



**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 2005**

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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.*

## UNAUDITED INTERIM RESULTS

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, 2005 together with the comparative figures for the corresponding periods in 2004 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June, 2005 and 30 June 2004

	Note	Six months ended 30 June		Three months ended 30 June	
		2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Turnover	3	<b>32,968</b>	32,540	<b>17,047</b>	16,583
Cost of sales		<b>(7,236)</b>	(7,361)	<b>(3,574)</b>	(3,549)
Gross profit		<b>25,732</b>	25,179	<b>13,473</b>	13,034
Other revenue		<b>39</b>	63	<b>39</b>	53
Selling expenses		<b>(10,374)</b>	(11,206)	<b>(4,639)</b>	(5,635)
General and administrative expenses		<b>(7,935)</b>	(6,058)	<b>(4,116)</b>	(2,653)
Profit from operations	4	<b>7,462</b>	7,978	<b>4,757</b>	4,799
Finance costs		<b>(254)</b>	(162)	<b>(141)</b>	(137)
Profit before taxation		<b>7,208</b>	7,816	<b>4,616</b>	4,662
Taxation	5	<b>(2,670)</b>	(3,174)	<b>(1,820)</b>	(2,133)
Profit attributable to shareholders		<b>4,538</b>	4,642	<b>2,796</b>	2,529
Earnings per share					
- Basic	6	<b>0.81 cents</b>	0.83 cents	<b>0.50 cents</b>	0.45 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005 and 31 December 2004

	Note	30 June, 2005 (Unaudited) RMB'000	31 December, 2004 (Audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets – mature	7	544	544
Property, plant and equipment	8	54,421	56,446
Construction in progress	9	5,214	4,750
Purchase know-how and prescription	10	30,901	25,467
		<hr/>	<hr/>
Total non-current assets		91,080	87,207
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	11	25,705	22,956
Trade receivables	12	80,165	73,035
Other receivables, deposits and prepayments		32,660	41,697
Cash and cash equivalents		549	19,007
Tax recoverable		277	4
		<hr/>	<hr/>
Total current assets		139,356	156,699
		<hr/>	<hr/>
<b>Current liabilities</b>			
Bank loans	14	0	10,000
Trade payables	13	11,390	12,219
Other payables, deposits received and accruals		12,279	19,458
		<hr/>	<hr/>
Total current liabilities		23,669	41,677
		<hr/>	<hr/>
Net current assets		115,687	115,022
		<hr/>	<hr/>
Net assets		206,767	202,229
		<hr/> <hr/>	<hr/> <hr/>
Financed by:			
Share capital	15	56,025	56,025
Reserves		150,742	146,204
		<hr/>	<hr/>
Shareholders' funds		206,767	202,229
		<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2005 and 30 June 2004

	Share Capital RMB'000	Share premium RMB'000	PRC statutory funds		Retained profits RMB'000	Total RMB'000
			Statutory surplus reserve RMB'000	Staff public welfare fund RMB'000		
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>
At 1 January 2005 (Audited)	56,025	51,098	14,639	7,319	73,148	202,229
Net profit for the six months ended 30 June 2005 (Unaudited)	-	-	-	-	4,538	4,538
At 30 June 2005 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>14,639</u>	<u>7,319</u>	<u>77,686</u>	<u>206,767</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2005 and 30 June 2004

	For the six months ended	
	30 June 2005 RMB'000	30 June 2004 RMB'000
Net cash inflow/(outflow) from operating activities	92	(8,681)
Net cash outflow from investing activities	(8,550)	(1,225)
Net cash outflow from financing activities	(10,000)	0
Decrease in cash and cash equivalents	(18,458)	(9,906)
Cash and cash equivalents at beginning of the period	19,007	22,385
Cash and cash equivalents at end of the period	<u>549</u>	<u>12,479</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>549</u>	<u>12,479</u>

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## **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 financial statements have been prepared in accordance with all applicable accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

In 2004, the HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standard ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position except certain presentation and disclosure of financial statements would be changed.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements for the period under review are consistent with those followed in the Company's 2004 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2005 are unaudited and have been reviewed by the audit committee of the Company.

### 3. TURNOVER AND REVENUE

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

	Six months ended 30 June		Three months ended 30 June	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
<b>Turnover</b>				
Sales of medicine	<b>32,968</b>	32,540	<b>17,047</b>	16,583
<b>Other revenue</b>				
Bank interest income	<b>39</b>	63	<b>39</b>	53
Total revenue for the year	<b>33,007</b>	32,603	<b>17,086</b>	16,636

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 OPERATIONS

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

	Six months ended 30 June		Three months ended 30 June	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Depreciation	<b>2,513</b>	2,480	<b>1,240</b>	1,258
Amortisation of purchased know-how and prescription	<b>2,164</b>	1,140	<b>1,070</b>	570
Provision for obsolete and slow-moving inventories	<b>0</b>	4	<b>0</b>	4

## 5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Hong Kong	0	0	0	0
Mainland China	<b>2,670</b>	3,174	<b>1,820</b>	2,133
Tax charge for the period	<b>2,670</b>	3,174	<b>1,820</b>	2,133

The Group did not have assessable profits arising in Hong Kong during the six months and three months ended 30 June 2005 (2004: Nil). Mainland China income tax has been provided at the rate of 33% (2004: 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 2005 (2004: Nil).

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2005 is based on the unaudited profit attributable to shareholders of approximately RMB4,538,000 and RMB2,796,000 respectively (2004: RMB4,642,000 and RMB2,529,000) and on the weighted average of 560,250,000 and 560,250,000 (2004: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2005 respectively.

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

## 7. BEARER BIOLOGICAL ASSETS

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Biological asset – deer	<b>544</b>	544



## 8. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group were:

	<b>30 June 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Net book value, beginning of period/year	<b>56,446</b>	57,418
Additions	<b>488</b>	3,975
Disposals	<b>0</b>	(210)
Depreciation	<b>(2,513)</b>	(4,737)
Net book value, end of period/year	<b><u>54,421</u></b>	<u>56,446</u>

## 9. CONSTRUCTION IN PROGRESS

	<i>RMB'000</i>
At 1 January 2005 (Audited)	4,750
Additions	464
At 30 June 2005 (Unaudited)	<u>5,214</u>

## 10. PURCHASED KNOW-HOW AND PRESCRIPTION

	<i>RMB'000</i>
Cost	
At 1 January 2005 (Audited)	32,940
Additions	7,598
At 30 June 2005 (Unaudited)	<u>40,538</u>
Accumulated amortisation:	
At 1 January 2005 (Audited)	7,473
Amortisation for the period	2,164
At 30 June 2005 (Unaudited)	<u>9,637</u>
Net book value:	
At 30 June 2005 (Unaudited)	<u>30,901</u>
At 31 December 2004 (Audited)	<u>25,467</u>

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

## 11. INVENTORIES

	<b>30 June 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	<b>6,731</b>	9,397
Work in progress	<b>6,168</b>	4,955
Finished goods	<b>24,743</b>	20,541
	<b>37,642</b>	34,893
Less: provision for obsolete and slow-moving inventories	<b>(11,937)</b>	(11,937)
	<b>25,705</b>	22,956

As at 30 June 2005, inventories amounting to approximately RMB12,806,000 (2004: RMB8,604,000) 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 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Current	<b>7,080</b>	48,756
31 – 60 days	<b>6,220</b>	6,608
61 – 90 days	<b>3,184</b>	2,954
More than 90 days	<b>63,681</b>	14,717
	<b>80,165</b>	73,035

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### 13. TRADE PAYABLES

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

	<b>30 June 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Current	<b>1,520</b>	3,006
31 – 60 days	<b>262</b>	364
61 – 90 days	<b>906</b>	168
More than 90 days	<b>8,702</b>	8,681
	<u><b>11,390</b></u>	<u>12,219</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 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Registered, issued and fully paid:		
387,750,000 domestic shares of RMB0.10 each	<b>38,775</b>	38,775
172,500,000 H shares of RMB0.10 each	<b>17,250</b>	17,250
	<u><b>56,025</b></u>	<u>56,025</u>

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## 16. COMMITMENTS UNDER OPERATING LEASES

	<b>30 June 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Minimum lease payments paid under operating leases	<b><u>30</u></b>	<b><u>70</u></b>

At 30 June 2005, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	<b>30 June 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Within one year	<b><u>0</u></b>	<b><u>30</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.

## 17. CAPITAL COMMITMENTS

As at 30 June 2005, the Group had capital commitments contracted for but not provided for in respect of the following:

	<b>30 June 2005 (Unaudited) RMB'000</b>	31 December 2004 (Audited) RMB'000
Acquisition of purchased know-how and prescription	<b>0</b>	6,500
Acquisition of property, plant and equipment	<b><u>618</u></b>	<u>984</u>
	<b><u>618</u></b>	<u>7,484</u>

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## **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 2005 (2004: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OPERATING RESULTS**

For the six months ended 30 June 2005, the Group recorded a turnover of approximately RMB32.97 million, representing an increase of 1.3% from RMB32.54 million for the corresponding period in 2004. Profit attributable to shareholders for the six months ended 30 June 2005 was RMB4.54 million, representing a decrease of 2.2% from RMB4.64 million for the corresponding period in 2004. Basic earning per share was RMB0.81 cents.

For the six months ended 30 June 2005, the Group recorded a slight growth in turnover. During the first two quarters of 2005, the Group's turnover was RMB32,968,000, representing an increase of 1.3% when compared to the same period last year. Gross profit margin increased from 77.4% in 2004 to 78% in 2005 as the Group has successfully streamlined its production process to achieve cost saving. The selling expense as a percentage of turnover was 31.5% in 2005. This represented a slight improvement from 34.4% when compared to the same period last year. General and administrative expenses increased from RMB6,058,000 for the six months ended 30 June 2004 to RMB7,935,000 for the same period in 2005. Interest expenses were RMB254,000 for the period ended 30 June 2005. The decrease in profit attributable to shareholders by RMB104,000 to RMB4,538,000 was a result of an overall increase in general and administrative expenses and finance expenses that had eroded the gross profit increment and selling expenses reduction.

The decrease in the Group's profitability was mainly attributed to the increase in general and administrative expenses. The increase in general and administrative expenses by RMB1,877,000 was primarily due to the purchase of purchase know-how and prescription by approximately RMB18.6 million from RMB21.9 million at cost value as at 30 June 2004 to RMB40.5 million at cost value as at 30 June 2005. This had led to the increase in amortization expenses by approximately RMB1,024,000, which contributed to the increase of general and administrative expenses in this reporting period.

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## 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 2005 was approximately RMB16.2 million, which represented approximately 49% of the Group's total revenue. In addition, Xueshuan Xinmaining capsule (血栓心脈寧膠囊), Qianlie Guihuang tablet (前列桂黃片), Nao Dan Bai Shui Jie Wu (腦蛋白水解物), Hai Kun Shen Xi capsule (海昆腎喜膠囊) and Cefpiramide (頭孢匹胺) are also top selling products and contributed significantly to the Group's revenue. The sales of Xueshuan Xinmaining capsule (血栓心脈寧膠囊) reached approximately RMB3.4 million for the six months ended 30 June 2005 while that of Qianlie Guihuang tablet (前列桂黃片) and Nao Dan Bai Shui Jie Wu (腦蛋白水解物) was over RMB1 million each. In addition, the new medicine of Hai Kun Shen Xi capsule (海昆腎喜膠囊) and Cefpiramide (頭孢匹胺) had recorded sales amounted to RMB5 million and RMB1 million respectively for the first two quarters of 2005.

### Production facilities

In mid 2002, the Group acquired a piece of land of approximately 14,000 sq. m. to construct a new industrial complex. The first workshop for producing of Hai Kun Shen Xi capsule (海昆腎喜膠囊) has commenced production in July 2003. The second workshop has been designed to produce Yan Suan Tou Bau Jia Wo (鹽酸頭孢甲脞) which had already completed in late 2004. However, the launch of this new medicine has been deferred until the grant of the GMP certificate in May 2005. The third workshop is currently named as the "Chinese medicine extracts" workshop (中藥前處理車間). This workshop is designed to extract ingredients from Chinese medicine and reprocess them for use as the raw material of the other new medicines. This workshop has still been under construction and it is expected that the production line of this workshop will be completed at the end of this year.

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## Research and development

With the continued effort of our Research and Development (“R&D”) staff, the production lines of the Sterile Bulk (Cefalotin Sodium, Cefpiramide) (無菌原料藥(頭孢噻吩鈉、頭孢匹胺)) were successfully granted the Certificate of GMP For Human Drugs on 14 May 2005. As soon as the issuances of this certificate, the second workshop of Yan Suan Tou Bau Jia Wo has commenced production and the new products of Cefpiramide (頭孢匹胺) under the production of this workshop has recorded sales of approximately RMB1million in June 2005.

The Company has already obtained GMP Certifications for the following:

1. Lyophilized powder for injection (凍乾粉針劑)
2. Small volume Parenteral Solution (小容量注射劑)
3. Tablets (片劑)
4. Capsules (膠囊劑)
5. Granules (顆粒劑)
6. Powder for injection (Cephalosporins) (頭孢菌素類粉針劑)
7. Tablets (Penicillins) (青霉素片劑)
8. Sterile Bulk (Cefalotin Sodium, Cefpiramide) (無菌原料藥(頭孢噻吩鈉、頭孢匹胺))

## LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2005, the Group’s primary source of funds was cash from the operating activities. As at 30 June 2005, the Group had cash and bank balances and consolidated net asset value of approximately RMB0.6 million and RMB207 million respectively.

For the six months ended 30 June 2005, 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 2005, the Group did not create any security on its assets.

As at 30 June 2005, the Group had no material contingent liabilities.

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## **GEARING RATIO**

During the period ended 30 June 2005, the Group had settled all its bank borrowing and turned its gearing ratio to zero.

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company as at 30 June 2005 are set out in note 17 to the financial statement.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2005, there was no change in the Company's share capital. As at 30 June 2005, 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**

Despite the slight decrease in profit after tax for the period ended 30 June 2005 compared with the same period previous year, the Directors maintain an optimistic outlook in achieving satisfactory achievement for the rest of the year. It is because the Company's product of Hai Kun Shen Xi capsule (海昆腎喜膠囊) has been popular in the market. It is evident that the sales of Hai Kun Shen Xi capsule (海昆腎喜膠囊) has reached approximately RMB5 millions for the first two quarters in 2005 while the total sales was only RMB7.6 millions for the year ended 31 December 2004. In addition, Hai Kun Shen Xi capsule (海昆腎喜膠囊) has been included in the approved medicines list of the Medical Benefit Scheme (醫保用藥) in 12 provinces in July 2005. The 12 provinces included Liaoning Province, Jilin Province, Heilongjiang Province, Inner Mongolia, Jiangsu Province, Shanxi Province, Shandong Province, Wubei Province, Guizhou Province, Yunnan Province, Xinjiang Province and Hainan Province. Under the Medical Benefit Scheme, all patients enrolled in the scheme could reimburse for medicine in the approved list through the government hospitals. This will expectedly increase the sales of this product in the coming years.



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Together with the second workshop of Yan Suan Tou Bau Jia Wo (鹽酸頭孢甲脞) in the new industrial complex which has commenced operation in May 2005 and the third workshop of “Chinese medicine extracts” workshop (中藥前處理車間) will be completed at the end of this year, the Directors has confident that the profit of the Group will reach another record high in the coming future. In addition, the Group is currently planning to construct another workshop to develop a new product line of liquid solution in the existing industrial complex.

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 2005, 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 2005, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

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## 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 2005, 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 2005, 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.

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## COMPETING INTEREST

During the period under review, none of the Directors, the management shareholders, the significant shareholders or the substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business, which competes or may compete with the business of the Group.

## BOARD PRACTICES AND PROCEDURES

During the period under review, the Company had not fully complied with the board practices and procedures as set out in Rules 5.34 of the GEM Listing Rules in respect of the Code on Corporate Governance Practices (the "CCGP"). The Board was in the progress of assessing the effect of implementation of the CCGP on the Company's operation. The main deviations from the code provision set out in the CCGP were as follows:

### Code provision of CCGP

### Reasons for deviation

A.2 Chairman and Chief Executive Office	Searching for suitable candidate to fill the vacancy
B. Remuneration of Directors and senior management	In the progress of forming the remuneration committee and drafting its terms of reference

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

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## **AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 24 May 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting procedures and internal control system of the Group. The Committee comprises the three independent non-executive directors, namely Mr. Nan Zheng, Mr. Shen Yu Xiang and Mr. Wong Kin Fai, Kenny. Mr. Nan Zheng is the chairman of the audit committee.

The committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited results of the Group for the period ended 30 June 2005.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2005, the Group had 364 employees (31 December 2004: 364 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 2005, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

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

Jilin, the PRC  
12 August 2005