



**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 2007**

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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, 2007 together with the comparative figures for the corresponding periods in 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June, 2007 and 30 June 2006

	Note	Six months ended 30 June		Three months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Turnover	3	<b>39,420</b>	31,966	<b>23,891</b>	18,157
Cost of sales		<b>(9,986)</b>	(11,563)	<b>(5,592)</b>	(7,026)
Gross profit		<b>29,434</b>	20,403	<b>18,299</b>	11,131
Other revenue		<b>115</b>	7	<b>42</b>	7
Distribution and selling costs		<b>(17,083)</b>	(11,167)	<b>(11,758)</b>	(6,866)
Administrative expenses		<b>(8,115)</b>	(7,682)	<b>(3,430)</b>	(3,879)
Profit from operations	5	<b>4,351</b>	1,561	<b>3,153</b>	393
Finance costs		<b>(4)</b>	(124)	<b>(3)</b>	(69)
Profit before taxation		<b>4,347</b>	1,437	<b>3,150</b>	324
Taxation	6	<b>(1,468)</b>	(501)	<b>(1,059)</b>	(167)
Profit attributable to equity holders of the Company		<b>2,879</b>	936	<b>2,091</b>	157
Earnings per share – Basic	7	<b>0.51 cents</b>	0.17 cents	<b>0.37 cents</b>	0.03 cents
Dividends	8	<b>0</b>	7,003	<b>0</b>	7,003

Note: Calculation of the earnings per share in 2006 and 2007 was based on 560,250,000 shares and 560,250,000 shares respectively.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007 and 31 December 2006

	Note	30 June, 2007 (Unaudited) RMB'000	31 December, 2006 (Audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets	9	656	656
Property, plant and equipment	10	50,464	49,657
Prepaid lease payments	11	4,230	4,295
Construction in progress	12	5,786	5,124
Purchase know-how and prescription	13	29,838	32,650
<b>Total non-current assets</b>		<b>90,974</b>	92,382
<b>Current assets</b>			
Inventories	14	19,954	18,980
Trade receivables	15	57,027	47,216
Other receivables, deposits and prepayments		46,681	43,197
Prepaid lease payments	11	130	130
Cash and cash equivalents		26,688	26,251
Income tax recoverable		25,567	20,773
<b>Total current assets</b>		<b>176,047</b>	156,547
<b>Current liabilities</b>			
Trade payables	16	11,458	9,289
Other payables, deposits received and accruals		32,826	18,308
Other tax payables		13,122	11,994
Dividend payable		456	3,058
<b>Total current liabilities</b>		<b>57,862</b>	42,649
<b>Net current assets</b>		<b>118,185</b>	113,898
<b>Net assets</b>		<b>209,159</b>	206,280
Equity:			
<b>Share capital</b>	17	56,025	56,025
<b>Reserves</b>		153,134	150,255
<b>Total equity</b>		<b>209,159</b>	206,280

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2007 and 30 June 2006

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
Net cash inflow from operating activities	4,005	20,808
Net cash outflow from investing activities	(3,568)	(14,104)
Net cash outflow from financing activities	0	0
	<hr/>	<hr/>
Increase in cash and cash equivalents	437	6,704
Cash and cash equivalents at beginning of the period	26,251	21,705
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Cash and cash equivalents at end of the period	<u>26,688</u>	<u>28,409</u>
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Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>26,688</u>	<u>28,409</u>

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

For the six months ended 30 June 2007 and 30 June 2006

	Share capital	Share premium	PRC statutory funds Statutory surplus reserve	Staff public welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006 (Audited)	56,025	51,098	15,256	7,627	80,240	210,246
Net profit for the six months ended 30 June 2006 (Unaudited)	-	-	-	-	936	936
At 30 June 2006 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>15,256</u>	<u>7,627</u>	<u>81,176</u>	<u>211,182</u>
Net profit for the six months ended 31 December 2006 (Unaudited)	-	-	-	-	2,101	2,101
Transfer to statutory surplus reserve	-	-	7,627	(7,627)	-	-
Appropriation to statutory surplus reserve	-	-	402	-	(402)	-
Dividend	-	-	-	-	(7,003)	(7,003)
Balance as at 31 December 2006 (Audited)	<u>56,025</u>	<u>51,098</u>	<u>23,285</u>	<u>-</u>	<u>75,872</u>	<u>206,280</u>
Net profit for the six months ended 30 June 2007 (Unaudited)	-	-	-	-	2,879	2,879
At 30 June 2007 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>23,285</u>	<u>-</u>	<u>78,751</u>	<u>209,159</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 Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments which have been measured at fair value.

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 2006 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2007 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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
<b>Turnover</b>				
Sales of medicine	<b>39,420</b>	31,966	<b>23,891</b>	18,157
<b>Other revenue</b>				
Bank interest income	<b>115</b>	7	<b>42</b>	7
Total revenue for the year	<b>39,535</b>	31,973	<b>23,933</b>	18,164

### 4. SEGMENT INFORMATION

The Group has only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. For the six months ended 30 June 2007, 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 business or geographical 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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Depreciation	<b>1,768</b>	2,386	<b>990</b>	1,190
Amortisation of purchased know-how and prescription	<b>3,258</b>	2,467	<b>1,680</b>	1,497
Amortization of prepaid lease payments	<b>65</b>	65	<b>32</b>	32



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## 6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended 30 June		Three months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
PRC income tax	<u>1,468</u>	<u>501</u>	<u>1,059</u>	<u>167</u>

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 33% (2006: 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 (2006: Nil).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2007 (2006: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2007 is based on the unaudited profit attributable to shareholders of approximately RMB2,879,000 and RMB2,091,000 respectively (2006: RMB936,000 and RMB157,000) and on the weighted average of 560,250,000 and 560,250,000 (2006: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2007 respectively.

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

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## 8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.

For the year ended 30 June 2006, a special dividend of RMB1.25 cents per share, totaling approximately RMB7,003,125 in respect of previous financial year was declared.

## 9. BEARER BIOLOGICAL ASSETS

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Biological asset – deer	<b>656</b>	656

## 10. PROPERTY, PLANT AND EQUIPMENT

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

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Net book value, beginning of period/year	<b>49,657</b>	51,128
Transferred from construction in progress	<b>0</b>	2,000
Additions	<b>2,575</b>	1,775
Depreciation	<b>(1,768)</b>	(5,246)
Net book value, end of period/year	<b>50,464</b>	49,657

## 11. PREPAID LEASE PAYMENTS

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Net book value, beginning of period/year	<b>4,425</b>	3,726
Additions	<b>0</b>	830
Amortisation	<b>(65)</b>	(131)
	<hr/>	<hr/>
Net book value, end of period/year	<b>4,360</b>	4,425
	<hr/>	<hr/>
Net book value at end of period/year	<b>4,360</b>	4,425
Portion classified as current assets	<b>(130)</b>	(130)
	<hr/>	<hr/>
Non-current assets	<b>4,230</b>	4,295
	<hr/>	<hr/>

The Group's medium-term land use rights are located in the PRC.

## 12. CONSTRUCTION IN PROGRESS

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Net book value, beginning of period/year	<b>5,124</b>	3,971
Transferred to property, plant and equipment	<b>0</b>	(2,000)
Additions	<b>662</b>	3,153
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Net book value, end of period/year	<b>5,786</b>	5,124
	<hr/>	<hr/>

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### 13. PURCHASED KNOW-HOW AND PRESCRIPTION

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Cost		
At 1 January	<b>48,882</b>	42,412
Additions	<b>446</b>	6,470
	<hr/>	<hr/>
At 30 June 2007/31 December 2006	<b>49,328</b>	48,882
	<hr/>	<hr/>
Accumulated amortization:		
At 1 January	<b>16,232</b>	11,396
Amortisation for the period/year	<b>3,258</b>	4,836
	<hr/>	<hr/>
At 30 June 2007/31 December 2006	<b>19,490</b>	16,232
	<hr/>	<hr/>
Net book value:		
At 30 June 2007/31 December 2006	<b>29,838</b>	32,650
	<hr/> <hr/>	<hr/> <hr/>

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

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## 14. INVENTORIES

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	<b>7,197</b>	8,195
Work in progress	<b>3,490</b>	4,056
Finished goods	<b>23,197</b>	20,659
	<b>33,884</b>	32,910
Less: provision for obsolete and slow-moving inventories	<b>(13,930)</b>	(13,930)
	<b>19,954</b>	18,980

As at 30 June 2007, inventories amounting to approximately RMB16,464,000 (2006: RMB14,924,000) were carried at net realizable value.

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## 15. 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, net of provision for impairment for trade receivables, at the balance sheet dates:

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Current	<b>6,557</b>	22,639
31-60 days	<b>4,288</b>	2,718
61-90 days	<b>6,023</b>	3,074
More than 90 days	<b>40,159</b>	18,785
	<hr/> <b>57,027</b> <hr/>	<hr/> 47,216 <hr/>

The directors consider the carrying amount of trade receivables approximates their fair value.

## 16. TRADE PAYABLES

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

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Current	<b>1,605</b>	2,730
31-60 days	<b>433</b>	218
61-90 days	<b>108</b>	255
More than 90 days	<b>9,312</b>	6,086
	<hr/> <b>11,458</b> <hr/>	<hr/> 9,289 <hr/>

Trade payables principally comprise amounts outstanding for trade purchases. The directors consider that the carrying amount of trade payables approximates their fair value.

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## 17. SHARE CAPITAL

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (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
	<b>56,025</b>	56,025

## 18. CAPITAL COMMITMENTS

As at 30 June 2007, the Group had capital commitments contracted for but not provided for in respect of the following:

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Acquisition of purchased know-how and prescription	<b>3,049</b>	3,495
Acquisition of property, plant and equipment	<b>0</b>	1,775
	<b>3,049</b>	5,270

## DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: a special dividend of RMB1.25 cents per share).

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## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATING RESULTS

For the six months ended 30 June 2007, the Group recorded a turnover of approximately RMB39.4 million, representing an increase of 23% from RMB31.97 million for the corresponding period in 2006. Profit attributable to shareholders for the six months ended 30 June 2007 was RMB2,879,000, representing an increase of RMB1,943,000 from RMB936,000 for the corresponding period in 2006.

For the period ended 30 June 2007, the manufacturing and selling of Compound Huonaoshu capsule continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule reached approximately RMB15.7 millions, which represented approximately 40% of the total turnover. In addition, the new medicine of Kai Kun Shen Xi capsule has been penetrated into the market and has recorded a total revenue of approximately RMB12.1 million for the six months ended 30 June 2007. The sales of Xueshuan Xinmaining capsule has reached 2.9 million for the period ended 30 June, 2007, which represented the third top best seller of the Group in the first two quarters of 2007.

The gross profit margin for the period ended 30 June 2007 was approximately 74%, representing a 10% increase as compared to that of 64% for the same period last year. The higher profit margin during 2007 was due to two new medicines namely Hai Li Tou Bao Pi An for injection and Chang Long Li Di that had a relatively low gross profit margin of 5.8% and 15.6% respectively during 2006. The reason for the low gross profit margin for these new medicines in 2006 was mainly due to the Group's intention to penetrate into this market segment and increase the product awareness at the product introductory stage. In fact, 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 product. In 2007, the effect on low gross profit margin for these new medicines have reduced significantly as the Group has cancelled the discount offer.

The selling expense as a percentage of turnover was 43% in 2007. This represented an increase from 35% when compared to the same period last year. General and administrative expenses increased from RMB7,682,000 for the six months ended 30 June 2006 to RMB8,115,000 for the same period in 2007. The Board is aware of the relatively large increment in selling expenses and has decided to implement cost control measures in the second half of the year. Besides, the increase in administrative expenses was within the Group's expectation as the increase in the amortization expenses was unavoidable due to the increase in purchase know how and prescription



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## **BUSINESS REVIEW**

### **Sales performance**

During the period ended 30 June 2007, the Group reported a turnover of approximately RMB39.4 million, representing a significantly increase of approximately RMB7.5 million or 23% as compared with the same period last year. The increase in turnover was mostly contributed by our top three best selling products, namely Compound Huonaoshu capsule, Hai Kun Shen Xi capsule and Xueshuan Xinmaining capsule. The sales of the Compound Huonaoshu capsule were approximately RMB15.7 million for the six months ended 30 June 2007. This represented a significant increase from approximately RMB9.1 million for the same period last year. The sales for Hai Kun Shen Xi capsule has reached RMB12.2 million for the period ended 30 June 2007. This represented a 74% increment from approximately RMB7 million for the same period last year. The sales for Xueshuan Xinmaining capsule amounted to approximately RMB2.9 million for the period ended 30 June 2007 while it had recorded approximately RMB2.8 million in revenue same period last year. The aggregate revenue of these best three selling products for the period ended 30 June 2007 was approximately RMB30.8 million, which represented approximately 78% of the Group's total revenue, while the total revenue of these three products was only approximately RMB18.9 million for the same period last year. The significant increase in turnover had resulted in the increase of profit attributable to equity holders of approximately RMB1.9 million when compared to the same period last year. For the six months ended 30 June 2007, profit attributable to equity holders was RMB2,879,000, representing an increase of 207% from RMB936,000 for the corresponding period in 2006.

### **Production facilities**

As far as the renovation program is concerned, the Group has undergone the construction of the new workshop for the new medicine of Xue Mai Qing Tablet. According to our construction plan, the final completion of the workshop will be scheduled in late 2008 and the commencement of the production lines is expected in early 2009.

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## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2007, the Group's primary source of funds was cash from the operating activities. As at 30 June 2007, the Group had cash and bank balances and consolidated net asset value of approximately RMB26.7 million and RMB209 million respectively.

For the six months ended 30 June 2007, 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 2007, the Group had no material contingent liabilities.

## **GEARING RATIO**

As at 30 June 2007, the Group did not have any committed borrowing facilities and the gearing ratio is zero.

As at 30 June 2006, the Group had short-term bank borrowings of RMB8.9 million and 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.

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company as at 30 June 2007 are set out in note 18 to the financial statement.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2007, there was no change in the Company's share capital. As at 30 June 2007, 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.

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## **FUTURE PROSPECTS**

There has been an increase in the Group's turnover and profit attributable to equity holders of the Company as compared with the same period last year. In addition, the sales of Hai Kun Shen Xi capsule has reached approximately RMB12.2 millions for the six months ended 30 June 2007 as compared to approximately RMB7 million for the six month ended 30 June 2006. 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 2007.

Regarding the internal affair, there will be significant changes in the Board composition. According to the notice of extraordinary general meeting (EGM) dated 26 June 2007, a EGM will be held on 9 August 2007 to pass the resolutions to appoint a total of six new directors to the Board. Thereafter, three existing directors will be retired. The Group has confident that the new composition of the Board will have positive impact on the Group and will bring the Group to reach another record high in the coming future.

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 equity holders for their continuing support. The Directors 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 2007, the interests and short positions of the Directors, supervisors 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 to 5.67 of the GEM Listing Rules were as follows:

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## Long positions in shares

Director	Type of Interests	Capacity	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Mr. Zhang Hong	Personal	Beneficial owner	101,937,000	26.28	18.19
Mr. Zhang Xiao Guang	Personal	Beneficial owner	42,315,000	10.91	7.55
Ms. Cui Shu Mei	Personal	Beneficial owner	150,000	0.039	0.027
Ms. Li Yu Xian	Personal	Beneficial owner	90,000	0.023	0.016

Save as disclosed above, as at 30 June 2007, none of the Directors, supervisors 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 to 5.67 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, supervisors and chief executives to acquire such rights in any other body corporate.

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## **INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2007, the following persons (other than the Directors, supervisors 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**

<b>Name of shareholder</b>	<b>Capacity/Nature of Interest</b>	<b>Number of Domestic Shares</b>	<b>Percentage of Domestic Shares</b>	<b>Percentage of total registered Share Capital</b>
Huinan County SAB ( <i>Note</i> )	Beneficial owner	81,975,000	21.14	14.63

*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 2007, the Directors were not aware of any other person (other than the Directors, supervisors 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.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2007, 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.

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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 (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.

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 Audit Committee. Pursuant to the rules 5.28 of the GEM Listing Rules, the Committee must comprise a minimum of three members but the Committee is now composed of only two INEDs, namely Mr. Nan Zheng and Mr. Shen Yu Xiang.

The Company requires additional time than expected to identify suitable candidates as new INED and Committee's member. The Group has identified suitable candidates, but there are formalities and procedures that the Group cannot finalize at that moment. In the meantime, the Company has only two INEDs and Committee 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 Committee. Also, the Company has breached the requirements of Listing Rules of 5.06 and 5.33 that require the Company to fill up the outstanding position within three months from the date of failing to meet these requirements.

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According to the notice of EGM dated 26 June 2007, an EGM will be held on 9 August 2007 to pass the resolutions to appoint two new INEDs to the Board. The Board expects to pass a resolution during this EGM and that the Company would be able to fully comply with Rules 5.05 and 5.28 of the GEM Listing Rules.

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 audited results of the Group for the period ended 30 June 2007.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2007, the Group had 410 employees (31 December 2006: 406 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 2007, 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  
08 August 2007

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