



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 2009

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

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached then other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchange and Clearing Limited and The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2009 together with the comparative figures for the corresponding periods in 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2009 and 30 June 2008

		Six months ended 30 June 2009		Three months ended 30 June 2009	
		(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
	Note				
Turnover	3	61,050	50,435	34,149	27,510
Cost of sales		(11,188)	(9,793)	(6,247)	(4,904)
Gross profit		49,862	40,642	27,902	22,606
Other revenue		216	303	204	77
Distribution and selling costs		(27,918)	(23,936)	(16,594)	(11,764)
Administrative expenses		(9,618)	(8,876)	(4,269)	(5,340)
Profit from operations	5	12,542	8,133	7,243	5,579
Finance costs		(50)	(48)	(50)	(48)
Profit before taxation		12,492	8,085	7,193	5,531
Taxation	6	(3,123)	(2,046)	(1,799)	(1,396)
Profit attributable to equity holders of the Company		9,369	6,039	5,394	4,135
Earnings per share – Basic	7	1.67 cents	1.08 cents	0.96 cents	0.74 cents
Dividends	8	0	0	0	0

Note: Calculation of the earnings per share in 2008 and 2009 was based on 560,250,000 shares and 560,250,000 shares respectively.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2009 and 31 December 2008

	Note	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets	9	1,390	1,390
Property, plant and equipment	10	58,643	59,917
Prepaid lease payments	11	2,496	2,496
Construction in progress	12	16,283	14,830
Purchase know-how and prescription	13	28,118	40,829
Deposit for acquisition on land use rights		10,000	10,000
Total non-current assets		116,930	129,467
Current assets			
Inventories	14	28,560	18,975
Trade receivables	15	76,350	67,458
Other receivables, deposits and prepayments		38,037	34,934
Prepaid lease payments	11	102	102
Loans		3,000	3,000
Cash and cash equivalents		28,538	48,831
Income tax recoverable		15,278	15,278
Total current assets		189,865	188,578
Current liabilities			
Trade payables	16	11,082	12,075
Other payables, deposits received and accruals		52,862	46,985
Other tax payables		10,778	13,239
Borrowings		-	-
Dividend payable		360	360
Total current liabilities		75,082	72,659
Net current assets		114,783	115,919
Total assets less current liabilities		231,713	245,386
Non-current liabilities			
Borrowings		6,990	6,990
Deferred tax liabilities		4,531	4,531
		11,521	11,521
Net assets		243,234	233,865
Equity:			
Share capital	17	56,025	56,025
Reserves		187,209	177,840
Total equity		243,234	233,865

.....

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2009 and 30 June 2008

	For the six months ended	
	30 June 2009	30 June 2008
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (outflow)/inflow from operating activities	(18,385)	(6,201)
Net cash outflow from investing activities	(1,908)	(2,315)
Net cash outflow from financing activities	0	0
	<hr/>	<hr/>
(Decrease)/Increase in cash and cash equivalents	(20,293)	(8,516)
Cash and cash equivalents at beginning of the period	48,831	42,542
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	28,538	34,026
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	28,538	34,026
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2009 and 30 June 2008

	Share capital RMB'000	Share premium RMB'000	PRC statutory funds		Retained profits RMB'000	Total RMB'000
			Exchange reserve RMB'000	Statutory surplus reserve RMB'000		
At 1 January 2008 (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)	<u>56,025</u>	<u>51,098</u>	<u>221</u>	<u>24,955</u>	<u>92,619</u>	<u>224,918</u>
Net profit for the six months ended 31 December 2008 (Unaudited)	-	-	-	-	8,950	8,950
Exchange differences arising on translation or overseas operations recognised directly in equity	-	-	(3)	-	-	(3)
Transfer to statutory surplus reserve	-	-	-	-	-	-
Appropriation to statutory surplus reserve	-	-	-	2,229	(2,229)	-
Dividend	-	-	-	-	-	-
Balance as at 31 December 2008 (Audited)	<u>56,025</u>	<u>51,098</u>	<u>218</u>	<u>27,184</u>	<u>99,340</u>	<u>233,865</u>
Net profit for the six months ended 30 June 2009 (Unaudited)	-	-	-	-	9,369	9,369
At 30 June 2009 (Unaudited)	<u>56,025</u>	<u>51,098</u>	<u>218</u>	<u>27,184</u>	<u>108,709</u>	<u>243,234</u>

NOTES TO CONDENSED INTERIM ACCOUNTS:

1. ORGANISATION AND OPERATIONS

The Company was established as a state-owned enterprise in the People's Republic of China (the "PRC") in 1989. On 29 December 1995, under the relevant provisions of the Company Law of the PRC, the Company was re-organized from a state-owned enterprise to a limited liability company. On 16 August 1996, with the approval of the Economic Restructuring Commission of Jilin Province, the Company was further converted into a joint stock limited company. On 20 April 1999, the Company made a bonus issue from capitalisation of retained profits at the proportion of one bonus share for every two existing shares. The Company's H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 24 May 2001.

The Group is principally engaged in the manufacture and distribution of biochemical medicines in the PRC under the brandnames of Changlong and Shendi.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated 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 2008 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2009 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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover				
Sales of medicine	61,050	50,435	34,149	27,510
Other revenue				
Bank interest income	216	303	204	77
Total revenue for the year	61,266	50,738	34,353	27,587

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 2009, 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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Depreciation	1,760	1,528	830	764
Amortisation of purchased know-how and prescription	3,521	2,993	1,704	1,497
Amortization of prepaid lease payments	68	68	34	34

6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended		Three months ended	
	30 June		30 June	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>3,123</u>	<u>2,046</u>	<u>1,799</u>	<u>1,396</u>

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 25% (2008: 25%).

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 (2008: Nil).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2009 (2008: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2009 is based on the unaudited profit attributable to shareholders of approximately RMB9,369,000 and RMB5,394,000 respectively (2008: RMB6,039,000 and RMB4,135,000) and on the weighted average of 560,250,000 and 560,250,000 (2008: 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 2009 (2008: Nil).

.....

9. BEARER BIOLOGICAL ASSETS

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Biological asset – deer	563	563
Ginseng	827	827
	<hr/> 1,390 <hr/>	<hr/> 1,390 <hr/>

10. PROPERTY, PLANT AND EQUIPMENT

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

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Net book value, beginning of period/year	59,917	46,777
Transferred from construction in progress	–	14,654
Additions	486	4,218
Depreciation	(1,760)	(5,732)
	<hr/> 58,643 <hr/>	<hr/> 59,917 <hr/>

11. Prepaid lease payments

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Net book value, beginning of period/year	2,496	4,503
Additions	68	130
Reclassified to buildings	-	(1,900)
Amortisation	(68)	(135)
	<u>2,496</u>	<u>2,598</u>
Net book value, end of period/year	2,496	2,598
Net book value at end of period/year	2,496	2,598
Portion classified as current assets	-	(102)
	<u>2,496</u>	<u>2,496</u>
Non-current assets	2,496	2,496

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

12. Construction in progress

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Net book value, beginning of period/year	14,830	7,880
Government subsidy received	-	(14,654)
Additions	1,453	21,604
	<u>16,283</u>	<u>14,830</u>
Net book value, end of period/year	16,283	14,830

.....

13. PURCHASED KNOW-HOW AND PRESCRIPTION

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Cost		
At 1 January	70,135	48,905
Additions	-	21,230
	<hr/>	<hr/>
At 30 June 2009/31 December 2008	70,135	70,135
	<hr/>	<hr/>
Accumulated amortization:		
At 1 January	29,306	16,232
Amortisation for the period/year	3,251	5,279
Impairment loss recognised	9,460	266
	<hr/>	<hr/>
At 30 June 2009/31 December 2008	42,017	29,306
	<hr/>	<hr/>
Net book value:		
At 30 June 2009/31 December 2008	28,118	40,829
	<hr/> <hr/>	<hr/> <hr/>

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

.....

14. INVENTORIES

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	13,100	11,329
Work in progress	9,447	4,425
Finished goods	12,362	9,570
	<hr/>	<hr/>
	34,909	25,324
Less: provision for obsolete and slow-moving inventories	(6,349)	16,349
	<hr/>	<hr/>
	28,560	18,975
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2009, inventories amounting to approximately RMB28,560,000 (2008: RMB18,975,000) 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 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Current	31,075	28,952
31-60 days	8,972	7,022
61-90 days	7,201	3,502
More than 90 days	29,102	27,982
	<hr/> 76,350 <hr/>	<hr/> 67,458 <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:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Current	1,977	2,044
31-60 days	820	1,042
61-90 days	1,239	1,338
More than 90 days	7,046	7,651
	<u>11,082</u>	<u>12,075</u>

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 2009 (Unaudited) RMB'000	31 December 2008 (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
	<u>56,025</u>	<u>56,025</u>

.....

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 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Acquisition of purchased know-how and prescription	-	4,240
Acquisition of property, plant and equipment	-	1,864
Acquisition of land use right	-	1,372
	<hr/>	<hr/>
	-	7,476
	<hr/> <hr/>	<hr/> <hr/>

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the six months ended 30 June 2009, the Group recorded a turnover of approximately RMB61 million, representing an increase of 21% from RMB50.4 million for the corresponding period in 2008. Profit attributable to shareholders for the six months ended 30 June 2009 was RMB9,369,000, representing an increase of RMB3,330,000 from RMB6,039,000 for the corresponding period in 2008.

The gross profit margin for the six months ended 30 June 2009 was approximately 81% representing a 1% increase as compared to that of 80% for the period ended 30 June 2008. 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 46% in 2009. This represented an decrease from 47% when compared to the same period last year. General and administrative expenses increased from RMB8,876,000 for the six months ended 30 June 2008 to RMB9,618,000 for the same period in 2009. 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

Production Facilities

During the year 2009, 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 2009, the Group's primary source of funds was cash from the operating activities. As at 30 June 2009, the Group had cash and bank balances and consolidated net asset value of approximately RMB28.5 million and RMB243.2 million respectively.

For the six months ended 30 June 2009, 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 2009, the Group had no material contingent liabilities.

GEARING RATIO

As at 30 June 2009, the Group had short-term bank borrowings of RMB6.9 million (2008: 6.9 million) and a gearing ratio of approximately 2.9 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2009.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 30 June 2009 are set out in note 18 to the financial statement.

CAPITAL STRUCTURE

During the six months ended 30 June 2009, there was no change in the Company's share capital. As at 30 June 2009, 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 RMB25 millions for the six months ended 30 June 2009 as compared to approximately RMB20.4 million for the six month ended 30 June 2008. 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 2009.

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 2009, 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 2009, 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 2009, 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 2009, 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 2009, 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 2009.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2009, the Group had 330 employees (31 December 2008: 286 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 2009, 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
14 August 2009