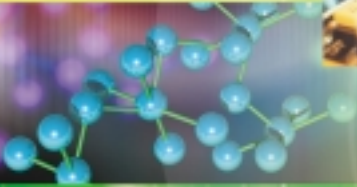




吉林省輝南長龍生化藥業股份有限公司
Jilin Province Huinan Changlong Bio-pharmacy Company Limited
(a joint stock limited company incorporated in the People's Republic of China)



Third Quarterly Report 2002



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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 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.

THIRD QUARTERLY REPORT (UNAUDITED)

For the nine months ended 30 September, 2002

Consolidated Profit and Loss Account (Unaudited)

The Directors of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (“the Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiary for the nine months and three months ended 30 September, 2002 together with the comparative figures for the corresponding periods in 2001 as follows:

		Nine months ended 30 September		Three months ended 30 September	
		2002	2001	2002	2001
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	51,949	61,574	18,949	23,453
Cost of sales		(13,115)	(12,763)	(4,535)	(4,464)
Gross profit		38,834	48,811	14,414	18,989
Other revenue	2	318	255	81	197
Selling expenses		(18,435)	(18,281)	(8,028)	(8,085)
General and administrative expenses		(5,824)	(5,569)	(1,955)	(1,718)
Profit from operations		14,893	25,216	4,512	9,383
Finance costs		(324)	(435)	(27)	(70)
Profit before taxation		14,569	24,781	4,485	9,313
Taxation	3	(5,346)	(8,178)	(1,642)	(3,074)
Profit attributable to shareholders		<u>9,223</u>	<u>16,603</u>	<u>2,843</u>	<u>6,239</u>
Earnings per share – Basic	4	<u>1.65 cents</u>	<u>3.47 cents</u>	<u>0.51 cents</u>	<u>1.12 cents</u>

Notes:

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 (長龍) and Shendi (神迪).

The principal accounting policies adopted in preparing the unaudited consolidated results conform to the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountant.

2. TURNOVER AND REVENUE

The Group's turnover comprises the invoiced value of merchandise sold net of Value Added Tax of the PRC and after allowances for returns and discounts.

	Nine months ended 30 September		Three months ended 30 September	
	2002	2001	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover				
Sales of medicine	51,949	61,574	18,949	23,453
Other revenue				
Bank interest income	318	255	81	197
Total revenue for the period	<u>52,267</u>	<u>61,829</u>	<u>19,030</u>	<u>23,650</u>

3. TAXATION

	Nine months ended 30 September		Three months ended 30 September	
	2002 <i>Rmb '000</i>	2001 <i>Rmb '000</i>	2002 <i>Rmb '000</i>	2001 <i>Rmb '000</i>
Hong Kong	0	0	0	0
Mainland China	<u>5,346</u>	<u>8,178</u>	<u>1,642</u>	<u>3,074</u>
Tax charge for the period	<u><u>5,346</u></u>	<u><u>8,178</u></u>	<u><u>1,642</u></u>	<u><u>3,074</u></u>

The Group did not have assessable profits arising in Hong Kong during the nine months and three months ended 30 September 2002 (2001: Nil). Mainland China income tax has been provided at the rate of 33% (2001: 33%) on the estimated assessable profit for the period.

The Group did not have any significant unprovided deferred tax liabilities for the nine months and three months ended 30 September 2002 (2001: Nil).

4. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2002 is based on the unaudited profit attributable to shareholders of approximately RMB9,223,000 and RMB2,843,000 respectively (2001: RMB16,603,000 and RMB6,239,000) and on the weighted average of 560,250,000 and 560,250,000 (2001: 478,928,571 and 560,250,000) shares in issue during the two periods ended 30 September 2002 respectively.

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

5. DIVIDENDS

The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: nil).

6. RESERVES

Other than the net profit for the three months ended 30 September 2002 and 30 September 2001, there was no movement to or from reserves.

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the nine months ended 30 September 2002, the Group recorded a turnover of approximately RMB51.9 millions, representing a decrease of 15.7% from RMB61.6 millions for the corresponding period in 2001. Profit attributable to shareholders for the nine months ended 30 September 2002 was RMB9.2 million, representing a decrease of 44.6% from RMB16.6 millions. For the nine months ended 30 September 2002, basic earning per share was RMB1.65 cents.

There were a few reasons that had resulted in the decrease of profitability. Firstly, the Directors believed that the Group's profitability was most significantly affected by the unfavorable impact of the global economic downturn and the weak market sentiment that had contributed to a drastic drop in the Group's sales volume.

Secondly, the growing consciousness of customers over cost reductions in this economic downturn had resulted in a significant change of customers' purchasing pattern and inventory management practices. The customers have reduced their inventory level sharply in order to cut down the carrying cost and thus this had contributed to the sharp drop in the Group's sales volume. In addition, the customers could take advantage of the further price reduction anticipated under this severe price competitive market by placing each order in smaller quantities on a more regular basis.

Thirdly, the introduction of the stringent mandatory regulations by the Chinese government to control the medicine advertising campaign via mass media in the PRC had significantly diminished the effectiveness of the Group's previous aggressive advertising campaign. The negative spill-over effect of the resulting reduction of advertising activities has begun to affect the Group's business.

BUSINESS REVIEW

Despite the global economic downturn, the Directors believed that its following five competitive advantages will enable the Group to maintain its market share and to contribute to the future development of the Group in the PRC pharmaceutical market:

1. Enhancement of competitiveness by research and development of new products

The Group has a research and development ("R & D") team which is led by professional scientific expertise. As a result of its effort, a total of 8 technological transfer contracts were concluded since the Group was listed on the 24 May 2001. Under these contracts, the Group will be awarded the protected production rights and the Certificate of New Medicine (新藥證書) upon the completion of the R & D of new medicines. The Directors believe that these products will generate significant revenue and profits for the Group in the coming future.

2. Expansion of the production facilities

In order to expand the production facilities, the Group has acquired a land of approximately 14,000 sq.m. in mid 2002. The Group is currently building a new industrial complex on the new site. With the addition of the new site that is expected to commence production activities next year, the Group has capabilities to develop the new medicines founded under the 8 technological transfer contracts.

3. Well-established relationships with research institutes

The Group's well established cooperative relationships with research laboratories, pharmaceutical institutions, medical experts and universities have enhanced the Group's ability to obtain and develop medicines being protected under either the category of the Protected Chinese Medicine (中藥保護品種) or that of the Certificate of New Medicine (新藥證書).

4. Extensive sales and distribution network in the PRC

The Group's profound marketing and distribution network of pharmaceutical products covers 30 provinces and municipalities in the PRC. The Group's advertising campaigns aim to focus on not only the product effectiveness, but also the brand name of Changlong (長龍).

5. Brand awareness of Changlong and Shendi

The Group's well-established brandnames of Changlong (長龍) and Shendi (神迪) have won multiple prizes and awards and have been recognized by various hospitals, clinics and pharmacy wholesalers and retailers. In addition, the grant of the Certificate of GMP For Human Drugs (藥品GMP證書) to the Group has enhanced customers' confidence in the Group;

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the nine months ended 30 September 2002, the Group's primary source of funds was cash from the operating activities. As at 30 September 2002, the Group had cash and bank balances and consolidated net asset value of approximately RMB40 million and RMB183 million respectively.

During this reporting period, the Group had settled all its bank borrowings and turned its gearing ratio to zero.

For the nine months ended 30 September 2002, the Group generated revenue and incurred costs mainly in Hong Kong dollars and Renminbi. The Directors consider the impact on foreign exchange exposure of the Group is minimal.

FUTURE PROSPECTS

The Directors noticed that the Group is now facing new challenges in the highly competitive pharmaceutical market. These challenges include weak market sentiment, low market barriers, high price sensitivity and long development lead time of new medicines. Despite of these new challenges, the Directors are confident that the Group will continue to strive to retain its market share through its strategic long and short terms efforts. The Directors believed that the completion of the grant of the 8 protected production rights and the Certificates of New Medicine will generate a new stream of revenue and profits for the Group in the long run.

For the short run, the Directors believe that the Group has the ability to optimize resources utilization as well as to continue its strenuous efforts in the promotional activities of the Group's products. For instance, the Group will participate in the 49th Annual National Pharmacy Trade Conference cum the 1st National Non-prescription Medicines Trade Conference (第49屆全國藥品交易會暨第一屆全國非處方藥品交易會), which will be held from 7 December 2002 to 9 December 2002 in Guangzhou. The Directors believe that a significant amount of contract sum would be concluded during the conference. This will be expected to contribute significantly to the profitability of the Group for the year ended 31 December 2002.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2002, the interests of the Directors, supervisors and chief executive in the registered capital of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.4 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Directors	Type of interests	Number of domestic shares	Percentage of interest in the share capital of the Company
Zhang Hong	Personal	101,925,000	18.19
Zhang Xiao Guang	Personal	51,000,000	9.10
Qiao Hong Kuan	Personal	39,900,000	7.12

Save as disclosed above, none of the Directors, the supervisors or chief executive, nor their spouses or children under 18 years of age, as at 30 September 2002, had any interest in any shares or debentures of the Company or any associated corporation as defined in the SDI Ordinance.

None of the Directors, the supervisors or chief executive, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities in the Company during the nine months ended 30 September 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, shareholders with an interest of 10% or more of the issued shared capital of the Company were as follows:

Name of substantial shareholders	Number of domestic shares	Approximate effective interests in the registered capital of the Company %
Huinan County SAB (<i>Note</i>)	81,975,000	14.63
Zhang Hong	101,925,000	18.19

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.

COMPETING INTEREST

During the period under review, none of the Directors, the substantial shareholders, nor the initial management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SPONSORS' INTEREST

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), as at 30 September 2002, neither Oriental Patron nor its directors or employees or associates had any interests in the share capital of the Company as at 30 September 2002 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 11 May 2001 made between Oriental Patron as the sponsor and the Company, Oriental Patron received fees for acting as the Company's retained sponsor for the period from 24 May 2001 to 31 December 2003.

AUDIT COMMITTEE

An audit committee of the Company had been established with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group. The Group's unaudited quarterly results for the nine months ended 30 September 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 30 September 2002, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed shares.

By order of the Board
Zhang Hong
Chairman

Jilin, the PRC
11 November 2002