



1st quarterly  
2004



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)*



**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)*

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website ([www.hkgem.com](http://www.hkgem.com)) in order to obtain up-to-date information on GEM-listed issuers.**

*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. 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, 2004**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**

The Board of Directors (the “Board”) of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (“the Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March, 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

	<i>Notes</i>	<b>For the three months ended 31 March</b>	
		<b>2004</b>	2003
		<b><i>Rmb'000</i></b>	<i>Rmb'000</i>
Turnover	2	<b>15,957</b>	15,344
Cost of sales		<b>(3,812)</b>	(3,804)
Gross profit		<b>12,145</b>	11,540
Other revenue		<b>10</b>	57
Selling expenses		<b>(5,571)</b>	(5,382)
General and administrative expenses		<b>(3,405)</b>	(3,872)
Profit from operations		<b>3,179</b>	2,343
Finance costs		<b>(25)</b>	(0)
Profit before taxation		<b>3,154</b>	2,343
Taxation	4	<b>(1,041)</b>	(764)
Profit attributable to shareholders		<b><u>2,113</u></b>	<u>1,579</u>
Earnings per share – Basic	5	<b><u>0.38 cents</u></b>	<u>0.28 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 and Shendi.

The accompanying unaudited consolidated 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 consolidated results of the Group are consistent with those used in the annual financial statements for the year ended 31 December 2003.

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

## 2. TURNOVER

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

## 3. SEGMENTAL INFORMATION

Over 90% of the Group's turnover and contribution to the profit from operating activities was derived from the principal activities carried out in the PRC. Accordingly, no segment information is presented.

## 4. TAXATION

<b>Unaudited</b>	
<b>For the three months</b>	
<b>ended 31 March</b>	
<b>2004</b>	<b>2003</b>
<b>Rmb'000</b>	<b>Rmb'000</b>

The charge comprises:

PRC income tax	<u><u>1,041</u></u>	<u><u>764</u></u>
----------------	---------------------	-------------------

The Group did not have assessable profits arising in Hong Kong during the three months ended 31 March 2004(2003: Nil). The PRC income tax has been provided at the rate of 33% (2003:33%) 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 2004. (2003: Nil)

## 5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2004 is based on the unaudited profit attributable to shareholders of approximately RMB 2,113,000 (2003:RMB1,579,000) and on the weighted average of 560,250,000 (2003: 560,250,000) shares in issue during the period.

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

## 6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004. (2003: Nil).

## 7. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the three months ended 31 March 2004 and 31 March 2003.

	<b>Retained Profits</b>	
	<b>2004</b>	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
As at 1 January,	<b>66,900</b>	60,935
Net profit for the period	<b>2,113</b>	1,579
	<hr/>	<hr/>
As at 31 March,	<b><u>69,013</u></b>	<b><u>62,514</u></b>

## BUSINESS REVIEW AND PROSPECTS

### OPERATING RESULTS

For the three months ended 31 March 2004, the turnover of the Group was approximately RMB 15,957,000, representing an increase of approximately 4% over the corresponding period of 2003. Profits attributable to shareholders was approximately RMB 2,113,000 representing an increase of approximately 33.8% over the corresponding period of 2003. Earning per share was RMB 0.38 cents.

The first quarter of 2004 recorded a healthy rebound in the Asia economy. The Group has been generating satisfactory results from the recovering economic condition when comparing to the downturn, especially due to Severe Acute Respiratory Syndrome (“SARS”) last year. For the three months ended 31 March 2004, the Group recorded a satisfactory increase in both turnover and profit. During the first quarter of 2004, the Group’s turnover was RMB 15,957,000, an increase of 4% when compared to the same period last year. Gross profit margin increased slightly from 75.2% in 2003 to 76.1% in 2004, mainly due to the loyalty discounts from suppliers. The selling expense as a percentage of turnover was 34.9% in 2004. This was almost the same as previous year at 35.1% in 2003. General and administrative expenses decreased from RMB 3,872,000 for the period ended 31 March 2003 to RMB 3,405,000 for the same period in 2004. The combination of an increase in turnover, decrease in selling expenses as a percentage of turnover and the dropped in general and administrative expenses led to an increase in profit attributable to shareholders of 33.82% to RMB 2,113,000.

## **BUSINESS REVIEW**

The management initiatives on research and development (“R & D”) continued to be the core management strategy to maintain its strong market position. The R & D Department focuses not only on exploring new product with new curative effect, but also focuses on continuous product improvement. As at 31 March 2004, there were over 20 joint research projects undertaking by the Group’s R & D Department and various reputable R & D companies, or universities and research institutes in the PRC.

The construction of the second workshop, which is designed to produce a new medicine currently named as “Yan Suan Tou Ban Jia Wo”, is in the final stage of installing machinery and equipment in the production line. The Group believes that the production permit for this medicine will be issued shortly and after which the trial run will be implemented accordingly.

In addition, to cope with the Group’s marketing plan, the Group’s website of [www.jlchanglong.com](http://www.jlchanglong.com) has been redesigned. The redesigned website is more informative, market oriented and provides first hand information of the Company’s products mainly targeted at the PRC market. This website has been launched since late March 2004.

## **FINANCIAL POSITION**

The Group has maintained a sound financial position during this period. For the three months ended 31 March 2004, the Group’s primary source of funds was cash from the operating activities. As at 31 March 2004, the Group had cash and bank balances and consolidated net asset value of approximately RMB11.9 million and RMB 195.7 million respectively.

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

For the three months ended 31 March 2004, 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**

Looking ahead, the Group maintains an optimistic view in its business performance for the rest of the year. This is in line with the Group's satisfactory results in the first quarter and the projected favourable economic outlook in PRC. In addition, the Group will continue to focus on profit maximization through incremental sales, margin improvement, functional cost savings, monitoring and implementing the appropriate corrective cost control measures etc. Moreover, the management is confident that a series of new medicines will be launched in 2004 that will generate new stream of revenue to the Group.

## **DIRECTORS' INTERESTS IN SHARES**

As at 31 March 2004, 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 pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 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>
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 31 March 2004, none of the Directors 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 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 31 March 2004, 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 (Note)	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 31 March 2004, 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, 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.



## **AUDIT COMMITTEE**

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee according to “A Guide For The Formation of An Audit Committee” compiled by the Hong Kong Society of Accountants. In compliance with Rules 5.29 and 5.30 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group. The audit committee members are Mr. Nan Zheng and Mr. Shen Yu Xiang, who are independent non-executive directors of the Company.

Up to the date of this announcement, one meeting has been conducted by the audit committee in this quarter. The meeting was held on 26 March 2004 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Group for the year ended 31 December 2003. The Group’s unaudited quarterly results for the three months ended 31 March 2004 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.

## **BOARD PRACTICES AND PROCEDURES**

The Group has complied with rules 5.34 to 5.45 to the GEM Listing Rules concerning board practices and procedures throughout the three months ended 31 March 2004.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the three months ended 31 March 2004, 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  
12 May 2004