



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)



1st Quarterly Report

2003

Bio-pharmacy





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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.

FIRST QUARTERLY REPORT (UNAUDITED)

For the three months ended 31 March, 2003

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 subsidiaries (the “Group”) for the three months ended 31 March, 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

		Three months ended 31 March	
	Notes	2003 Rmb'000	2002 Rmb'000
Turnover	2	15,344	16,377
Cost of sales		<u>(3,804)</u>	<u>(4,422)</u>
Gross profit		11,540	11,955
Other revenue		57	18
Selling expenses		(5,382)	(4,346)
General and administrative expenses		<u>(3,872)</u>	<u>(2,714)</u>
Profit from operations		2,343	4,913
Finance costs		<u>(0)</u>	<u>(65)</u>
Profit before taxation		2,343	4,848
Taxation	3	<u>(764)</u>	<u>(1,600)</u>
Profit attributable to shareholders		<u>1,579</u>	<u>3,248</u>
Earnings per share – Basic	4	<u>0.28 cents</u>	<u>0.58 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 brand names 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

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.

3. TAXATION

	Three months ended 31 March	
	2003	2002
	Rmb'000	Rmb'000
The charge comprises		
PRC income tax	<u>764</u>	<u>1,600</u>

The Group did not have assessable profits arising in Hong Kong during the three months ended 31 March 2003(2002: Nil). The PRC income tax has been provided at the rate of 33% (2002:33%) on the estimated assessable profit for the period.

The Group did not have any significant unprovided deferred tax liabilities for the three months ended 31 March 2003. (2002: Nil)

4. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2003 is based on the unaudited profit attributable to shareholders of approximately RMB1,579,000 (2002:RMB3,248,000) and on the weighted average number of 560,250,000 (2002: 560,250,000) shares in issue.

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 three months ended 31 March 2003. (2002: nil).

6. RESERVES

Other than the net profit for the three months ended 31 March 2003 and 31 March 2002, there was no movement to or from reserves.

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the three months ended 31 March 2003, the turnover of the Group amounted to approximately RMB 15,344,000, representing a decrease of approximately 6.3% over the corresponding period of 2002. Profits attributable to shareholders amounted to approximately RMB1,579,000, representing a decrease of approximately RMB1.67 millions over the corresponding period of 2002. Earning per share was RMB 0.28 cents.

With the Group's expansion in size, the Group's headcount at 31 March 2003 had increased by 7% as compared to that as at 31 March 2002. In addition, the management initiatives on research and development ("R & D") continued to be the core management strategy to maintain its strong market position. The Group had diverted significant resources, time and efforts on its research activities. In addition, the Company had devoted more efforts to sales and promotion, by participating in technical conferences and trade fairs as well as conducting regular customers' visits in the PRC. As a result of the above, selling and administrative expenses for the three months ended 31 March 2003 increased by approximately RMB 2.2 millions as compared to the corresponding period in 2002. The unfavorable impact of the global economic downturn that still shows no sign of recovery and the weak market sentiment also significantly affect the Group's effort in stimulating sales volume.

BUSINESS REVIEW

The Directors believed that through maintaining the existing product quality and enhancing the R & D efforts are the key factors to the Group's continuous success. To achieve these directions, the Group places high priority on R & D and is committed to expanding its R & D capabilities.

Research and development of new products

As at 31 March 2003, there were over 20 joint research projects undertaken by the Group's R & D Department and various reputable R & D companies, or universities and research institutes in the PRC. Since some of these new medicines are expected to be granted the production permits within this year, the Directors believe that this new stream of revenue will generate significant profits for the Group in the coming future.

Production facilities

To cope with the Group's rapid development and production scheduling of new medicines, the Group has begun the construction of a synthesis and abstraction workshop since mid 2002. This workshop has two production lines. Currently, the Group had completed the construction of one production line, which was designed in producing the new medicines –

Shen Hai Kang capsule (腎海康膠囊). This medicine is currently at its final stage of obtaining the production permit as a Chinese Medicine Class 2 from the State Drugs Administration of the People's Republic of China (the "SDA"). The Directors believed that this medicine has the potential of Compound Huonaosu capsule (復方活腦素膠囊) to become the Group's another core revenue generator.

FINANCIAL POSITION

As at 31 March 2003, the Group had total outstanding bank borrowings of RMB 30 million (as at 31 March 2002: RMB 8.3 million), all of which were unsecured short-term bank borrowings. The interest rates of the outstanding bank loan were approximately 5% per annum.

Except for the bank borrowings disclosed above, as at 31 March 2003 and 2002, the Group did not have any committed borrowing facilities.

The financial position of the Group remains healthy. As at 31 March 2003, the Group had cash and bank balances and consolidated net asset value of approximately RMB 63 million and RMB 186.5 million respectively. This forms a solid foundation for the Group's forthcoming expansion and development.

FUTURE PROSPECTS

In the year ahead, the Group will continue to concentrate on the research and development of new products and enhancing production technologies of existing products. The Group will also continue to seek opportunities for strategic cooperation and synergy with R & R companies, or universities and research institutes. In addition, the Group plans to achieve functional cost savings through the monitoring of its operating costs and implementing the appropriate corrective cost control measures. The Group also plans to increase its productivity level, enhance its product quality as well as expand its marketing efforts to strengthen Changlong's position in the bio-pharmacy industry.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, 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 31 March 2003, 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 three months ended 31 March 2003.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, 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 (Note)	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 sponsors, Oriental Patron Asia Limited ("Oriental Patron"), as at 31 March 2003, neither Oriental Patron nor its directors or employees or associates had any interests in the share capital of the Company as at 31 March 2003 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 three months ended 31 March 2003 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 three months ended 31 March 2003, 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
9 May 2003