growth, creating a promising future and successful results in the years ahead.

## **DIRECTORS' INTERESTS IN SHARES**

At 30 June 2004, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

### **Long positions in shares**

<b>Director</b>	<b>Type of Interests</b>	<b>Capacity</b>	<b>Number of Domestic Shares</b>	<b>Percentage of Domestic Shares</b>	<b>Percentage of total registered Share Capital</b>
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 2004, none of the Directors, 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 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 subsidiaries 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 2004, 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 2004, 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, the substantial shareholders, nor the initial management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

### 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 audit committee comprises two independent non-executive directors, namely, Mr Nan Zheng and Mr. Shen Yu Xiang. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group. The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the unaudited interim results for the six months ended 30 June 2004 with the Directors.



## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2004, the Group had 365 employees (31 December 2003: 365 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 2004, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## **COMPLIANCE WITH THE BOARD PRACTICES AND PROCEDURES OF THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules at any time during the six months ended 30 June 2004.

By order of the Board  
**Zhang Hong**  
*Chairman*

Jilin, the PRC  
12 August 2004

*As at the date hereof, the executive directors of the Company are Mr. Zhang Hong, Mr. Zhang Xiao Guang, Ms. Li Yu Xian, Mr. Qiao Hong Kuan, Ms. Cui Shu Mei, Mr. Zhang Yuan Qiu, Mr. Zhao Bao Gang; the independent non-executive directors of the Company are Mr. Nan Zheng and Mr. Shen Yu Xiang.*