



**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)*

**First Quarterly Report 2006**

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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.*

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## FIRST QUARTERLY REPORT (UNAUDITED)

FOR THE THREE MONTHS ENDED 31 MARCH, 2006

### 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, 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

		For the three months ended 31 March	
		2006	2005
	Notes	RMB'000	RMB'000
Turnover	3	<b>13,809</b>	15,921
Cost of sales		<b>(4,537)</b>	(3,662)
Gross profit		<b>9,272</b>	12,259
Other revenue		<b>0</b>	0
Selling expenses		<b>(4,301)</b>	(5,735)
General and administrative expenses		<b>(3,803)</b>	(3,819)
Profit from operations		<b>1,168</b>	2,705
Finance costs		<b>(55)</b>	(113)
Profit before taxation		<b>1,113</b>	2,592
Taxation	5	<b>(334)</b>	(850)
Profit attributable to shareholders		<b>779</b>	1,742
Earnings per share – Basic	6	<b>0.14 cents</b>	0.31 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.

## **2. BASIS OF PREPARATION**

The unaudited consolidated results of the Group have been prepared under the historical cost convention as modified by changes in fair value of biological assets, and in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2006 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

The condensed consolidated results for the three months ended 31 March 2006 are unaudited and have been reviewed by the audit committee of the Company.

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### 3. TURNOVER

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

The Group has one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. During the period 31 March 2006, turnover of the Group is generated entirely from sales in the PRC and all identifiable assets of the Group are located in PRC. Accordingly, no segment analysis is presented.

### 5. TAXATION

<b>Unaudited</b>	
<b>For the three months</b>	
<b>ended 31 March</b>	
<b>2006</b>	2005
<b>RMB'000</b>	RMB'000

The charge comprises  
PRC income tax

<b>334</b>	850
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The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 33% (2005: 33%).

The Group's subsidiary in Hong Kong is subject to Hong Kong profits tax calculated at 17.5% on the estimated assessable profits. No provision has been made for Hong Kong profits tax as the subsidiary did not earn income subject to Hong Kong profits tax during the three months ended 31 March 2006 (2005: Nil).

The Group did not have any significant unprovided deferred tax liabilities for the three months ended 31 March 2006. (2005: Nil)

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## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the unaudited profit attributable to shareholders of approximately RMB779,000 (2005: RMB1,742,000) and on the weighted average of 560,250,000 (2005: 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.

## 7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006. (2005: nil).

## 8. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the three months ended 31 March 2006 and 31 March 2005.

	<b>Retained Profits</b> <i>RMB'000</i>
As at 1 January 2005 (Audited)	73,148
Net profit for the three months ended 31 March 2005 (Unaudited)	<u>1,742</u>
As at 31 March 2005 (Unaudited)	<u><u>74,890</u></u>
As at 1 January 2006 (Audited)	80,240
Net profit for the three months ended 31 March 2006 (Unaudited)	<u>779</u>
As at 31 March 2006 (Unaudited)	<u><u>81,019</u></u>

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## **BUSINESS REVIEW AND PROSPECTS**

### **OPERATING RESULTS**

For the three months ended 31 March 2006, the Group reported a turnover of approximately RMB13,809,000, representing a decrease of approximately RMB2,112,000 as compared to the same period last year. The new medicine of Hai Kun Shen Xi capsule has reached RMB3.2 million in this reporting period. This represented a 77% increment from approximately RMB1.8 million during the same period last year. However, the unsatisfactory performance of Compound Huonaoshu capsule due to a downturn in this market segment has resulted in the decrease in revenue for the three months ended 31 March 2006. The sales of the Compound Huonaoshu capsule were approximately RMB4.6 million in this reporting period. This represented a significant decrease from approximately RMB9.2 million during the same period last year.

The gross profit margin for the period ended 31 March 2006 was approximately 67%, representing a 9% decrease as compared to that of 76% for the period ended 31 March 2005.

The gross profit margin has decreased 9% mainly due to the relatively low gross profit margin for some new products namely Ming Mu Ji Li pill, Hai Li Tou Bao Pi An for injection and Ke Lin Mei Su for injection. The reason for low gross profit margin for these new medicines was mainly due to the Group's intention to penetrate into this market segment and increase the product awareness at the product introductory stage. Besides, since the Group would not consider these new medicines as the Group's important revenue stream, the selling of these medicines with a special lower price was a discount offer to the loyalty customers on bulk purchase of the Group's products. Furthermore, the Group continued to purchase the top-graded quality material to maintain the superiority and effectiveness of all its existing products. The increase in material cost also led to the unfavorable impact on gross profit margin.

### **Research and development**

The Company continue to speed up the development of new products with the aim to establish a strong foundation for the sustainable growth of the Company's business. In April 2006, the Company has been granted the GMP certifications of Lypophilized powder for injection and Small volume Parenteral Solution. With the GMP certification granted to these 2 medicines, the Company has already completed the GMP Standard certification for all its existing production lines.

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## **Production facilities**

The Company has also engaged in the reconstruction of its plants. The Company's research and development ("R&D") department has begun to redesign the production facilities of its existing workshops to cope with the promotion of various new products in the coming year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during this period. As at 31 March 2006, the Group had cash and bank balances amounted to RMB21.7 million (2005: RMB10 million) and short-term bank borrowings of RMB8.9 million (2005: RMB10 million). These borrowings were interest bearing at commercial rates and shall be repaid by 10 July 2006 and 13 July 2006. These borrowings were secured by certain equipment of the Group. As at 31 March 2006, the Group had consolidated net asset value of approximately RMB221,025,000 (2005: RMB203,971,000).

Except for the bank borrowings disclosed above, as at 31 March 2006 and 2005, the Group did not have any committed borrowing facilities.

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 2006, the Group had a gearing ratio of approximately 4.2 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 31 March 2006.

## **FUTURE PROSPECTS**

Looking forward, since the new pharmaceutical product, Hai Kun Shen Xi capsule has reached maturity in the market and another new drug, Xue Mai Qing tablet will soon be launched in the market, the Group believes that the high degree of dependence on its core product, Compound Huonaoshu Capsule will be greatly lessened and the risk of product concentration will also be lowered. The Group intends to cultivate the growth of these pharmaceutical products to become its three primary revenue generator during this year.



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## DIRECTORS' INTERESTS IN SHARES

As at 31 March 2006, 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 2006, 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.

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## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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 31 March 2006, 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.

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## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the period ended 31 March 2006, 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 CODE OF CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice (the "Code") as set out in the Appendix 15 of the GEM Listing Rules throughout the period ended 31 March 2006 except the Code 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.

## **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.

At 18 April, 2006, Mr. Wong Kin Fai, Kenny has resigned as an Independent Non-executive Director of the Company and ceased to be a member of Audit Committee. Pursuant to the rules 5.28 of the GEM Listing Rules, the Audit Committee must comprise a minimum of three members and the Committee is now composed of only two independent non-executive directors, namely Mr. Nan Zheng and Mr. Shen Yu Xiang. Mr. Nan Zheng is the chairman of the audit committee.

The Company will try its best endeavours to identify suitable candidates to fill in the vacancy as required under rule 5.28 and 5.33 of the GEM Listing Rules.

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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 2006.

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

During the three months ended 31 March 2006, 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  
3 May 2006

*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 and Mr. Shen Yu Xiang.*