

1st Quarterly Report 2005



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.

FIRST QUARTERLY REPORT (UNAUDITED)

FOR THE THREE MONTHS ENDED 31 MARCH, 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The Board of Directors (the "Board") of Jilin Province Huinan Changlong Biopharmacy 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, 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

		For the three months ended 31 March	
	Notes	2005 RMB'000	2004 RMB'000
Turnover	2	15,921	15,957
Cost of sales		(3,662)	(3,812)
Gross profit		12,259	12,145
Other revenue		0	10
Selling expenses		(5,735)	(5,571)
General and administrative expenses		(3,819)	(3,405)
Profit from operations		2,705	3,179
Finance costs		(113)	(25)
Profit before taxation		2,592	3,154
Taxation	4	(850)	(1,041)
Profit attributable to shareholders		1,742	2,113
Earnings per share – Basic	5	0.31 cents	0.38 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 unaudited consolidated results have been prepared in accordance with all applicable accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

In 2004, the HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

The accounting policies adopted in preparing the unaudited consolidated results for the period under review are consistent with those followed in the Company's 2004 annual report.

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

Unaudited	
For the three months	
ended 31 March	
2005	2004
RMB'000	RMB'000

The charge comprises

PRC income tax

850	1,041
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The Group did not have assessable profits arising in Hong Kong during the three months ended 31 March 2005 (2004: Nil). The PRC income tax has been provided at the rate of 33% (2004: 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 2005 (2004: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2005 is based on the unaudited profit attributable to shareholders of approximately RMB1,742,000 (2004: RMB2,113,000) and on the weighted average of 560,250,000 (2004: 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 2005 (2004: nil).

7. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the three months ended 31 March 2005 and 31 March 2004.

	Retained Profits	
	2005	2004
	RMB'000	RMB'000
As at 1 January	73,148	66,900
Net profit for the period	1,742	2,113
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As at 31 March	74,890	69,013
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BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the three months ended 31 March 2005, the turnover of the Group amounted to approximately RMB15,921,000, representing a decrease of approximately 0.2% over the corresponding period of 2004. Profits attributable to shareholders amounted to approximately RMB1,742,000 representing a decrease of approximately 17.6% over the corresponding period of 2004. Earning per share was RMB0.31 cents.

During the first quarter of 2005, the Group's turnover was RMB15,921,000, a slightly decrease of 0.2% when compared to the same period last year. Gross profit margin increased from 76.1% in 2004 to 77% in 2005, mainly due to the locality discounts from suppliers. The selling expense as a percentage of turnover was almost the same with previous year, which was 36% in 2005 and 35% in 2004. General and administrative expenses increased from RMB3,405,000 for the period ended 31 March 2004 to RMB3,819,000 for the same period in 2005. Finance expense also increased by approximately RMB88,000 during the two reporting period. The combination of an increase in gross profit, increase in selling expenses as a percentage of turnovers, the increase in general and administrative expenses as well as the increase in finance expenses led to a decrease in profit attributable to shareholders of 17.6% to RMB1,742,000.

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The decrease in the Group's profitability was mainly attributed to the increase in general and administrative expenses. The increase in general and administrative expenses by RMB414,000 was due to the purchase of purchase know-how and prescription by approximately RMB11 million from RMB22 million at cost value as at 31 March 2004 to RMB33 million at cost value as at 31 March 2005. This had led to the increase in amortization expenses by approximately RMB500,000, which contributed to the increase of general and administrative expenses in this reporting period.

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 2005, there were over 15 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.

In addition, with the relocation of the production lines to the new industrial complex, the Group has redesigned its old production complex to utilize the vacant space. The Group has decided to construct a new workshop for the production of the Compound Bifonazole solution. The Group has not obtained the GMP certificate for the production of this type of liquid solution. As a result, it is the Group's target to develop this new formulation in 2005.

FINANCIAL POSITION

As at 31 March 2005, the Group had total outstanding bank borrowings of RMB10 million (as at 31 March 2004: RMB 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 31 March 2005 and 2004, the Group did not have any committed borrowing facilities.

The Group has maintained a sound financial position during this period. For the three months ended 31 March 2005, the Group's primary source of funds was cash from the operating activities. As at 31 March 2005, the Group had cash and bank balances and consolidated net asset value of approximately RMB10 million and RMB203.8 million respectively.

For the three months ended 31 March 2005, 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.

GEARING RATIO

As at 31 March 2005, 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 31 March 2005.

FUTURE PROSPECTS

Looking ahead, the Group maintains an optimistic view on business performance for the rest of the year. The Group will continue to focus on profit maximization through incremental sales, margin improvement, functional cost savings through the monitoring of its operating costs and implementing the appropriate corrective cost control measures etc. With the market maturity of its new medicine of Hai Kun Shen Xi capsule, the Group believes that the risk of product concentration can be reduced. It is the management intention that two revenue generators can be developed in the coming years.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2005, 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 31 March 2005, 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 2005, 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.

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Save as disclosed above, as at 31 March 2005, 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 management shareholders, the significant shareholders or the substantial shareholders (as defined in the GEM Listing Rules) of the Company 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 period ended 31 March 2005, 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.

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 anytime during the period ended 31 March 2005.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 24 May 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting procedures and internal control system of the Group. The Committee comprises the three independent non-executive directors, namely Mr. Nan Zheng, Mr. Shen Yu Xiang and Mr. Wong Kin Fai, Kenny. Mr. Nan Zheng is the chairman of the audit committee.

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The committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the audited results of the Group for the period ended 31 March 2005.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the three months ended 31 March 2005, 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
10 May 2005