



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 2007

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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 2007

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 2007 together with the comparative unaudited figures for the corresponding periods in 2006 as follows:

		For the three months ended 31 March	
	Notes	2007 RMB'000	2006 RMB'000
Turnover	3	15,529	13,809
Cost of sales		(4,394)	(4,537)
Gross profit		11,135	9,272
Other revenue		73	0
Distribution and selling costs		(5,325)	(4,301)
Administrative expenses		(4,685)	(3,803)
Profit from operations		1,198	1,168
Finance costs		(1)	(55)
Profit before taxation		1,197	1,113
Taxation	5	(409)	(334)
Profit attributable to equity holders of the Company		788	779
Earnings per share – Basic	6	0.14 cents	0.14 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 brand names of Changlong and Shendi. There were no changes in the nature of the Group's principal activities during the period ended 31 March 2007.

2. BASIS OF PREPARATION

The unaudited consolidated results of the Group have been prepared under the historical cost convention as modified for the revaluation of financial instruments which have been measured at fair value, 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 2007 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

The condensed consolidated results for the three months ended 31 March 2007 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 only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. During the period ended 31 March 2007, 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 business or geographical segmental analysis is presented.

5. TAXATION

Unaudited	
For the three months	
ended 31 March	
2007	2006
<i>RMB'000</i>	<i>RMB'000</i>

The charge comprises
PRC income tax

409	334
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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% (2006:33%).

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 2007 (2006: Nil).

The Group did not have any significant unprovided deferred taxation for the three months ended 31 March 2007. (2006: Nil)

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6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately RMB788,000 (2006: RMB779,000) and the weighted average of 560,250,000 shares (2006: 560,250,000 shares).

Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the periods ended 31 March 2007 and 2006.

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2007. (2006: Nil).

8. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the three months ended 31 March 2007 and 31 March 2006.

	Retained Profits <i>RMB'000</i>
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>
As at 1 January 2007 (Audited)	75,872
Net profit for the three months ended 31 March 2007 (Unaudited)	<u>788</u>
As at 31 March 2007 (Unaudited)	<u><u>76,660</u></u>

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the three months ended 31 March 2007, the Group reported a turnover of approximately RMB15,529,000, representing an increase of approximately RMB1,720,000 as compared with the same period last year. Profit attributable to equity holders of the Company for the three months ended 31 March 2007 was RMB788,000, representing a slightly increase of 1.2% from RMB779,000 for the corresponding period in 2006. Basic earning per share was RMB0.14 cents.

Turnover increased for approximately RMB1,720,000 as compared with the same period last year mainly contributed by the increase in the sale of Hai Kun Shen Xi capsule.

The gross profit margin for the three months ended 31 March 2007 was approximately 72%, representing a 5% increase as compared to that of 67% for the period ended 31 March 2006. The reason for the increase of gross profit margin was mainly due to a change of product sales mix whereby the sale of products with lower margin had decreased. The Board believes that there were no significant fluctuation for the production and material cost.

The distribution and selling costs as a percentage of turnover was 34% in 2007. This represented a 3% increase from 31% when compared to the same period last year. Administrative expenses increased from RMB3,803,000 for the three months ended 31 March 2006 to RMB4,685,000 for the same period in 2007. This increase in distribution and selling costs and administrative expenses did not exceed the Group's monthly budget and were in line with the Group's expectation during the strategic planning for 2007.

Production facilities

The Group acquired another piece of land in front of the office building in December 2006. This piece of land, which was approximately 1,230 sq. m., was designed to construct a new workshop for the new medicine of Xue Mai Qing Tablet (血脈清片). The construction work has been commenced since April 2007 and is expected to complete before the end of 2007. Thereafter, there will be purchases of machineries and installation for the assembly lines. The final completion of the workshop will be scheduled in late 2008 and the commencement of the production lines is expected in early 2009.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. As at 31 March 2007, the Group had cash and bank balances amounted to RMB19.4 million (2006: RMB21.7 million). As at 31 March 2007, the Group had unaudited consolidated net asset value of approximately RMB206,444,000 (2006: RMB221,025,000).

For the three months ended 31 March 2007 and 2006, 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 2007, the Group did not have any committed borrowing facilities and the gearing ratio is zero.

As at 31 March 2006, the Group had short-term bank borrowings of RMB8.9 million and 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 ahead, the Board believes that expansion is inevitable in order to maintain a competitive edge in the pharmaceutical industry. Internally, the Board decides to place more resources to meet the official requirement on regulatory reform in medicine and hygiene system. For external expansion, the Group continued to increase the headcount of sale persons so as to help boost the sales in 2007. Looking forward, the Group maintains an optimistic view on business performance for the rest 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 year ahead.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 March 2007, the interests and short positions of the Directors, supervisors 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 to 5.67 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 2007, none of the Directors, supervisors 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 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' and Supervisors' 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, supervisor 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, supervisors 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 2007, the following persons (other than the Directors, supervisors 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

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 2007, the Directors were not aware of any other person (other than the Directors, supervisors 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 or the management shareholders, significant shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any 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 2007, 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 2007 subject to the deviations disclosed hereof.

Board of Directors

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 non-executive 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.

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.

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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 audited results of the Group for the period ended 31 March 2007.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the three months ended 31 March 2007, 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 2007

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.