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 2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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, 2008 together with the comparative figures for the corresponding periods in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June, 2008 and 30 June 2007

		Six months ended 30 June		**Three months ended 30 June**	
		2008	2007	**2008**	2007
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	*3*	**50,435**	39,420	**27,510**	23,891
Cost of sales		**(9,793)**	(9,986)	**(4,904)**	(5,592)
Gross profit		**40,642**	29,434	**22,606**	18,299
Other revenue		**303**	115	**77**	42
Distribution and selling costs		**(23,936)**	(17,083)	**(11,764)**	(11,758)
Administrative expenses		**(8,876)**	(8,115)	**(5,340)**	(3,430)
Profit from operations	*5*	**8,133**	4,351	**5,579**	3,153
Finance costs		**(48)**	(4)	**(48)**	(3)
Profit before taxation		**8,085**	4,347	**5,531**	3,150
Taxation	*6*	**(2,046)**	(1,468)	**(1,396)**	(1,059)
Profit attributable to equity holders of the Company		**6,039**	2,879	**4,135**	2,091
Earnings per share – Basic	*7*	**1.08 cents**	0.51 cents	**0.74 cents**	0.37 cents
Dividends	*8*	**0**	0	**0**	0

Note: Calculation of the earnings per share in 2007 and 2008 was based on 560,250,000 shares and 560,250,000 shares respectively.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008 and 31 December 2007

	Note	**30 June, 2008 (Unaudited) *RMB'000***	31 December, 2007 (Audited) *RMB'000*
Assets and liabilities			
Non-current assets			
Bearer biological assets	*9*	**1,175**	1,175
Property, plant and equipment	*10*	**45,442**	46,777
Prepaid lease payments	*11*	**4,217**	4,285
Construction in progress	*12*	**10,633**	7,880
Purchase know-how and prescription	*13*	**24,135**	27,128
Total non-current assets		**85,602**	87,245
Current assets			
Inventories	*14*	**23,076**	20,692
Trade receivables	*15*	**64,739**	48,150
Other receivables, deposits and prepayments		**53,680**	47,599
Prepaid lease payments	*11*	**135**	135
Loans		**–**	3,000
Cash and cash equivalents		**34,026**	42,542
Income tax recoverable		**19,270**	19,269
Total current assets		**194,926**	181,387
Current liabilities			
Trade payables	*16*	**9,680**	11,352
Other payables, deposits received and accruals		**27,992**	17,273
Other tax payables		**8,725**	11,895
Borrowings		**466**	466
Dividend payable		**376**	396
Total current liabilities		**47,239**	41,382
Net current assets		**147,687**	140,005
Total assets less current liabilities		**233,289**	227,250
Non-current liabilities			
Borrowings		**6,524**	6,524
Deferred tax liabilities		**1,847**	1,847
		(8,371)	(8,371)
Net assets		**224,918**	218,879
Equity:			
Share capital	*17*	**56,025**	56,025
Reserves		**168,893**	162,854
Total equity		**224,918**	218,879

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2008 and 30 June 2007

	For the six months ended	
	30 June 2008	30 June 2007
	RMB'000	*RMB'000*
Net cash (outflow)/inflow from operating activities	**(6,201)**	4,005
Net cash outflow from investing activities	**(2,315)**	(3,568)
Net cash outflow from financing activities	**0**	0
(Decrease)/Increase in cash and cash equivalents	**(8,516)**	437
Cash and cash equivalents at beginning of the period	**42,542**	26,251
Cash and cash equivalents at end of the period	**34,026**	26,688
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**34,026**	26,688

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2008 and 30 June 2007

				PRC statutory funds			
	Share capital	Share premium	Exchange reserve	Statutory surplus reserve	Staff public welfare fund	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007 (Audited)	56,025	51,098	–	23,285	–	75,892	206,280
Net profit for the six months ended 30 June 2007 (Unaudited)	–	–	–	–	–	2,879	2,879
At 30 June 2007 (Unaudited)	56,025	51,098	–	23,285	–	78,751	209,159
Net profit for the six months ended 31 December 2007 (Unaudited)	–	–		–	–	9,499	9,499
Exchange differences arising on translation or overseas operations recognised directly in equity	–	–	221	–	–	–	221
Transfer to statutory surplus reserve	–	–	–	–	–	–	–
Appropriation to statutory surplus reserve	–	–	–	1,670	–	(1,670)	–
Dividend	–	–	–	–	–	–	–
Balance as at 31 December 2007 (Audited)	56,025	51,098	221	24,955	–	86,580	218,879
Net profit for the six months ended 30 June 2008 (Unaudited)	–	–	–	–	–	6,039	6,039
At 30 June 2008 (Unaudited)	56,025	51,098	221	24,955	–	92,619	224,918

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 2007 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2008 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Turnover				
Sales of medicine	**50,435**	39,420	**27,510**	23,891
Other revenue				
Bank interest income	**303**	115	**77**	42
Total revenue for the year	**50,738**	39,535	**27,587**	23,933

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 2008, 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Depreciation	**1,528**	1,768	**764**	990
Amortisation of purchased know-how and prescription	**2,993**	3,258	**1,497**	1,680
Amortization of prepaid lease payments	**68**	65	**34**	32

6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended 30 June		Three months ended 30 June	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC income tax	**2,046**	1,468	**1,396**	1,059

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 25% (2006: 33%).

The Group's subsidiary in Hong Kong is subject to Hong Kong profits tax calculated at 16% 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 (2007: Nil).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2008 (2007: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2008 is based on the unaudited profit attributable to shareholders of approximately RMB6,039,000 and RMB4,135,000 respectively (2007: RMB2,879,000 and RMB2,091,000) and on the weighted average of 560,250,000 and 560,250,000 (2007: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2008 respectively.

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

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

9. BEARER BIOLOGICAL ASSETS

	30 June 2008 (Unaudited) ***RMB'000***	31 December 2007 (Audited) *RMB'000*
Biological asset – deer	**580**	580
Ginseng	**595**	595
	1,175	1,175

10. PROPERTY, PLANT AND EQUIPMENT

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

	30 June 2008 (Unaudited) ***RMB'000***	31 December 2007 (Audited) *RMB'000*
Net book value, beginning of period/year	**46,777**	49,657
Transferred from construction in progress	**0**	0
Additions	**193**	2,493
Depreciation	**(1,528)**	(5,373)
Net book value, end of period/year	**45,442**	46,777

11. PREPAID LEASE PAYMENTS

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Net book value, beginning of period/year	**4,420**	4,425
Additions	**0**	130
Amortisation	**(68)**	(135)
Net book value, end of period/year	**4,352**	4,420
Net book value at end of period/year	**4,352**	4,420
Portion classified as current assets	**(135)**	(135)
Non-current assets	**4,217**	4,285

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

12. CONSTRUCTION IN PROGRESS

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Net book value, beginning of period/year	**7,880**	5,124
Government subsidy received	**0**	(5,400)
Additions	**2,753**	8,156
Net book value, end of period/year	**10,633**	7,880

13. PURCHASED KNOW-HOW AND PRESCRIPTION

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Cost		
At 1 January	**48,905**	48,882
Additions	**0**	23
At 30 June 2008/31 December 2007	**48,905**	48,905
Accumulated amortization:		
At 1 January	**21,777**	16,232
Amortisation for the period/year	**2,993**	5,279
Impairment loss recognised	**0**	266
At 30 June 2008/31 December 2007	**24,770**	21,777
Net book value:		
At 30 June 2008/31 December 2007	**24,135**	27,128

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

14. INVENTORIES

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Inventories comprise:		
At cost:		
Raw materials	**9,272**	10,495
Work in progress	**4,961**	2,414
Finished goods	**24,516**	23,456
	38,749	36,365
Less: provision for obsolete and slow-moving inventories	**(15,673)**	(15,673)
	23,076	20,692

As at 30 June 2008, inventories amounting to approximately RMB23,076,000 (2007: RMB19,954,000) were carried at net realizable value.

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:

	30 June 2008 (Unaudited) ***RMB'000***	31 December 2007 (Audited) *RMB'000*
Current	**23,560**	22,049
31–60 days	**7,660**	4,578
61–90 days	**7,340**	4,646
More than 90 days	**26,179**	16,877
	64,739	48,150

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:

	30 June 2008 (Unaudited) ***RMB'000***	31 December 2007 (Audited) *RMB'000*
Current	**2,891**	4,769
31–60 days	**965**	1,016
61–90 days	**462**	101
More than 90 days	**5,362**	5,466
	9,680	11,352

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

17. SHARE CAPITAL

	30 June 2008 (Unaudited) ***RMB'000***	31 December 2007 (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 2008, the Group had capital commitments contracted for but not provided for in respect of the following:

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Acquisition of purchased know-how and prescription	**3,425**	5,425
Acquisition of property, plant and equipment	**0**	1,755
	3,425	7,180

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended 30 June 2008, the Group recorded a turnover of approximately RMB50.4 million, representing an increase of 28% from RMB39.4 million for the corresponding period in 2007. Profit attributable to shareholders for the six months ended 30 June 2008 was RMB6,039,000, representing an increase of RMB3,160,000 from RMB2,879,000 for the corresponding period in 2007.

For the period ended 30 June 2008, 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 RMB18.7 millions, which represented approximately 37% 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 RMB20.4 million for the six months ended 30 June 2008. The sales of Xueshuan Xinmaining capsule has reached 2.8 million for the period ended 30 June, 2008, which represented the third top best seller of the Group in the first two quarters of 2008.

The gross profit margin for the six months ended 30 June 2008 was approximately 81% representing a 7% increase as compared to that of 74% for the period ended 30 June 2007. The reason for the increase of gross profit margin was mainly due to a change of product sales mix whereby the sale of products with higher margin had increased. The Board believes that there were no significant fluctuation for the production and material cost.

The selling expense as a percentage of turnover was 47% in 2008. This represented an increase from 43% when compared to the same period last year. General and administrative expenses increased from RMB8,115,000 for the six months ended 30 June 2007 to RMB8,876,000 for the same period in 2008. 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

BUSINESS REVIEW

Sales performance

During the period ended 30 June 2008, the Group reported a turnover of approximately RMB50.4 million, representing a significantly increase of approximately RMB20 million or 28% 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 RMB18.8 million for the six months ended 30 June 2008. This represented a significant increase from approximately RMB15.7 million for the same period last year. The sales for Hai Kun Shen Xi capsule has reached RMB20.4 million for the period ended 30 June 2008. This represented a 67% increment from approximately RMB12.2 million for the same period last year. The sales for Xueshuan Xinmaining capsule amounted to approximately RMB2.8 million for the period ended 30 June 2008 while it had recorded approximately RMB2.9 million in revenue same period last year. The aggregate revenue of these best three selling products for the period ended 30 June 2008 was approximately RMB42 million, which represented approximately 83% of the Group's total revenue, while the total revenue of these three products was only approximately RMB30.8 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 RMB3.2 million when compared to the same period last year. For the six months ended 30 June 2008, profit attributable to equity holders was RMB6,039,000, representing an increase of 109% from RMB2,879,000 for the corresponding period in 2007.

Production Facilities

During the year 2007, the Board has reviewed all production facilities and has redesigned the assembly lines and reallocated the plant and machinery so as to improve the effectiveness and efficiency of the production lines. In addition, the Group has made the following important process improvements on the production facilities which will lay a strong foundation for the Group to expand in the coming future.

Firstly, the Group has established an agricultural base in the forest area of Jinchun during the year under review. The base is intended to cultivate wild panax ginseng so as to ensure constant supply of ginseng for the Company. Currently, the base has been developing to cultivate different type of agricultural products and our R & D department will extract the useful ingredient from those agricultural product to carry out the experimental process. Apart from wild panax ginseng, certain type of raw material can also be cultivated in this agricultural base.

Secondly, the Group has been working on the technological upgrading of all workshops. All assembly lines in the workshop has upgraded into a fully automatically production system. In addition, the Group is tuning the "Xue Mai Qing" workshop and "Chinese medicine extracts" workshop during the year of 2007. These two workshops are expected to be ready to handle mass production if required in the near future.

Thirdly, the Group is in the progress of the constructing of a "modernized warehouse" in an industrial land. This modernized warehouse shows that the Group has undergone the process of modernization and technological improvement.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the six months ended 30 June 2008, the Group's primary source of funds was cash from the operating activities. As at 30 June 2008, the Group had cash and bank balances and consolidated net asset value of approximately RMB34 million and RMB225 million respectively.

For the six months ended 30 June 2008, 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 2008, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2008, the Group had short-term bank borrowings of RMB6.99 million (2007: Nil) and a gearing ratio of approximately 3.1 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2008.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 30 June 2008 are set out in note 18 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2008, there was no change in the Company's share capital. As at 30 June 2008, 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

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 RMB20.4 millions for the six months ended 30 June 2008 as compared to approximately RMB12.2 million for the six month ended 30 June 2007. 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 2008.

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 2008, 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:

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
Mr. Wu Guo Wen	Personal	Beneficial owner	900,000	0.232	0.161
Mr. Chen Qi Ming	Personal	Beneficial owner	300,000	0.077	0.054

Save as disclosed above, as at 30 June 2008, 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, 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

Name of shareholder	Capacity/Nature of Interest	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Huinan County SAB *(Note)*	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 2008, 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.

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 2008, 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 (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. The Company required additional time than expected to identify suitable candidates as new INED and Audit Committee's member. At 28 February 2008, Mr. Xue Change Qing and Mr. Yan Li Jin have been appointed as INEDs and member's of Audit Committee, and Mr. Nan Zheng has resigned as an INED and ceased to be a member of Audit Committee of the Company. During the period from 18 April, 2006 to 28 February 2008, the Company has only two INEDs and Audit Committee members and a minimum of three members to comprise 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 audited results of the Group for the period ended 30 June 2008.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group had 339 employees (31 December 2007: 442 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 2008, 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
13 August 2008