



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)

Third Quarterly Report 2005

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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, 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 nine months and three months ended 30 September, 2005 together with the comparative figures for the corresponding periods in 2004 as follows:

		For the nine months ended 30 September		For the three months ended 30 September	
	Note	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	3	50,702	49,894	17,734	17,354
Cost of sales		(13,657)	(11,779)	(6,421)	(4,418)
Gross profit		37,045	38,115	11,313	12,936
Other revenue		39	124	-	61
Selling expenses		(16,452)	(16,339)	(6,078)	(5,133)
General and administrative expenses		(9,839)	(8,863)	(1,904)	(2,805)
Profit from operations		10,793	13,037	3,331	5,059
Finance costs		(291)	(281)	(37)	(119)
Profit before taxation		10,502	12,756	3,294	4,940
Taxation	5	(3,350)	(4,813)	(680)	(1,639)
Profit attributable to shareholders		7,152	7,943	2,614	3,301
Earnings per share					
- Basic	6	1.28 cents	1.42 cents	0.47 cents	0.59 cents

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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.

2. BASIS OF PREPARATION

The unaudited quarterly financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In 2004, HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong financial Reporting Standards ("HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has considered those new HKFRSs but does not expect that the issuance of those new HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented. The measurement basis used in the preparation of the financial statements is historical cost.

The accounting policies adopted in preparing the unaudited consolidated results for the nine months and three months ended 30 September 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004.

The condensed consolidated results for the nine months ended 30 September 2005 are unaudited and have been reviewed by the audit committee of the Company.

3. 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.

4. 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.

5. TAXATION

Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
3,350	4,813	680	1,639

The charge comprises:

PRC income tax	3,350	4,813	680	1,639
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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 2005 (2004: Nil). Mainland China 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 nine months and three months ended 30 September 2005. (2004: Nil)

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2005 is based on the unaudited profit attributable to shareholders of approximately RMB7,152,000 and RMB2,614,000 respectively (2004: RMB 7,943,000 and RMB3,301,000) and on the weighted average of 560,250,000 and 560,250,000 (2004: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 September 2005 respectively.

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

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7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005. (2004:nil).

8. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the nine months ended 30 September 2005 and 30 September 2004.

	Retained Profits <i>RMB'000</i>
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)	74,843
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As at 1 January 2005 (Audited)	73,148
Net profit for the nine months ended 30 September 2005 (Unaudited)	7,152
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As at 30 September 2005 (Unaudited)	80,300
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BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the nine months ended 30 September 2005, the Group recorded a turnover of approximately RMB50.7 million, representing an increase by 1.6% from RMB49.9 million during the corresponding period in 2004. Profit attributable to shareholders for the nine months ended 30 September 2005 was RMB7.15 million, representing a decrease by 9.96% from RMB7.94 million during the corresponding period in 2004. Basic earning per share was RMB1.28 cents.

For the nine months ended 30 September 2005, the Group recorded a steady growth in turnover. During the first three quarters of 2005, the Group's turnover was RMB50,702,000, an increase by 1.6% when compared to the same period last year. However, the cost of sales had increased from RMB11,779,000 for the nine months ended 30 September 2004 to RMB13,657,000 for the same period in 2005. The unfavourable increment of cost of sales led to the significant decrease of the Group's gross profit margin. Gross profit margin decreased from 76.4% in 2004 to 73.1% in 2005. The selling expense as a percentage of turnover was 32.5% in 2005.

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This represented a slightly improvement from 32.8% when compared to the same period last year. General and administrative expenses increased from RMB8,863,000 for the nine months ended 30 September 2004 to RMB 9,839,000 for the same period in 2005. Despite there was an increase in turnover, the combination of an increase in cost of sales, administrative expenses and interest expenses led to the decrease in profit attributable to shareholders by RMB791,000 to RMB 7,152,000.

The decrease in the Group's profitability was mainly attributed to the decrease in gross profit margin and the increase in general and administrative expenses. The decrease in gross profit margin was mainly attributed to the Group's new series of Tao Bou products(頭孢系列), especially Cefpiramide (頭孢匹胺), which was launched in May 2005. The setting of low gross profit margin of Cefpiramide (頭孢匹胺) was mainly due to the keen competition and the intention to expand market penetration by a lower price. On the other hand, the increase in general and administrative expenses by RMB976,000 was primarily due to the purchase of know-how and prescription by approximately RMB 18.6 million from RMB21.9 million at cost value as at 30 September 2004 to RMB40.5 million at cost value as at 30 September 2005. This had led to the increase in amortization expenses by approximately RMB1.5 million, which contributed to the increase of general and administrative expenses in this reporting period.

BUSINESS REVIEW

Sales performance

The sales of the Compound Huonaoshu capsule (復方活腦舒膠囊), Hai Kun Shen Xi capsule (海昆腎喜膠囊), Xueshuan Xinmaining capsule (血栓心脈寧膠囊) and Cerebroprotein Hydrolysate injection (腦蛋白水解物注射液) were the top four best products sold during the first three quarters of 2005. 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 2005 was approximately RMB 20.9 million, which represents approximately 41% of the Group's total revenue and the selling of RMB 4.7 million for the third quarter. In addition, the sales of Xueshuan Xinmaining capsule (血栓心脈寧膠囊) reached approximately RMB 5.1 million for the nine months ended 30 September 2005 while that of Hai Kun Shen Xi capsule(海昆腎喜膠囊) was over RMB 8.2 million. Other products such as Don Gui Long Hui tablet (當歸龍薈丸), Qianlie Guihuang tablet (前列桂黃片), Tao Bao's series(頭孢系列), Cefpiramide (頭孢匹胺) and Cerebroprotein Hydrolysate 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 2005. Among these, Tao Bao's series (頭孢系列), was the Group's new products in 2005, had sales amounted over RMB 4 million for this reporting

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period. However, due to the keen market competition and the amortization of its newly developed production lines, its cost of sales was extremely high which substantially lower the average gross profit margin of the Group. Ke Lin Mei powder (克磷霉素) was another new product which was launched in 2005.

Research and development

During the first three quarters of 2005, our Research & Development ("R & D") team has completed the development of new pharmaceutical products, namely Ke Lin Mei powder (克磷霉素) and the Tao Bao's series (头孢系列), such as Cefpiramide (头孢匹胺).

Production facilities

With the completion of the third and fourth workshop in the new industrial complex in September 2005, the Group has finally completed the re-construction of the Company's production lines. The third workshop is named as the "Chinese medicine extracts" workshop (中藥提取車間) while the fourth workshop is named as the "Pre-processing Chinese medicine" workshop (中藥前處理粉碎車間). Both the third and fourth workshops are designed to extract ingredients from Chinese medicine and reprocess them for use as the raw material of the other new medicines.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2005, the Group had total outstanding bank borrowings of RMB8.9 million (as at 30 September 2004: RMB10 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 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 nine months ended 30 September 2005, the Group's primary source of funds was cash from the operating activities. As at 30 September 2005, the Group had cash and bank balances and consolidated net asset value of approximately RMB 13.9 million and RMB 209.4 million respectively.

For the nine months ended 30 September 2005, 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 2005, the Group had a gearing ratio of approximately 4.3 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 September 2005.

FUTURE PROSPECTS

Looking ahead, the Group maintains an optimistic view on business performance for the rest of the year. 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 second product sold. In addition, it has been included in the approved medicines list of the Medical Benefit Scheme in 12 provinces in July 2005. Under the Medical Benefit Scheme, all patients enrolled in the scheme could reimburse for medicine in the approved list through the government hospitals. This will expectedly increase the sales of this product in the coming years.

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 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 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 2005, 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 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 30 September 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.

BOARD PRACTICES AND PROCEDURES

The Board practices and procedures set out in Rules 5.35 to 5.45 of the GEM listing rules were replaced by the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing rules, which has been effective for accounting period commencing on or after 1 January 2005. Appropriate actions have been taken by the Company for complying with the Code, except A2.1. The Group will complete the separation of the roles of chairman and chief executive officer with clear division of their responsibilities, and formalizing the function of the Board and management as soon as possible.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 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.

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 unaudited results of the Group for the period ended 30 September 2005.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 30 September 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
14 November 2005

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.