



**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 2008**

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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 2008

### 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 2008 together with the comparative unaudited figures for the corresponding periods in 2007 as follows:

		For the three months ended 31 March	
	Notes	2008 RMB'000	2007 RMB'000
Turnover	3	<b>22,925</b>	15,529
Cost of sales		<b>(4,889)</b>	(4,394)
Gross profit		<b>18,036</b>	11,135
Other revenue		<b>226</b>	73
Distribution and selling costs		<b>(12,172)</b>	(5,325)
Administrative expenses		<b>(3,536)</b>	(4,685)
Profit from operations		<b>2,554</b>	1,198
Finance costs		<b>0</b>	(1)
Profit before taxation		<b>2,554</b>	1,197
Taxation	5	<b>(650)</b>	(409)
Profit attributable to equity holders of the Company		<b>1,904</b>	788
Earnings per share – Basic	6	<b>0.34 cents</b>	0.14 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. There were no changes in the nature of the Group's principal activities during the period ended 31 March 2008.

## **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 2008 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

The condensed consolidated results for the three months ended 31 March 2008 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 2008, 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

<b>Unaudited</b>	
<b>For the three months</b>	
<b>ended 31 March</b>	
<b>2008</b>	2007
<b><i>RMB'000</i></b>	<i>RMB'000</i>

The charge comprises

PRC income tax

<b>650</b>	409
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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 25% (2007: 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 2008 (2007: Nil).

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## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2008 is based on the unaudited profit attributable to equity holders of the Company of approximately RMB1,904,000 (2007: RMB788,000) and the weighted average of 560,250,000 shares (2007: 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 2008 and 2007.

## 7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2008. (2007: Nil).

## 8. RESERVES

Other than as disclosed below, there was no movement in reserves of the Group for the three months ended 31 March 2008 and 31 March 2007.

	<b>Retained Profits</b> <i>RMB'000</i>
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>
As at 1 January 2008 (Audited)	86,801
Net profit for the three months ended 31 March 2008 (Unaudited)	<u>1,904</u>
As at 31 March 2008 (Unaudited)	<u><u>88,705</u></u>

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## **BUSINESS REVIEW AND PROSPECTS**

### **OPERATING RESULTS**

For the three months ended 31 March 2008, the Group reported a turnover of approximately RMB22,925,000, representing an increase of approximately RMB7,396,000 as compared with the same period last year. Profit attributable to equity holders of the Company for the three months ended 31 March 2008 was RMB1,904,000, representing a greatly increase of 142% from RMB788,000 for the corresponding period in 2007. Basic earning per share was RMB0.34 cents.

Turnover increased for approximately RMB7,396,000 as compared with the same period last year mainly contributed by the increase in the sale of Hai Kun Shen Xi and Fu Fang Huo Nao Shu capsule.

The gross profit margin for the three months ended 31 March 2008 was approximately 78%, representing a 6% increase as compared to that of 72% for the period ended 31 March 2007. 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 higher margin had increased. 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 53% in 2008. This represented a 19% increase from 34% when compared to the same period last year. Administrative expenses decreased from RMB4,685,000 for the three months ended 31 March 2007 to RMB3,536,000 for the same period in 2008. This increase in distribution and selling costs and decrease in administrative expenses did not exceed the Group's monthly budget and were in line with the Group's expectation during the strategic planning for 2008.

### **Production facilities**

During the year 2007, the Board has reviewed all production facilities and has redesigned the assembly lines and reallocated the plant and machinery so as to improve the effectiveness and efficiency of the production lines. In addition, the Group has made the following important process improvements on the production facilities which will lay a strong foundation for the Group to expand in the coming future.

Firstly, the Group has established an agricultural base in the forest area of Jinchun during the year under review. The base is intended to cultivate wild panax ginseng so as to ensure constant supply of ginseng for the Company. Currently, the base has been developing to cultivate different type of agricultural products and our R&D department will extract the useful ingredient from those agricultural products to carry out the experimental process. Apart from wild panax ginseng, certain type of raw material can also be cultivated in this agricultural base.

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Secondly, the Group has completed the technological upgrading of all workshops. All assembly lines in the workshop has upgraded into a fully automatically production system. In addition, the Group has completed the final tuning of the "Xue Mai Qing" workshop and "Chinese medicine extracts" workshop during the year of 2007. These two workshops are expected to be ready to handle mass production if required in the near future.

Thirdly, the Group is in the progress of the constructing of a "modernized warehouse" in an industrial land. This modernized warehouse shows that the Group has undergone the process of modernization and technological improvement.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during this period. As at 31 March 2008, the Group had cash and bank balances amounted to RMB36.6 million (2007: RMB19.4 million). As at 31 March 2007, the Group had unaudited consolidated net asset value of approximately RMB271,686,000 (2006: RMB206,444,000).

For the three months ended 31 March 2008 and 2007, 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**

The Group's gearing ratio as at 31 March 2008 was 2.57% (as at 31 March 2008: Nil), which was calculated by dividing the amount of bank borrowings of the Group as at 31 March 2008 by total assets as at 31 March 2008 and then multiplied by 100%.

## **FUTURE PROSPECTS**

Looking forward, with the launch of new medicines of Xue Mai Qing Tablet in 2008, the Board believes the Group is capable of sustaining both the turnover and net profit attributable to shareholders in the coming future. Besides, the establishment of the "modernized warehouse", the computerized production system, the agricultural base for constant supply of raw material, all reflect that the Board has a well-organized long term planning for the Group for expansion.

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.



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## DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 March 2008, 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
Wu Guo Wen	Personal	Beneficial owner	900,000	0.232	0.161
Chen Qi Ming	Personal	Beneficial owner	300,000	0.077	0.054

Save as disclosed above, as at 31 March 2008, 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 2008, 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**

<b>Name of shareholder</b>	<b>Capacity/ Nature of Interest</b>	<b>Number of Domestic Shares</b>	<b>Percentage of Domestic Shares</b>	<b>Percentage of total registered share capital</b>
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 2008, 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 2008, 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.

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## **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 2008 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.

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## **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. The Company required additional time than expected to identify suitable candidates as new INED and Audit Committee’s member. At 28 February 2008, Mr. Xue Chang Qing and Mr. Yan Li Jin have been appointed as INEDs and member’s of Audit Committee, and Mr. Nan Zheng has resigned as an INED and ceased to be a member of Audit Committee of the Company. During the period from 18 April, 2006 to 28 February 2008, the Company has only two INEDs and Audit Committee members and a minimum of three members to comprise the Audit Committee.

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 2008.

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

During the three months ended 31 March 2008, 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 May 2008

*As at the date hereof, the executive directors of the Company are Mr. Zhang Hong, Mr. Zhang Xiao Guang, Mr. Liang Xiao Guang, Mr. Tian Xin Guo, Mr. Chen Qi Ming, Mr. Wu Guo Wen, Mr. Zhao Bao Gang; the independent non-executive directors of the Company are Mr. Shen Yu Xiang, Mr. Xue Chang Qing and Mr. Yan Li Jin.*