



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 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.

THIRD QUARTERLY REPORT (UNAUDITED)

For the nine months ended 30 September, 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 nine months and three months ended 30 September, 2007 together with the comparative unaudited figures for the corresponding periods in 2006 as follows:

		For the nine months ended 30 September		For the three months ended 30 September	
	Notes	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Turnover	3	65,204	49,128	25,784	17,162
Cost of sales		(17,504)	(17,765)	(7,518)	(6,202)
Gross profit		47,700	31,363	18,266	10,960
Other revenue		169	19	54	12
Distribution and selling costs		(28,842)	(17,656)	(11,759)	(6,489)
Administrative expenses		(11,422)	(11,236)	(3,307)	(3,554)
Profit from operations		7,605	2,490	3,254	929
Finance costs		(27)	(140)	(23)	(16)
Profit before taxation		7,578	2,350	3,231	913
Taxation	5	(2,555)	(1,057)	(1,087)	(556)
Profit attributable to equity holders of the Company		5,023	1,293	2,144	357
Earnings per share - Basic	6	0.90 cents	0.23 cents	0.38 cents	0.064 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 Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The accounting policies adopted in preparing the unaudited consolidated results for the nine months and three months ended 30 September 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 nine months and three months ended 30 September 2007 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

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

5. TAXATION

	Unaudited		Unaudited	
	For the nine months ended 30 September		For the three months ended 30 September	
	2007	2006	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC income tax	<u>2,555</u>	<u>1,057</u>	<u>1,087</u>	<u>556</u>

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 period (2006: Nil).

The Group did not have any significant unprovided deferred taxation for the nine months and three months ended 30 September 2007 (2006: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of approximately RMB5,023,000 and RMB2,144,000 respectively (2006: RMB1,293,000 and RMB357,000) and on the weighted average of 560,250,000 and 560,250,000 (2006: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 September 2007 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 2007 (2006: Nil).

8. RESERVES

	PRC statutory funds					Total RMB'000
	Share Capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Staff public welfare fund RMB'000	Retained profits RMB'000	
At 1 January 2006 (Audited)	56,025	51,098	15,256	7,627	80,240	210,246
Net profit for the nine months ended 30 September 2006 (Unaudited)	0	0	0	0	1,293	1,293
At 30 September 2006 (Unaudited)	56,025	51,098	15,256	7,627	81,533	211,539
Net profit for the three months ended 31 December 2006 (Unaudited)	0	0	0	0	1,744	1,744
Transfer to statutory surplus reserve	0	0	7,627	(7,627)	0	0
Appropriation to statutory surplus reserve	0	0	402	0	(402)	0
Dividend	0	0	0	0	(7,003)	(7,003)
Balance as at 31 December 2006 (Audited)	56,025	51,098	23,285	0	75,872	206,280
Net profit for the nine months ended 30 September 2007 (Unaudited)	0	0	0	0	5,023	5,023
At 30 September 2007 (Unaudited)	56,025	51,098	23,285	0	80,895	211,303

BUSINESS REVIEW AND PROSPECTS

OPERATING RESULTS

For the nine months ended 30 September 2007, the Group recorded a turnover of approximately RMB65.2 million, representing an increase by 33% from RMB49.1 million during the corresponding period in 2006. Profit attributable to shareholders for the nine months ended 30 September 2007 was RMB5.02 million, representing an increase by 288% from RMB3.73 million during the corresponding period in 2006.

This satisfactory result was mainly due to the increase in the sales of the Company's core products, particularly Compound Huonaoshu capsule and Hai Kun Shen Xi capsule. The sales of the Compound Huonaoshu capsule was approximately RMB25 million for the nine months ended 30 September 2007. This represented a significant increase from approximately RMB14 million for the same period last year. The sales of the Hai Kun Shen Xi capsule was approximately RMB20.3 million for the nine months ended 30 September 2007. This represented a significant increase from approximately RMB12.3 million for the same period last year. As a result, the profit attributable to the shareholders increased to approximately RMB5,023,000 for the nine months period in 2007, representing a 288% increase from approximately RMB1,293,000 for the same period last year.

The gross profit margin for the period ended 30 September 2007 was approximately 73%, representing a 9% increase as compared to that of 64% for the same period last year. The increment in gross profit margin during the period ended 30 September 2007 was mainly due to the significant increase in the sales of the Compound Huonaoshu capsule and Hai Kun Shen Xi capsule, which have relatively high profit margin of more than 80%.

The selling expense as a percentage of turnover was 44% in 2007. This represented an increase from 36% when compared to the same period last year. The significant increase in selling expenses was due to an increase in the advertising and promotional activities. General and administrative expenses slightly increased from RMB11,236,000 to RMB11,422,000 for the same period in 2007.

BUSINESS REVIEW

Sales performance

The sales of the Compound Huonaoshu capsule, Hai Kun Shen Xi capsule, and Xueshuan Xinmaining capsule were the top three best products sold during the first three quarters of 2007. The selling of Compound Huonaoshu capsule continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule for the period ended 30 September 2007 was approximately RMB25 million, which represents approximately 38% of the Group's total revenue. In addition, the sales of Xueshuan Xinmaining capsule reached approximately RMB4.6 million for the nine months ended 30 September 2007 while that of Hai Kun Shen Xi capsule was over RMB20.3 million. Other products such as Don Gui Long Hui tablet, and Qianlie Guihuang tablet were also considered as important products that contributed significantly to the Group's revenue during the first three quarters of 2007.

Production facilities

As far as the renovation program is concerned, the Group has undergone the construction of the new workshop for the new medicine of Xue Mai Qing Tablet. According to our construction plan, the final completion of the workshop will be scheduled in late 2008 and the commencement of the production line is expected in early 2009.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this period. For the nine months ended 30 September 2007, the Group's primary source of funds was cash from the operating activities. As at 30 September 2007, the Group had cash and bank balances and consolidated net asset value of approximately RMB35 million and RMB211 million respectively.

For the nine months ended 30 September 2007, 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 2007, the Group had short-term bank borrowings of RMB6.99 million and a gearing ratio of approximately 3.3 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 September 2007.

As at 30 September 2006, the Group did not have any committed borrowing facilities and the gearing ratio was zero.

FUTURE PROSPECTS

Looking ahead, the management believed that Hai Kun Shen Xi capsule has reached maturity in the market and it is believed that this medicine will take over the Compound Huonaoshu capsule as our best selling product at the end of this year. For the nine months ended 30 September 2007, the sales of Hai Kun Shen Xi capsule has reached approximately Rmb20.3 millions while the sales of Compound Huonaoshu capsule was approximately RMB25 millions.

In addition, there have been substantial changes in the composition of the Board of the Company. According to the extraordinary general meeting (EGM) held at 9 August 2007, the Board will appoint a total of six directors. However, due to geographical non-proximity, the engagement letter has not been concluded yet. Despite the engagement of the new directors have not been officially completed, the Group has confident that the new composition of the Board will have significant contribution to the Group by enhancing the sales and distribution network.

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 and equity holders for their continuing support. The Directors 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 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	101,937,000	26.28	18.19
Zhang Xiao Guang	Personal	Beneficial owner	42,315,000	10.91	7.55
Ms. Cui Shu Mei	Personal	Beneficial owner	150,000	0.039	0.027
Ms. Li Yu Xian	Personal	Beneficial owner	90,000	0.023	0.016

Save as disclosed above, as at 30 September 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' 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 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 30 September 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, 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 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.

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. In fact, according to the extraordinary general meeting (EGM) held at 9 August 2007, the Company had already passed the resolutions to appoint suitable INEDs and Committee's member. However, due to geographical non-proximity, the submission of Form 6B (Director's Declaration and Undertaking and Acknowledgement) to the Stock Exchange of Hong Kong Limited was unexpectedly delayed. As a result, the announcement regarding the appointment of the new directors will be postponed until the approval of the Form 6B from the Exchange was granted.

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 2007.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 30 September 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
13 November 2007

As at the date of this report, the Board comprises five executive directors, being Mr. Zhang Hong, Mr. Zhang Xiao Guang, Ms. Li Yu Xian, Ms. Cui Shu Mei, Mr. Zhao Bao Gang; and two independent non-executive directors, being Mr. Nan Zheng and Mr. Shen Yu Xiang.