



3rd 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)



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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, 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 nine months and three months ended 30 September, 2004 together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	<i>Notes</i>	For the nine months ended 30 September		For the three months ended 30 September	
		2004	2003	2004	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	49,894	48,516	17,354	17,235
Cost of sales		(11,779)	(11,291)	(4,418)	(4,152)
Gross profit		38,115	37,225	12,936	13,083
Other revenue		124	468	61	52
Selling expenses		(16,339)	(18,908)	(5,133)	(6,830)
General and administrative expenses		(8,863)	(6,776)	(2,805)	(1,536)
Profit from operations		13,037	12,009	5,059	4,769
Finance costs		(281)	(696)	(119)	(173)
Profit before taxation		12,756	11,313	4,940	4,596
Taxation	4	(4,813)	(4,104)	(1,639)	(1,603)
Profit attributable to shareholders		7,943	7,209	3,301	2,993
Earnings per share – Basic	5	1.42 cents	1.29 cents	0.59 cents	0.53 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 brandnames of Changlong and Shendi.

The Group's unaudited consolidated results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted in preparing the unaudited consolidated results for the nine months and three months ended 30 September 2004 and 2003 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003. The consolidated results are unaudited but have been reviewed by the Company's audit committee.

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 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 present.

4. TAXATION

For the nine months ended 30 September		For the three months ended 30 September	
2004	2003	2004	2003
<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>

The charge comprises:

PRC income tax	<u>4,813</u>	<u>4,104</u>	<u>1,639</u>	<u>1,603</u>
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The Group did not have assessable profits arising in Hong Kong during the nine months and three months ended 30 September 2004 (2003: Nil). Mainland China 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 nine months and three months ended 30 September 2004 (2003: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2004 is based on the unaudited profit attributable to shareholders of approximately RMB 7,943,000 and RMB 3,301,000 respectively (2003: RMB 7,209,000 and RMB 2,993,000) and on the weighted average of 560,250,000 and 560,250,000 (2003: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 September 2004 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 does not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: nil).

7. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the nine months ended 30 September 2004 and 30 September 2003.

	Retained Profits <i>RMB'000</i>
As at 1 January 2003 (Audited)	60,935
Net profit for the nine months ended 30 September 2003 (Unaudited)	7,209
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As at 30 September 2003 (Unaudited)	<u>68,144</u>
As at 1 January 2004 (Audited)	66,900
Net profit for the nine months ended 30 September 2004 (Unaudited)	7,943
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As at 30 September 2004 (Unaudited)	<u>74,843</u>

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the nine months ended 30 September 2004, the Group recorded a turnover of approximately RMB 49.89 million, representing an increase of 2.8% from RMB 48.52 million for the corresponding period in 2003. Profit attributable to shareholders for the nine months ended 30 September 2004 was approximately RMB 7.94 million, representing an increase of 10.2% from approximately RMB 7.21 million for the corresponding period in 2003. Basic earning per share was RMB 1.42 cents.

For the nine months ended 30 September 2004, the Group recorded a steady growth in both turnover and profit. During the first three quarters of 2004, the Group's turnover was RMB 49,894,000, an increase of 2.8% when compared to the same period last year. Gross profit margin decreased slightly from 76.7% in 2003 to 76.4% in 2004. The selling expense as a percentage of turnover was 32.75% in 2004. This represented an improvement from 38.97% when compared to the same period last year. General and administrative expenses increased from RMB 6,776,000 for the nine months ended 30 September 2003 to RMB 8,863,000 for the same period in 2004. Interest charges decreased from RMB 696,000 for the period ended 30 September 2003 to RMB 281,000 for the same period in 2004. Though there was an increase in general and administrative expenses, the combination of an increase in turnover, decrease in selling expenses as a percentage of turnover and the decrease in interest expenses led to an increase in profit attributable to shareholders by RMB 734,000 to RMB 7,943,000.

BUSINESS REVIEW

Sales performance

The sales of the Compound Huonaoshu capsule (復方活腦舒膠囊), Xueshuan Xinmaining capsule (血栓心脈寧膠囊), Nao Dan Bai Shui Ie Wu for injection (腦蛋白水解物注射液) and Hai Kun Shen Xi capsule (海昆腎喜膠囊) were the top four best products sold during the third quarter. The selling of Compound Huonaoshu capsule (復方活腦舒膠囊) continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule (復方活腦舒膠囊) for the period ended 30 September 2004 was approximately RMB 25.9 million, which represents approximately 52% of the Group's total revenue and the selling of RMB 8.4 million for the third quarter. In addition, the sales of Xueshuan Xinmaining capsule (血栓心脈寧膠囊) reached approximately RMB 6 million for the nine months ended 30 September 2004 while that of Hai Kun Shen Xi capsule (海昆腎喜膠囊) had sales amounted over RMB 5 million. Other products such as Don Gui Long Hui tablet (當歸龍薈丸), Qianlie Guihuang tablet (前列桂黃片) and Nao Dan Bai Shui Ie Wu for injection (腦蛋白水解物注射液) were also considered as important products that contributed significantly to the Group's revenue during the first three quarters of 2004. They have realized sales of approximately RMB 1.2 million, RMB 1.6 million and RMB 2.1 million respectively for the nine months ended 30 September 2004. Among these, Nao Dan Bai Shui Ie Wu for injection (腦蛋白水解物注射液) and Hai Kun Shen Xi capsule (海昆腎喜膠囊) are new products developed in 2003. The Directors believe that these medicines have the potential to be another revenue generator after Compound Huonaoshu capsule (復方活腦舒膠囊) at the end of the year, especially Hai Kun Shen Xi capsule (海昆腎喜膠囊).

Research and development

During the first three quarters of 2004, our Research & Development ("R & D") team has completed the development of two new pharmaceutical products, namely Lin Suan Chuan Qin for injection (注射用磷酸川嗪) and Ku Shen Jian for injection (注射用苦參碱). The State Drug Approval Centre ("SDA") has granted the Certificate of the New Medicines (新藥證書) for the former on 30 April 2004 while that of the latter has been issued on 23 July 2004. In addition, the Company has been issued the prestigious Certificate of "State Major New Product" (國家重點新產品) for Hai Kun Shen Xi capsule (海昆腎喜膠囊) in July 2004 in recognition of the well-acclaimed achievements of the management and our R&D team in the development of this medicine that represents an important contribution to the medical development in the PRC. This certificate is issued jointly by four states bureau, namely the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), the Ministry of Commerce of the PRC (中華人民共和國商務部), General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) and State Environmental Protection Administration of China (國家環境保護總局).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2004, the Group had total outstanding bank borrowings of RMB 10 million (as at 30 September 2003: RMB 10 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 30 September 2004 and 2003, 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 2004, the Group's primary source of funds was cash from the operating activities. As at 30 September 2004, the Group had cash and bank balances and consolidated net asset value of approximately RMB 13.4 million and RMB 201.6 million respectively.

For the nine months ended 30 September 2004, 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.

GEARING RATIO

As at 30 September 2004, the Group had a gearing ratio of approximately 5 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 September 2004.

FUTURE PROSPECTS

The Directors believe that the Group shall be able to sustain a better-than-expected result in the last quarter of 2004 in view that the Group has already achieved a 10% increase in profit as compared to the same period last year.

The Hai Kun Shen Xi capsule (海昆腎喜膠囊) is a new product developed in 2003 and has commenced its trial sales at the end of 2003. In its first year of sales during 2004, the new product, Hai Kun Shen Xi capsule (海昆腎喜膠囊) has already achieved sales over RMB 5 million for the nine months ended 30 September 2004. During this period, Hai Kun Shen Xi capsule (海昆腎喜膠囊) has recorded steady sales performance and is ranked as the best third product sold. The Directors are confident that this product will continue to generate strong sales and is expected to improve its ranking to second best product sold at the end of the year.

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

At 30 September 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 of Hong Kong Limited (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

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 2004, 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 5.46 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 30 September 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 (<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 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2004, 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.

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 audit committee comprises three independent non-executive directors, namely, Mr Nan Zheng, Mr. Shen Yu Xiang and Mr. Wong Kin Fai, Kenny. 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 has reviewed with management the accounting principles and practices adopted by the Company and discussed financial reporting matters including a review of the unaudited third quarterly results for the nine months ended 30 September 2004 with the Directors.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 30 September 2004, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

COMPLIANCE WITH THE BOARD PRACTICES AND PROCEDURES OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules at any time during the nine months ended 30 September 2004.

By order of the Board
Zhang Hong
Chairman

Jilin, the PRC
12 November 2004

As at the date hereof, the executive directors of the Company are Mr. Zhang Hong, Mr. Zhang Xiao Guang, Ms. Li Yu Xian, Mr. Qiao Hong Kuan, Ms. Cui Shu Mei, Mr. Zhang Yuan Qiu, Mr. Zhao Bao Gang; the independent non-executive directors of the Company are Mr. Nan Zheng, Mr. Shen Yu Xiang and Mr. Wong Kin Fai, Kenny.