



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)



3rd 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.

THIRD QUARTERLY REPORT (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER, 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 nine months and three months ended 30 September, 2003 together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

	<i>Notes</i>	For the nine months ended 30 September		For the three months ended 30 September	
		2003	2002	2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	48,516	51,949	17,235	18,949
Cost of sales		(11,291)	(13,115)	(4,152)	(4,535)
Gross profit		37,225	38,834	13,083	14,414
Selling expenses		(18,908)	(18,435)	(6,830)	(8,028)
General and administrative expenses		(6,776)	(5,824)	(1,536)	(1,955)
Profit from operations		11,541	14,575	4,717	4,431
Finance income / (costs), net	3	(228)	(6)	(121)	54
Profit before taxation		11,313	14,569	4,596	4,485
Taxation	4	(4,104)	(5,346)	(1,603)	(1,642)
Profit attributable to shareholders		7,209	9,223	2,993	2,843
Earnings per share - Basic	5	1.29 cents	1.65 cents	0.53 cents	0.51 cents

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 and Shendi.

The accompanying unaudited results are prepared in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountant. The accounting policies and basis for the preparation of the unaudited results of the Group are consistent with those used in the annual financial statements for the year ended 31 December 2002.

All significant transactions and balances within the Group are eliminated on consolidation.

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.

	For the nine months ended 30 September		For the three months ended 30 September	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover				
Sales of medicine	<u>48,516</u>	<u>51,949</u>	<u>17,235</u>	<u>18,949</u>

3. FINANCE INCOME / (COSTS), NET

	For the nine months ended 30 September		For the three months ended 30 September	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank loan repayable within five years	(696)	(324)	(173)	(27)
Interest income	196	318	52	81
Others	272	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Finance income / (costs), net	<u>(228)</u>	<u>(6)</u>	<u>(121)</u>	<u>54</u>

4. TAXATION

	For the nine months ended 30 September		For the three months ended 30 September	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Hong Kong	0	0	0	0
Mainland China	4,104	5,346	1,603	1,642
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Tax charge for the period	<u>4,104</u>	<u>5,346</u>	<u>1,603</u>	<u>1,642</u>

The Group did not have assessable profits arising in Hong Kong during the nine months and three months ended 30 September 2003(2002: Nil). Mainland China 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 nine months and three months ended 30 September 2003. (2002: Nil)

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2003 is based on the unaudited profit attributable to shareholders of approximately RMB 7,209,000 and RMB 2,993,000 respectively (2002:RMB 9,223,000 and RMB 2,843,000) and on the weighted average of 560,250,000 and 560,250,000 (2002: 560,250,000 and 560,250,000) shares in issue during the two periods ended 30 September 2003 respectively.

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

6. DIVIDENDS

The Board of Directors (the “Board”) does not recommend the payment of an interim dividend for the nine months ended 30 September 2003. (2002:nil).

7. RESERVES

Other than the net profit for the three months ended 30 September 2003 and 30 September 2002, there was no movement to or from reserves.

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the nine months ended 30 September 2003, the Group recorded a turnover of approximately RMB 48.5 million, representing a decrease of 6.6% from RMB 51.9 million for the corresponding period in 2002. Profit attributable to shareholders for the nine months ended 30 September 2003 was RMB 7.2 million, representing a decrease of 21.7% from RMB 9.2 million for the corresponding period in 2002. For the nine months ended 30 September 2003, basic earning per share was RMB 1.29 cents.

The decrease in the Group’s profit attributable to shareholders of approximately RMB 2 million for the nine months ended 30 September 2003 and 2002 was mainly attributed to the increase in selling and distribution expenses and general and administrative expenses. Selling and distribution expenses and general and administrative expenses increased by RMB 1.4 million from RMB 24.3 million for the nine months ended 30 September 2002 to RMB 25.7 million for the same period ended 30 September 2003. This increase was mainly due to the increase of promotional and advertising activities for the new medicine of Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊), which was granted the production permit by the State Drugs Administration of the People’s Republic of China (the “SDA”) in May 2003. In addition, the increase in amortization expenses due to the purchase of technical know-how and prescription during the year 2003 had also contributed to the increase in the Group’s operating expenses.

BUSINESS REVIEW

Research and development of new products

As at 30 September 2003, there were over 20 joint research projects undertaken by the Group's Research and Development ("R & D") Department and various reputable R & D companies, or universities and research institutes in the PRC. The new medicine of Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊) is believed to be the Group's core revenue generator in the coming year. Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊) has an important medical breakthrough in the curing of renal failure and uremia, in which the Group had invested more than RMB 20 million in the research and development of this medicine. In May 2003, Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊) has been granted the Certificate of the New Medicines (新藥證書) by the SDA with a protection period of five years. To align with the commencement of production in June 2003, the Group has already begun to plan and develop the advertising program for this medicine. The advertisements of this medicine has been frequently seen in the Chinese Medicine Post (中國醫藥報) and the Healthy Post (建康報) in PRC. Furthermore, all senior management of the Group, together with the experts in our R & D Department, has been traveling around different provinces throughout PRC to introduce this new medicine to potential customers, such as the management in hospital and clinics.

Production facilities

Although the Group has concentrated most of its resources to develop the new medicine of Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊), the construction of the new industrial complex, which is located adjacent to the existing production compound, has been designed to expand the Group's production capability. Apart with one workshop for the new medicine of Hai Kun Shen Xi Jiao Nong (海昆腎喜膠囊) which has already commenced its production activity since June 2003, the construction of the other workshop, which is designed to produce another new medicine currently named as Yan Suan Tou Ban Jia Wo (鹽酸頭孢甲肟), has progressed satisfactorily during this reporting period. All related machinery and equipment has already been installed into the production line and the trial run will be implemented shortly.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2003, the Group had total outstanding bank borrowings of RMB 10 million (as at 30 September 2002: NIL), 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 30 September 2003 and 2002, the Group did not have any committed borrowing facilities.

The Group has maintained a sound financial position during this period. For the nine months ended 30 September 2003, the Group's primary source of funds was cash from the operating activities. As at 30 September 2003, the Group had cash and bank balances and consolidated net asset value of approximately RMB 29 million and RMB 192 million respectively.

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

In the year ahead, the Group will continue to focus on scientific innovation and strengthen its research and development of new products as well as enhance the 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 will increase its marketing efforts, strengthen the internal management control, implement brand name strategy and improve the staff quality. The Group also plans to achieve functional cost savings through the monitoring of its operating costs and implementing the appropriate corrective cost control measures.

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 shareholders for their continuing support. We 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

As at 30 September 2003, the interests and short positions of the Directors 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 5.4 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
Zhang Hong	Personal	Beneficial owner	101,925,000	26.28	18.19
Zhang Xiao Guang	Personal	Beneficial owner	51,000,000	13.15	9.10
Qiao Hong Kuan	Personal	Beneficial owner	39,900,000	10.29	7.12

Save as disclosed above, as at 30 September 2003, none of the Directors, 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 5.4 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 and chief executives to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the following persons (other than the Directors 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
Zhang Hong	Beneficial owner	101,925,000	26.28	18.19
Zhang Xiao Guang	Beneficial owner	51,000,000	13.15	9.10
Qiao Hong Kuan	Beneficial owner	39,900,000	10.29	7.12

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 September 2003, the Directors were not aware of any other person (other than the Directors 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 or the management shareholders, significant shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any 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 30 September 2003, neither Oriental Patron nor its directors or employees or associates had any interests in the share capital of the Company as at 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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
11 November 2003