



**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)*  
(Stock Code: 8049)

**Third Quarterly Report 2009**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached then other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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 2009

### 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 2009 together with the comparative unaudited figures for the corresponding periods in 2008 as follows:

	Notes	For the nine months ended 30 September		For the three months ended 30 September	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	3	<b>101,770</b>	83,845	<b>40,720</b>	33,410
Cost of sales		<b>(17,594)</b>	(17,683)	<b>(6,406)</b>	(7,890)
Gross profit		<b>84,176</b>	66,162	<b>34,314</b>	25,520
Other revenue		<b>1,578</b>	349	<b>1,362</b>	46
Distribution and selling costs		<b>(52,706)</b>	(39,126)	<b>(24,788)</b>	(15,190)
Administrative expenses		<b>(12,695)</b>	(12,256)	<b>(3,077)</b>	(3,380)
Profit from operations		<b>20,353</b>	15,129	<b>7,811</b>	6,996
Finance costs		<b>(87)</b>	(72)	<b>(37)</b>	(24)
Profit before taxation		<b>20,266</b>	15,057	<b>7,774</b>	6,972
Taxation	5	<b>(5,004)</b>	(3,830)	<b>(1,881)</b>	(1,784)
Profit attributable to equity holders of the Company		<b>15,262</b>	11,227	<b>5,893</b>	5,188
Earnings per share – Basic	6	<b>2.72 cents</b>	2.00 cents	<b>1.05 cents</b>	0.92 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 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 2009 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

The condensed consolidated results for the nine months and three months ended 30 September 2009 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 2009, 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.

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## 5. TAXATION

	Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>5,004</u>	<u>3,830</u>	<u>1,881</u>	<u>1,784</u>

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 25% (2008: 25%).

The Group's subsidiary in Hong Kong is subject to Hong Kong profits tax calculated at 16% 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 (2008: Nil).

The Group did not have any significant unprovided deferred taxation for the nine months and three months ended 30 September 2009 (2008: Nil).

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months and three months ended 30 September 2009 is based on the unaudited profit attributable to equity holders of approximately RMB15,262,000 and RMB5,893,000 respectively (2008: RMB11,227,000 and RMB5,188,000) and on the weighted average of 560,250,000 and 560,250,000 (2008: 560,250,000 and 560,250,000) shares in issue during the two period ended 30 September 2009 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 2008 (2008: Nil).

## 8. RESERVES

	PRC statutory funds					
	Share Capital	Share premium	Exchange reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008 (Audited)	56,025	51,098	221	24,955	86,580	218,879
Net profit for the nine months ended 30 September 2008 (Unaudited)	0	0	0	0	11,227	11,227
At 30 September 2008 (Unaudited)	56,025	51,098	221	24,955	97,807	230,106
Net profit for the three months ended 31 December 2008 (Unaudited)	0	0	0	0	3,762	3,762
Exchange differences arising on translation or overseas operations recognised directly in equity	0	0	(3)	0	0	(3)
Transfer to statutory surplus reserve	0	0	0	2,229	(2,229)	0
Appropriation to statutory surplus reserve	0	0	0	0	0	0
Dividend	0	0	0	0	0	0
Balance as at 31 December 2008 (Audited)	56,025	51,098	218	27,184	99,340	233,865
Net profit for the nine months ended 30 September 2009 (Unaudited)	0	0	0	0	15,262	15,262
At 30 September 2009 (Unaudited)	56,025	51,098	218	27,184	114,602	249,127

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## **BUSINESS REVIEW AND PROSPECTS**

### **OPERATING RESULTS**

For the nine months ended 30 September 2009, the Group recorded a turnover of approximately RMB101.7 million, representing an increase by 21% from RMB83.8 million during the corresponding period in 2008. Profit attributable to shareholders for the nine months ended 30 September 2009 was RMB15.26 million, representing an increase by 36% from RMB11.23 million during the corresponding period in 2008.

This satisfactory result was mainly due to the increase in the sales of the Company's core products, particularly Hai Kun Shen Xi capsule. The sales of the Hai Kun Shen Xi capsule was approximately RMB54.1 million for the nine months ended 30 September 2009. This represented a significant increase from approximately RMB34.5 million for the same period last year.

The gross profit margin for the period ended 30 September 2009 was approximately 82%, representing a 4% increase as compared to that of 78% for the same period last year. The increment in gross profit margin during the period ended 30 September 2009 was mainly due to the significant increase in the sales of the Hai Kun Shen Xi capsule and Compound Huonaoshu capsule, which have relatively high profit margin of more than 80%.

The selling expense as a percentage of turnover was 51% in 2009. This represented an increase from 46% 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 RMB12,256,000 to RMB12,695,000 for the same period in 2009.

## **BUSINESS REVIEW**

### **Sales performance**

The sales of the Hai Kun Shen Xi capsule, Compound Huonaoshu capsule, and Xueshuan Xinmaining capsule were the top three best products sold during the first three quarters of 2009. The selling of Hai Kun Shen Xi capsule continued to be the Group's core revenue generator. The revenue of the Hai Kun Shen Xi capsule for the period ended 30 September 2009 was approximately RMB54.1 million, which represents approximately 53% of the Group's total revenue. In addition, the sales of Compound Huonaoshu capsule reached approximately RMB29.5 million for the nine months ended 30 September 2009 while that of Xueshuan Xinmaining capsule was over RMB4 million.

### **Production facilities**

During the year 2009, 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.

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## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position during this period. For the nine months ended 30 September 2009, the Group's primary source of funds was cash from the operating activities. As at 30 September 2008, the Group had cash and bank balances and consolidated net asset value of approximately RMB333 million and RMB249 million respectively.

For the nine months ended 30 September 2009, 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 2009, the Group had short-term bank borrowings of RMB6.99 million and a gearing ratio of approximately 2.8 percent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 30 September 2009.

## **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 2009, the sales of Hai Kun Shen Xi capsule has reached approximately RMB54.1 millions while the sales of Compound Huonaoshu capsule was approximately RMB29.5 millions.

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 2009, 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:



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## 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
Mr. Wu Guo Wen	Personal	Beneficial owner	900,000	0.232	0.161
Mr. Chen Qi Ming	Personal	Beneficial owner	300,000	0.077	0.054

Save as disclosed above, as at 30 September 2009, 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.

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## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, 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 30 September 2009, 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 2009, 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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## **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 announcement.

## **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.

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 2009.

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

During the nine months ended 30 September 2009, 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 2009