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 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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) in order to obtain up-to-date information on GEM-listed issuers.

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, 2006

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

		For the nine months ended 30 September		**For the three months ended 30 September**	
		2006	2005	**2006**	2005
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	*3*	**49,128**	50,702	**17,162**	17,734
Cost of sales		**(17,765)**	(13,657)	**(6,202)**	(6,421)
Gross profit		**31,363**	37,045	**10,960**	11,313
Other revenue		**19**	39	**12**	0
Selling expenses		**(17,656)**	(16,452)	**(6,489)**	(6,078)
General and administrative expenses		**(11,236)**	(9,839)	**(3,554)**	(1,904)
Profit from operations		**2,490**	10,793	**929**	3,331
Finance costs		**(140)**	(291)	**(16)**	(37)
Profit before taxation		**2,350**	10,502	**913**	3,294
Taxation	*5*	**(1,057)**	(3,350)	**(556)**	(680)
Profit attributable to shareholders		**1,293**	7,152	**357**	2,614
Earnings per share – Basic	*6*	**0.23 cents**	1.28 cents	**0.064 cents**	0.47 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.

2. BASIS OF PREPARATION

The unaudited quarterly financial statements of the Group 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.

The accounting policies adopted in preparing the unaudited consolidated results for the nine months and three months ended 30 September 2006 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

The consolidated results are unaudited but 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

The Group has one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. For the nine months ended 30 September 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 segmental analysis is prepared for the period.

5. TAXATION

	Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The charge comprises:				
PRC income tax	**1,057**	3,350	**556**	680

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 period (2005: Nil).

The Group did not have any significant unprovided deferred taxation for the nine months and three months ended 30 September 2006. (2005: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2006 is based on the unaudited profit attributable to shareholders of approximately RMB1,293,000 and RMB357,000 respectively (2005: RMB7,152,000 and RMB2,614,000) and on the weighted average of 560,250,000 and 560,250,000 (2005: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 September 2006 respectively.

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 nine months ended 30 September 2006. (2005: nil).

8. RESERVES

	Share Capital	Share premium	PRC statutory funds: Statutory surplus reserve	PRC statutory funds: Staff public welfare fund	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005 (Audited)	56,025	51,098	14,639	7,319	73,148	202,229
Net profit for the nine months ended 30 September 2005 (Unaudited)	–	–	–	–	7,152	7,152
At 30 September 2005 (Unaudited)	56,025	51,098	14,639	7,319	80,300	209,381
Net profit for the three months ended 31 December 2005 (Unaudited)	–	–	–	–	865	865
Transfer to statutory funds	–	–	617	308	925	–
Balance as at 31 December 2005 (Audited)	56,025	51,098	15,256	7,627	80,240	210,246
Net profit for the nine months ended 30 September 2006 (Unaudited)	–	–	–	–	1,293	1,293
Dividends paid	–	–	–	–	(7,003)	(7,003)
At 30 September 2006 (Unaudited)	**56,025**	**51,098**	**15,256**	**7,627**	**74,530**	**204,536**

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the nine months ended 30 September 2006, the Group recorded a turnover of approximately RMB49.1 million, representing a decrease by 3% from RMB50.7 million during the corresponding period in 2005. Profit attributable to shareholders for the nine months ended 30 September 2006 was RMB1.29 million, representing a decrease by 83% from RMB7.15 million during the corresponding period in 2005.

This unsatisfactory result was mainly due to the decrease in sales of the Company's core products, particularly Compound Huonaoshu capsule. The sales of the Compound Huonaoshu capsule were approximately RMB14 million for the nine months ended 30 September 2006. This represented a significant decrease from approximately RMB20.9 million for the same period last year. Since Compound Huonaoshu capsule has a high gross profit margin, which was approximately 80%, its significant decrease in sales has resulted in the decrease in operating profit by RMB5.5 millions. As a result, the profit attributable to the shareholders decreased to approximately RMB1,293,000 for the nine months period in 2006, representing a 83% decrease from approximately RMB7,152,000 for the same period last year.

The gross profit margin for the period ended 30 September 2006 was approximately 64%, representing a 9% decrease as compared to that of 73% for the same period last year. The gross profit margin has decreased 9% mainly due to the relatively low gross profit margin for some new products namely Chang Long Li Di, Yi Li Xin Tou Bao Pi An for injection, and Hai Li Tou Bao Pi An for injection. The gross profit margin for the nine months ended 30 September 2006 for these products was 12.12%, 12.66% and 5.1% respectively. The reason for the 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 fixed cost of producing these new medicines, which included the absorption of overhead and labor cost, was approximately RMB1 million each in 2006, while the sales of these medicines for the period ended 30 September 2006 was only approximately RMB1 million to RMB4 million each. In addition, 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.

The selling expense increased from RMB16,452,000 for the nine months ended 30 September 2005 to RMB17,656,000 for the same period in 2006. General and administrative expenses increased from RMB9,839,000 to RMB11,236,000 for the same period in 2006. The total increase of selling expenses and general and administrative expenses by approximately RMB2.6 millions for the first three quarters of 2006 led to the significant decrease in operating profit.

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), and Xueshuan Xinmaining capsule (血栓心脈寧膠囊) were the top three best products sold during the first three quarters of 2006. 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 2006 was approximately RMB14.2 million, which represents approximately 29% of the Group's total revenue and the selling of RMB4.9 million for the third quarter. In addition, the sales of Xueshuan Xinmaining capsule (血栓心脈寧膠囊) reached approximately RMB4.2 million for the nine months ended 30 September 2006 while that of Hai Kun Shen Xi capsule (海昆腎喜膠囊) was over RMB12.3 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 Jie Wu (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 2006.

There were a few reasons that had resulted in the decrease of profitability. Firstly, the severe price competition together with the rising selling expenses directly eroded the profits of the Company. Secondly, the growing consciousness of customers, especially those from hospital and clinic, over price competition had resulted in a change in customers' purchasing pattern and inventory management practices. The customers have reduced their inventory level sharply in order to cut down the carrying cost. In addition, the customers could take advantage of the further price reduction anticipated under this severe price competitive market by placing each order in smaller quantities on a more regular basis. Thus, this had contributed to the sharp drop in the Group's sales volume, especially our core products of Compound Huonaoshu capsule.

Production facilities

During the third quarter of 2006, the new workshop for the production of the Compound Bifonazole solution (復方聯苯苄唑溶液) has been completed. At present, the new product of Compound Bifonazole solution has already commenced production.

Besides, all existing production lines in the original complex will be re-allocated if necessary in order to accommodate the manufacturing of new medicines that will be launched in the coming years.

Research and development

During the first three quarters of 2006, all the existing production lines of the company's major products have already obtained and renewed its GMP standard certifications.

The Company has already obtained GMP Certifications for the following:

1. Tablets (片劑) – valid until 25 January 2011

2. Capsules (膠囊劑) – valid until 25 January 2011

3. Granules (顆粒劑) – valid until 25 January 2011

4. Solution (external use) (外用溶液劑) – valid until 25 January 2011

5. Pill (Condensate) (濃縮丸丸劑) – valid until 25 January 2011

6. Sterile Bulk (Cefalotin Sodium, Cefpiramide) (無菌原料藥(頭孢噻吩鈉、頭孢匹胺)) – valid until 14 May 2010

7. Pill (Water Pills), Membrane (丸劑(水丸)、膜劑) – valid until 6 February 2010

8. Powder for injection (Cephalosporins) (頭孢菌素類粉針劑) – valid until 16 April 2007

9. Tablets (Penicillins) (青霉素片劑) – valid until 1 February 2009

10. Lyophilized powder for injection (凍乾粉針劑) – valid until 6 March 2011

11. Small volume Parenteral Solution (小容量注射劑) – valid until 6 March 2011

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the nine months ended 30 September 2006, the Group's primary source of funds was cash from the operating activities. As at 30 September 2006, the Group had cash and bank balances and consolidated net asset value of approximately RMB23 million and RMB204.5 million respectively.

For the nine months ended 30 September 2006, 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

On 13 July 2006, the Group had settled all its bank borrowings and its gearing ratio was zero.

FUTURE PROSPECTS

The management is aware of the significant drop in the sales volume of Compound Huonaoshu capsule that led to the significant decrease in operating profit for the period ended 30 September 2006. The management also predicted that there would be a decline in the financial result for the year ending 31 December 2006 when compared with the year before.

Looking ahead, the Group will grasp all opportunities to broaden the customers' base by sending sale persons to hospitals and clinics in different cities and provinces. In addition, the Group believed that Hai Kun Shen Xi capsule has reached maturity in the market and it has already recorded as the second top selling products and contributed sales volume of approximately RMB12.3 millions for the nine months ended 30 September 2006. The management believed that it has great potential to reach another record high in the year of 2007.

Furthermore, the new medicines, Compound Bifonazole solution has just been launched while Xue Mai Qing tablet will soon be launched in the market, could lessen the effect of sales drop from Compound Huonaoshu capsule in the coming years.

Looking forward, our Research and Development team will continue to develop new medicines and our sales persons will focus on expanding our sales network in PRC.

The Directors also 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 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 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 30 September 2006, 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 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 *(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 30 September 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 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.

BOARD PRACTICES AND PROCEDURES

During the period under review, the Company had not fully complied with the board practices and procedures as set out in Rules 5.34 of the GEM Listing Rules in respect of the Code on Corporate Governance Practices (the "CCGP"). The main deviations from the code provision set out in the CCGP were as follows:

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Hong assumes the role of both the chairman and the chief executive officer of the Company. The Board is of the view that this has not compromised accountability and independent decision making for the following reasons:

– the Audit Committee composes exclusively of independent non-executive directors;

– the independent directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

Mr. Zhang Hong, the chairman, is a substantial shareholder of the Company and has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

Besides, the Company has only two independent non executive directors and audit committee members and thus is temporarily unable to strictly comply with Rules 5.05 and 5.28 of the GEM Listing Rules. Details are set out in the section "Audit Committee" of the report.

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 ("INED") of the Company and ceased to be a member of Audit Committee. Pursuant to the rules 5.28 of the GEM Listing Rules, the Committee must comprise a minimum of three members and the Committee is now composed of only two INEDs, namely Mr. Nan Zheng and Mr. Shen Yu Xiang.

The Company requires additional time than expected to identify suitable candidates as new INED and Committee's member. The Group has identified suitable candidates, but there are formalities and procedures which the Group cannot finalize at that moment. In the meantime, the Company has only two INEDs and Committee members and thus is temporarily unable to strictly comply with Rules 5.05 and 5.28 of the GEM Listing Rules requiring the Company to retain at all times three INEDs and a minimum of three members to comprise the Committee. Also, the Company has breached the requirements of Listing Rules of 5.06 and 5.33 which require the Company to fill up the outstanding position within three months from the date of failing to meet these requirements.

The Board expects that the new appointment could be finalized as soon as possible and that the Company would be able to fully comply with Rules 5.05 and 5.28 of the GEM Listing Rules as soon as possible.

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 2006.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 30 September 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
10 November 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.