



**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 2010**

## **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 higher investment risk may be attached than other companies listed on the Stock 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 nature 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.**

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*This report, for which the directors of 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 subsidiary (“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 2010 together with the comparative figures for the corresponding periods in 2009 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30 June 2010 and 30 June 2009

	Note	Six months ended 30 June		Three months ended 30 June	
		2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Turnover	3	99,420	61,050	63,967	34,149
Cost of sales		<u>(16,641)</u>	<u>(11,188)</u>	<u>(11,082)</u>	<u>(6,247)</u>
Gross profit		82,779	49,862	52,885	27,902
Other revenue	3	81	216	67	204
Distribution and selling costs		<u>(50,848)</u>	<u>(27,918)</u>	<u>(35,139)</u>	<u>(16,594)</u>
Administrative expenses		<u>(7,407)</u>	<u>(9,618)</u>	<u>(3,709)</u>	<u>(4,269)</u>
Profit from operations	5	24,605	12,542	14,104	7,243
Finance costs		<u>-</u>	<u>(50)</u>	<u>-</u>	<u>(50)</u>
Profit before taxation		24,605	12,492	14,104	7,193
Taxation	6	<u>(3,139)</u>	<u>(3,123)</u>	<u>(1,563)</u>	<u>(1,799)</u>
Profit attributable to equity holders of the Company		<u>21,466</u>	<u>9,369</u>	<u>12,541</u>	<u>5,394</u>
Earnings per share - Basic	7	<u>3.83 cents</u>	<u>1.67 cents</u>	<u>2.23 cents</u>	<u>0.96 cents</u>
Dividends	8	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Note: Calculation of the earnings per share in 2009 and 2010 was based on 560,250,000 shares and 560,250,000 shares respectively.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2010 and 31 December 2009

	Note	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets	9	2,169	2,169
Property, plant and equipment	10	60,206	60,554
Prepaid lease payments	11	2,348	2,348
Construction in progress	12	27,702	26,399
Purchase know-how and prescription	13	30,713	33,350
Deposit for acquisition on land use rights		-	10,000
<b>Total non-current assets</b>		<b>123,138</b>	134,820
<b>Current assets</b>			
Inventories	14	22,546	20,729
Trade receivables	15	108,163	81,242
Other receivables, deposits and prepayments		47,076	26,663
Prepaid lease payments	11	125	125
Loans		18,150	18,150
Cash and cash equivalents		50,273	43,490
Income tax recoverable		10,851	10,574
<b>Total current assets</b>		<b>257,184</b>	200,973
<b>Current liabilities</b>			
Trade payables	16	5,177	6,708
Other payables, deposits received and accruals		80,424	56,069
Other tax payables		8,439	8,200
Dividend payable		345	345
<b>Total current liabilities</b>		<b>94,385</b>	71,322
<b>Net current assets</b>		<b>162,799</b>	129,651
<b>Total assets less current liabilities</b>		<b>285,937</b>	264,471
<b>Non-current liabilities</b>			
Borrowings		6,990	6,990
Deferred tax liabilities		1,499	1,499
		8,489	8,489
<b>Net assets</b>		<b>277,448</b>	255,982
<b>Equity:</b>			
<b>Share capital</b>	17	56,025	56,025
<b>Reserves</b>		221,423	199,957
<b>Total equity</b>		<b>277,448</b>	255,982

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2010 and 30 June 2009

	For the six months ended	
	30 June 2010	30 June 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow/(outflow) from operating activities	<b>33,921</b>	(18,385)
Net cash outflow from investing activities	<b>(3,569)</b>	(1,908)
Net cash outflow from financing activities	<b>0</b>	0
	<hr/>	<hr/>
Increase/(Decrease) in cash and cash equivalents	<b>30,352</b>	(20,293)
Cash and cash equivalents at beginning of the period	<b>19,921</b>	48,831
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>50,273</b>	28,538
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>50,273</b>	28,538
	<hr/> <hr/>	<hr/> <hr/>

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

For the six months ended 30 June 2010 and 30 June 2009

	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	PRC statutory funds Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009 (Audited)	56,025	51,098	218	27,184	99,340	233,865
Net profit for the six months ended 30 June 2009 (Unaudited)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,369</u>	<u>9,369</u>
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>
Net profit for the six months ended 31 December 2009 (Unaudited)	-	-	-	-	12,707	12,707
Exchange differences arising on translation or overseas operations recognised directly in equity	-	-	41	-	-	41
Transfer to statutory surplus reserve	-	-	-	-	-	-
Appropriation to statutory surplus reserve	-	-	-	3,181	(3,181)	-
Dividend	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2009 (Audited)	<u>56,025</u>	<u>51,098</u>	<u>259</u>	<u>30,365</u>	<u>118,235</u>	<u>255,982</u>
Net profit for the six months ended 30 June 2010 (Unaudited)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,466</u>	<u>21,466</u>
At 30 June 2010 (Unaudited)	<u><u>56,025</u></u>	<u><u>51,098</u></u>	<u><u>259</u></u>	<u><u>30,365</u></u>	<u><u>139,701</u></u>	<u><u>277,448</u></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 2009 annual report.

The condensed consolidated financial statements for the six months ended 30 June 2010 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	
	2010	2009	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Turnover</b>				
Sales of medicine	<b>99,420</b>	61,050	<b>63,967</b>	34,149
<b>Other revenue</b>				
Other income	<b>81</b>	216	<b>67</b>	204
Total revenue for the year	<b>99,501</b>	61,266	<b>64,034</b>	34,353

#### 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 2010, 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Depreciation	2,614	1,760	1,307	830
Amortisation of purchased know-how and prescription	2,637	3,521	1,318	1,704
Amortization of prepaid lease payments	125	68	62	34

#### 6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	Six months ended 30 June		Three months ended 30 June	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
PRC income tax	3,139	3,123	1,563	1,799

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 15% (2009: 25%).

The Group's subsidiary in Hong Kong is subject to Hong Kong profits tax calculated at 16.5% 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 (2009: Nil).

The Group did not have any significant unprovided deferred taxation for the six months and three months ended 30 June 2010 (2009: Nil).

#### 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months and three months ended 30 June 2010 is based on the unaudited profit attributable to shareholders of approximately RMB21,466,000 and RMB12,541,000 respectively (2009: RMB9,369,000 and RMB5,394,000) and on the weighted average of 560,250,000 and 560,250,000 (2009: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 June 2010 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 2010 (2009: Nil).

## 9. BEARER BIOLOGICAL ASSETS

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Biological asset – deer	232	232
Ginseng	1,414	1,414
Vineyard	523	523
	<u>2,169</u>	<u>2,169</u>

## 10. PROPERTY, PLANT AND EQUIPMENT

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

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Net book value, beginning of period/year	60,554	59,922
Transferred from construction in progress	–	5,774
Additions & Disposals	2,266	86
Depreciation	<u>(2,614)</u>	<u>(5,228)</u>
Net book value, end of period/year	<u>60,206</u>	<u>60,554</u>

## 11. PREPAID LEASE PAYMENTS

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Net book value, beginning of period/year	2,348	2,598
Additions	–	–
Reclassified to buildings	–	–
Amortisation	–	(125)
Net book value, end of period/year	<u>2,348</u>	<u>2,473</u>
Net book value at end of period/year	2,348	2,473
Portion classified as current assets	<u>–</u>	<u>(125)</u>
Non-current assets	<u>2,348</u>	<u>2,348</u>

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

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## 12. CONSTRUCTION IN PROGRESS

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Net book value, beginning of period/year	<b>26,399</b>	14,830
Transfer to property, plant and equipment	-	(5,774)
Additions	<b>1,303</b>	17,343
	<u>                    </u>	<u>                    </u>
Net book value, end of period/year	<b><u>27,702</u></b>	<b><u>26,399</u></b>

## 13. PURCHASED KNOW-HOW AND PRESCRIPTION

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Cost:		
At 1 January	<b>71,985</b>	70,135
Additions	-	1,850
	<u>                    </u>	<u>                    </u>
At 30 June 2010/31 December 2009	<b><u>71,985</u></b>	<u>71,985</u>
Accumulated amortization:		
At 1 January	<b>38,635</b>	29,306
Amortisation for the period/year	<b>2,637</b>	8,099
Impairment loss recognised	-	1,230
	<u>                    </u>	<u>                    </u>
At 30 June 2010/31 December 2009	<b><u>41,272</u></b>	<u>38,635</u>
Net book value:		
At 30 June 2010/31 December 2009	<b><u>30,713</u></b>	<b><u>33,350</u></b>

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

## 14. INVENTORIES

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Inventories comprise:		
At cost:		
Raw materials	<b>7,874</b>	9,001
Work in progress	<b>10,474</b>	6,709
Finished goods	<b>10,547</b>	11,368
	<b>28,895</b>	27,078
Less: provision for obsolete and slow-moving inventories	<b>(6,349)</b>	(6,349)
	<b>22,546</b>	20,729

As at 30 June 2010, inventories amounting to approximately RMB22,546,000 (2009: RMB28,560,000) 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:

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Current	<b>41,201</b>	30,947
31-90 days	<b>17,415</b>	13,081
91-180 days	<b>20,003</b>	15,025
More than 180 days	<b>29,544</b>	22,189
	<b>108,163</b>	81,242

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 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Current	604	783
31-90 days	555	720
More than 90 days	<u>4,018</u>	<u>5,205</u>
	<u><b>5,177</b></u>	<u><b>6,708</b></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

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (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	<u>17,250</u>	<u>17,250</u>
	<u><b>56,025</b></u>	<u><b>56,025</b></u>

## 18. CAPITAL COMMITMENTS

As at 30 June 2010, the Group had capital commitments contracted for but not provided for in respect of the following:

	<b>30 June 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
Acquisition of purchased know-how and prescription	-	2,940
Acquisition of property, plant and equipment	-	181
Acquisition of land use right	<u>1,372</u>	<u>1,372</u>
	<u><b>1,372</b></u>	<u><b>4,493</b></u>

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## **DIVIDENDS**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OPERATING RESULTS**

For the six months ended 30 June 2010, the Group recorded a turnover of approximately RMB99 million, representing an increase of 62% from RMB61 million for the corresponding period in 2009. Profit attributable to shareholders for the six months ended 30 June 2010 was RMB21,466,000, representing an increase of RMB12,097,000 from RMB9,369,000 for the corresponding period in 2009.

The gross profit margin for the six months ended 30 June 2010 was approximately 83% representing a 2% increase as compared to that of 81% for the period ended 30 June 2009. 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 51% in 2010. This represented an increase from 46% when compared to the same period last year. General and administrative expenses decreased from RMB9,618,000 for the six months ended 30 June 2009 to RMB7,407,000 for the same period in 2010. 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.

## **BUSINESS REVIEW**

### **Production Facilities**

During the year 2010, 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 important process improvements and technological transformation on the production facilities, and completed three reconstruction projects including standardized warehouse, solid pharmaceutical preparation workshop and cephalosporin materials workshop. The newly constructed area was about 10,000 square meters, thereby substantially boosting our productivity.

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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 2010, the Group's primary source of funds was cash from the operating activities. As at 30 June 2010, the Group had cash and bank balances and consolidated net asset value of approximately RMB50 million and RMB277 million respectively.

For the six months ended 30 June 2010, 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 2010, the Group had no material contingent liabilities.

## **GEARING RATIO**

As at 30 June 2010, the Group had short-term bank borrowings of RMB6.9 million (2009: 6.9 million) and a gearing ratio of approximately 2.5 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 June 2010.

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company as at 30 June 2010 are set out in note 18 to the financial statement.

## **CAPITAL STRUCTURE**

During the six months ended 30 June 2010, there was no change in the Company's share capital. As at 30 June 2010, 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 RMB59 millions for the six months ended 30 June 2010 as compared to approximately RMB25 million for the six month ended 30 June 2009. 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 2010.

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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 2010, 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**

<b>Director</b>	<b>Type of Interests</b>	<b>Capacity</b>	<b>Number of Domestic Shares</b>	<b>Percentage of Domestic Shares</b>	<b>Percentage of total registered Share Capital</b>
Mr. Zhang Hong	Personal	Beneficial owner	101,937,000	26.29	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 2010, 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.

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## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' interests in shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and chief executives or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors, 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 2010, 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 <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 2010, 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.



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

During the six months ended 30 June 2010, 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.

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## **AUDIT COMMITTEE**

The Company set up an audit committee (the “Committee”) on 24 May 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprise three independent non executive directors, namely Shen Yu Xiang, Xue Chang Qing and Yan Li Jin, Shen Yu Xiang is the Chairman of the audit committee. The primary duties of the Committee are to review and provide supervision over the financial reporting procedures and internal control system of the Group.

The committee 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 2010.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2010, the Group had 286 employees (31 December 2009: 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 2010, 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 2010