



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)

(Stock Code: 8049)

Interim Report 2006

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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, 2006 together with the comparative figures for the corresponding periods in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June, 2006 and 30 June 2005

	Note	Six months ended 30 June		Three months ended 30 June	
		2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Turnover	3	31,966	32,968	18,157	17,047
Cost of sales		(11,563)	(7,236)	(7,026)	(3,574)
Gross profit		20,403	25,732	11,131	13,473
Other revenue		7	39	7	39
Selling expenses		(11,167)	(10,374)	(6,866)	(4,639)
General and administrative expenses		(7,682)	(7,935)	(3,879)	(4,116)
Profit from operations	5	1,561	7,462	393	4,757
Finance costs		(124)	(254)	(69)	(141)
Profit before taxation		1,437	7,208	324	4,616
Taxation	6	(501)	(2,670)	(167)	(1,820)
Profit attributable to shareholders		936	4,538	157	2,796
Dividends	8	7,003	0	7,003	0
Earnings per share - Basic	7	0.17 cents	0.81 cents	0.03 cents	0.50 cents

Note: Calculation of the earnings per share in 2005 and 2006 was based on 560,250,000 shares and 560,250,000 shares respectively.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006 and 31 December 2005

	Notes	30 June, 2006 (Unaudited) RMB'000	31 December, 2005 (Audited) RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets – mature	9	464	464
Property, plant and equipment	10	51,123	51,128
Prepaid lease payments		3,595	3,596
Construction in progress	11	3,521	3,971
Purchase know-how and prescription	12	40,729	31,016
Total non-current assets		<u>99,432</u>	<u>90,175</u>
Current assets			
Inventories	13	24,906	22,040
Trade receivables	14	61,995	66,800
Other receivables, deposits and prepayments		33,834	46,394
Prepaid lease payments		130	130
Cash and cash equivalents		28,409	21,705
Tax recoverable		8,219	4,822
Total current assets		<u>157,493</u>	<u>161,891</u>
Current liabilities			
Bank loans	16	8,900	8,900
Trade payables	15	11,423	11,990
Other payables, deposits received and accruals		25,420	20,930
Total current liabilities		<u>45,743</u>	<u>41,820</u>
Net current assets		<u>111,750</u>	<u>120,071</u>
Net assets		<u>211,182</u>	<u>210,246</u>
Financed by:			
Share capital	17	56,025	56,025
Reserves		155,157	154,221
Shareholders' funds		<u>211,182</u>	<u>210,246</u>

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2006 and 30 June 2005

	For the six months ended	
	30 June 2006	30 June 2005
	RMB'000	RMB'000
Net cash inflow from operating activities	20,808	92
Net cash outflow from investing activities	(14,104)	(8,550)
Net cash outflow from financing activities	0	(10,000)
Increase/(decrease) in cash and cash equivalents	6,704	(18,458)
Cash and cash equivalents at beginning of the period	21,705	19,007
Cash and cash equivalents at end of the period	<u>28,409</u>	<u>549</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>28,409</u>	<u>549</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2006 and 30 June 2005

	Share Capital RMB'000	Share premium RMB'000	PRC statutory funds Statutory surplus reserve RMB'000	Staff public welfare fund RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
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>-</u>	<u>206,767</u>
Net profit for the six months ended 31 December 2005 (Unaudited)	-	-	-	-	3,479	-	3,479
Transfer to statutory funds	-	-	617	308	(925)	-	-
Balance as at 31 December 2005 (Audited)	<u>56,025</u>	<u>51,098</u>	<u>15,256</u>	<u>7,627</u>	<u>80,240</u>	<u>-</u>	<u>210,246</u>
Net profit for the six months ended 30 June 2006 (Unaudited)	-	-	-	-	936	-	936
Proposed dividends	-	-	-	-	(7,003)	7,003	-
At 30 June 2006 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>15,256</u>	<u>7,627</u>	<u>74,173</u>	<u>7,003</u>	<u>211,182</u>

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.

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 2005 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2006 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	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover				
Sales of medicine	31,966	32,968	18,157	17,047
Other revenue				
Bank interest income	7	39	7	39
Total revenue for the year	<u>31,973</u>	<u>33,007</u>	<u>18,164</u>	<u>17,086</u>

4. SEGMENT INFORMATION

The Group has one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. For the six months ended 30 June 2006, turnover of the Group is generated entirely from sales in the PRC and all identifiable assets of the Group are located in PRC. Accordingly, no segmental analysis is prepared for the period.

5. PROFIT FROM OPERATIONS

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

	Six months ended 30 June		Three months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Depreciation	2,386	2,513	1,190	1,240
Amortisation of purchased know-how and prescription	2,467	2,164	1,497	1,070

6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended		Three months ended	
	30 June		30 June	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>501</u>	<u>2,670</u>	<u>167</u>	<u>1,820</u>

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 33% (2005: 33%).

The Group's subsidiary in Hong Kong is subject to Hong Kong profits tax calculated at 17.5% on the estimated assessable profits. No provision has been made for Hong Kong profits tax as the subsidiary did not earn income subject to Hong Kong profits tax during the period (2005: Nil).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2006 (2005: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2006 is based on the unaudited profit attributable to shareholders of approximately RMB936,000 and RMB157,000 respectively (2005: RMB4,538,000 and RMB2,796,000) and on the weighted average of 560,250,000 and 560,250,000 (2005: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2006 respectively.

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

8. DIVIDENDS

On 11 August 2006, a special dividend of RMB 1.25 cents per share (2005: Nil), totaling approximately RMB7,003,125 (2005: Nil) in respect of previous financial year was proposed. The proposed dividend distribution is subject to the shareholders' approval at the Extraordinary General Meeting on 29 September 2006.

9. BEARER BIOLOGICAL ASSETS

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Biological asset – deer	<u>464</u>	<u>464</u>

10. PROPERTY, PLANT AND EQUIPMENT

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Net book value, beginning of period/year	51,128	52,590
Transferred from construction in progress	450	1,243
Additions	1,931	2,513
Disposals	0	0
Depreciation	<u>(2,386)</u>	<u>(5,218)</u>
Net book value, end of period/year	<u>51,123</u>	<u>51,128</u>

11. CONSTRUCTION IN PROGRESS

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Net book value, beginning of period/year	3,971	4,750
Transferred to property, plant and equipment	(450)	(1,243)
Additions	<u>0</u>	<u>464</u>
Net book value, end of period/year	<u>3,521</u>	<u>3,971</u>

12. PURCHASED KNOW-HOW AND PRESCRIPTION

	<i>RMB'000</i>
Cost	
At 1 January 2006 (Audited)	42,412
Additions	12,180
	<hr/>
At 30 June 2006 (Unaudited)	54,592
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Accumulated amortisation:	
At 1 January 2006 (Audited)	11,396
Amortisation for the period	2,467
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At 30 June 2006 (Unaudited)	13,863
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Net book value:	
At 30 June 2006 (Unaudited)	40,729
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At 31 December 2005 (Audited)	31,016
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Purchased know-how and prescription were all acquired by cash from independent third parties.

13. INVENTORIES

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	10,343	12,740
Work in progress	4,398	4,015
Finished goods	23,412	18,532
	<hr/>	<hr/>
	38,153	35,287
Less: provision for obsolete and slow-moving inventories	(13,247)	(13,247)
	<hr/>	<hr/>
	24,906	22,040
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As at 30 June 2006, inventories amounting to approximately RMB20,508,000 (2005: RMB18,025,000) were carried at net realizable value.

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14. TRADE RECEIVABLES

Trade receivables are stated at cost less provision for doubtful debts. Provisions for doubtful debts are made based upon the directors' knowledge of the customers, the creditworthiness and settlement history, and the aging of the outstanding trade receivables.

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Current	6,126	39,897
31-60 days	5,350	3,135
61-90 days	6,081	2,225
More than 90 days	44,438	21,543
	<u>61,995</u>	<u>66,800</u>

15. TRADE PAYABLES

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Current	2,254	3,189
31-60 days	277	2,427
61-90 days	528	172
More than 90 days	8,364	6,202
	<u>11,423</u>	<u>11,990</u>

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16. BANK LOANS

Bank loans of the Group were interest bearing at commercial rates and have been fully repaid on 10 July and 13 July 2006.

At 30 June 2006, certain plant and machinery and furniture, fixtures, and equipment of the Group and the Company with a book value of RMB4,497,000 were pledged to a bank to secure bank loans granted to the Group and the Company respectively.

17. SHARE CAPITAL

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
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
	56,025	56,025

18. CAPITAL COMMITMENTS

As at 30 June 2006, the Group had capital commitments contracted for but not provided for in respect of the following:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Acquisition of purchased know-how and prescription	0	5,380
Acquisition of property, plant and equipment	210	810
	210	6,190

DIVIDENDS

The Board of Directors of the Company has resolved to pay a special dividend of RMB1.25 cents (2005: Nil) per share in respect of previous financial years totaling RMB 7,003,125 to the shareholders whose names registered in the Company's register of members as at the close of business on 29 September 2006.

The Register of Members of the Company will be closed from 29 August 2006 to 29 September 2006, both days inclusive. In order to qualify for the special dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars and transfer office in Hong Kong, Hong Kong Registrars Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Monday, 28 August 2006.

The proposed dividend distribution is subject to the shareholders' approval at the Extraordinary General Meeting on 29 September 2006. The special dividend will be paid on or before 15 November 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

For the six months ended 30 June 2006, the Group recorded a turnover of approximately RMB31.97 million, representing a decrease of 3% from RMB32.97 million for the corresponding period in 2005. Profit attributable to shareholders for the six months ended 30 June 2006 was RMB936,000, representing a decrease of 79% from RMB4.54 million for the corresponding period in 2005. .

This unsatisfactory result was mainly due to the decrease in sales of the Company's core products. The sales of the Compound Huonaoshu capsule were approximately RMB9.1 million for the six months ended 30 June 2006. This represented a significant decrease from approximately RMB16.2 million for the same period last year. The sales for Xueshuan Xinmaining capsule (血栓心脈寧膠囊) amounted to approximately RMB2.8 million for the period ended 30 June 2006 while it had recorded approximately RMB3.4 million in revenue same period last year. In addition, the sales of other major products had dropped significantly for the six months ended 30 June 2006. Qianlie Guihuang tablet, Dang Gui Long Hui tablet , and Nao Dan Bai Shui Jie Wu had recorded sales amounted to RMB850,000, RMB580,000 and RMB470,000 respectively for the first two quarters of 2006. The sales of these three products were more than 1 millions each in the same period last year.

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The gross profit margin for the period ended 30 June 2006 was approximately 64%, representing a 14% decrease as compared to that of 78% for the same period last year. The gross profit margin has decreased 14% mainly due to the relatively low gross profit margin for some new products namely Chang Long Li Di (長龍力迪), Yi Li Xin Tou Bao Pi An for injection(意利信(注射用頭孢匹胺)), and Hai Li Tou Bao Pi An for injection(海麗(注射用頭孢匹胺)). The gross profit margin for the six months ended 30 June 2006 for these products was 15.6%, 8.2% and 5.8% respectively. The reason for the low gross profit margin for these new medicines was mainly due to the Group's intention to penetrate into this market segment and increase the product awareness at the product introductory stage. Besides, since the Group would not consider these new medicines as the Group's important revenue stream, the selling of these medicines with a special lower price was a discount offer to the loyalty customers on bulk purchase of the Group's products. Furthermore, the fixed cost of producing these new medicines, which included the absorption of overhead and labor cost, was approximately RMB1 million each for the six months end of 30 June 2006, while the sales of these medicines for the period ended 30 June 2006 was only approximately RMB1 million to RMB2 million each. In addition, the Group continued to purchase the top-graded quality material to maintain the superiority and effectiveness of all its existing products. The increase in material cost also led to the unfavorable impact on gross profit margin.

The selling expense as a percentage of turnover was 35% in 2006. This represented a slight increase from 32% when compared to the same period last year. General and administrative expenses decreased from RMB7,935,000 for the six months ended 30 June 2005 to RMB7,682,000 for the same period in 2006. Interest expenses were RMB124,000 for the period ended 30 June 2006.

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. In addition, Hai Kun Shen Xi capsule(海昆腎喜膠囊) and Xueshuan Xinmaining capsule(血栓心脈寧膠囊) were also top selling products and contributed significantly to the Group's revenue. However, as compared to same period last year, except that Hai Kun Shen Xi capsule has recorded 40% or RMB2 millions sales increment, the sales of Compound Huonaoshu capsule and Xueshuan Xinmaining capsule had dropped 44% and 18% respectively. Since Compound Huonaoshu capsule has a high gross profit margin, which was approximately 78%, its significant decrease in sales has resulted in the decrease in operating profit by RMB5.5 millions. As a result, the profit attributable to the shareholders decreased to approximately RMB936,000 for the six months period in 2006, representing a 79% decrease from approximately RMB4,538,000 for the same period last year.

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There were a few reasons that had resulted in the decrease of profitability. Firstly, the severe price competition together with the rising selling expenses directly eroded the profits of the Company. Secondly, the growing consciousness of customers, especially those from hospital and clinic, over price competition had resulted in a change in customers' purchasing pattern and inventory management practices. The customers have reduced their inventory level sharply in order to cut down the carrying cost. In addition, the customers could take advantage of the further price reduction anticipated under this severe price competitive market by placing each order in smaller quantities on a more regular basis. Thus, this had contributed to the sharp drop in the Group's sales volume, especially our core products of Compound Huonaoshu capsule.

Production facilities

As far as the renovation program is concerned, the Group has undergone the second round of reallocation of the production lines in 2006. Currently, the new workshop for the production of the Compound Bifonazole solution has almost been completed. In addition, all existing production lines in the original complex will be re-allocated if necessary in order to accommodate the manufacturing of new medicines that will be launched in the coming years.

Research and development

During the first two quarters of 2006, the Company has been successful in obtaining two GMP standard certifications. As a result, all the existing production lines of the company's major products have already obtained and renewed its GMP standard certifications.

The Company has already obtained GMP Certifications for the following:

1. Tablets (片劑) – valid until 25 January 2011
2. Capsules (膠囊劑) – valid until 25 January 2011
3. Granules (顆粒劑) – valid until 25 January 2011
4. Solution (external use) (外用容液劑) – valid until 25 January 2011
5. Pill (Condensate) (濃縮丸劑) – valid until 25 January 2011
6. Sterile Bulk (Cefalotin Sodium, Cefpiramide) (無菌原料藥 (頭孢噻吩鈉、頭孢匹胺)) – valid until 14 May 2010
7. Pill (Water Pills), Membrane (丸劑 (水丸)、膜劑) – valid until 6 February 2010
8. Powder for injection (Cephalosporins) (頭孢菌素類粉針劑) – valid until 16 April 2007
9. Tablets (Penicillins) (青霉素片劑) – valid until 1 February 2009
10. Lyophilized powder for injection (凍乾粉針劑) – valid until 6 March 2011
11. Small volume Parenteral Solution (小容量注射劑) – valid until 6 March 2011

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2006, the Group's primary source of funds was cash from the operating activities. As at 30 June 2006, the Group had cash and bank balances and consolidated net asset value of approximately RMB28.4 million and RMB211 million respectively.

For the six months ended 30 June 2006, 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 2006, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2006, the Group had a gearing ratio of approximately 4.2 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2006.

On 13 July 2006, the Group had settled all its bank borrowings and its gearing ratio was zero.

PLEDGE OF ASSETS

The bank loan of RMB8.9 million as at 30 June 2006 was secured by certain equipment of the Group. Details of bank loans at 30 June 2006, which were secured by certain assets of the Group, are included in note 16 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 30 June 2006 are set out in note 18 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2006, there was no change in the Company's share capital. As at 30 June 2006, 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

In response to the significant drop in the sales volume of Compound Huonaoshu capsule during the year 2006, the Group will grasp all opportunities to broaden the customers' base by sending sale persons to hospitals and clinics in different cities and provinces. In addition, the Group believed that Hai Kun Shen Xi capsule has reached maturity in the market and it has great potential to reach another record high in the second half of 2006. Furthermore, the new medicine, Xue Mai Qing tablet, will soon be launched in the market and the management believed that the profit contributed by these new medicines, namely Hai Kun Shen Xi capsule and Xue Mai Qing tablet, could lessen the effect of sales drop from Compound Huonaoshu capsule in the year of 2006.

Looking forward, our Research and Development team will continue to develop new medicines and our sales persons will focus on expanding our sales network in PRC.

The Board would like to take this opportunity to express their gratitude to the shareholders for their continuing support and thus, would like to propose a special dividend of RMB1.25 cents per share, totaling amounted to approximately RMB7,003,000. The proposed dividend will be distributed from retained profit totaling RMB80,240,000 as at 31 December 2005. The proposed dividend distribution is subject to the shareholders' approval at the Extraordinary General Meeting on 29 September 2006.

The Directors also 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 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 2006, 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

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 2006, 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.

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 2006, 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 2006, 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 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, 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.

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 main deviations from the code provision set out in the CCGP were as follows:

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Hong assumes the role of both the chairman and the chief executive officer of the Company. The Board is of the view that this has not compromised accountability and independent decision making for the following reasons:

- the Audit Committee composes exclusively of independent non-executive directors;
- the independent directors have free and direct access to the Company’s external auditors and independent professional advice when considered necessary.

Mr. Zhang Hong, the chairman, is a substantial shareholder of the Company and has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

Besides, the Company has only two independent non executive directors and audit committee members and thus is temporarily unable to strictly comply with Rules 5.05 and 5.28 of the GEM Listing Rules. Details are set out in the section “Audit Committee” of the interim report.

AUDIT COMMITTEE

The Company set up an Audit Committee (“AC”) 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 AC are to review and provide supervision over the financial reporting procedures and internal control system of the Group.

At 18 April, 2006, Mr. Wong Kin Fai, Kenny has resigned as an independent non-executive director (“INED”) of the Company and ceased to be a member of AC. Pursuant to the rules 5.28 of the GEM Listing Rules, the AC must comprise a minimum of three members and the AC is now composed of only two INEDs, namely Mr. Nan Zheng and Mr. Shen Yu Xiang.

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The Company requires additional time than expected to identify suitable candidates as new INED and AC's member. The Group has identified suitable candidates, but there are formalities and procedures which the Group cannot finalize at that moment. In the meantime, the Company has only two INEDs and AC members and thus is temporarily unable to strictly comply with Rules 5.05 and 5.28 of the GEM Listing Rules requiring the Company to retain at all times three INEDs and a minimum of three members to comprise the AC. Also, the Company has breached the requirements of Listing Rules of 5.06 and 5.33 which require the Company to fill up the outstanding position within three months from the date of failing to meet these requirements.

The Board expects that the new appointment could be finalized as soon as possible and that the Company would be able to fully comply with Rules 5.05 and 5.28 of the GEM Listing Rules as soon as possible.

The AC 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 audited results of the Group for the period ended 30 June 2006.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group had 368 employees (31 December 2005: 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 2006, 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
11 August 2006

As at the date of this report, the Board comprises seven executive directors, being Zhang Hong, Zhang Xiao Guang, Li Yu Xian, Qiao Hong Kuan, Cui Shu Mei, Zhang Yuan Qiu, Zhao Bao Gang and two independent non-executive directors, being Nan Zheng and Shen Yu Xiang.