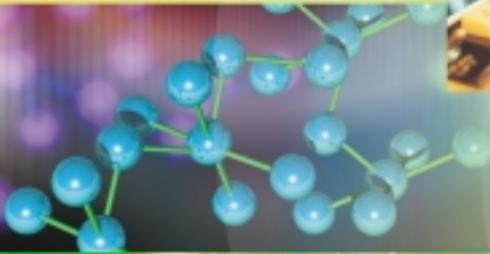




吉林省輝南長龍生化藥業股份有限公司

Jilin Province Huinan Changlong Bio-pharmacy Company Limited

(a joint stock limited company incorporated in the People's Republic of China)



Annual Report 2001

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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 reports in gazetted 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.

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This report, for which the directors of 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 subsidiary (“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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BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Hong (*Chairman*)
Mr. Zhang Xiao Guang
Ms. Li Yu Xian
Mr. Qiao Hong Kuan
Ms. Cui Shu Mei
Mr. Zhang Yuan Qiu
Mr. Zhao Bao Gang

Independent non-executive Directors

Mr. Nan Zheng
Mr. Shen Yu Xiang

Non-executive Directors

Ms. Qu Lian Qin

SUPERVISORS

Mr. Zhang Jing Zhou
Mr. Kang Tai You
Mr. Li Bao Hai

COMPANY SECRETARY

Mr. Wong Man Tai, AHKSA, ACCA

COMPLIANCE OFFICER

Mr. Zhang Hong

AUTHORISED REPRESENTATIVES

Mr. Zhang Hong
Mr. Wong Man Tai, AHKSA, ACCA

AUDIT COMMITTEE

Mr. Nan Zheng
Mr. Shen Yu Xiang

SPONSOR

Oriental Patron Asia Limited

AUDITORS

Horwath Hong Kong CPA Limited
Certified Public Accountants
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China
Huinan County Branch
Tonghua
Jilin Province
the PRC

LEGAL ADDRESS

31 Beishan Street
Chaoyang Town
Huinan County
Tonghua
Jilin Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 4201-7, COSCO Tower
183 Queen's Road Central
Hong Kong

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

STOCK CODE

8049

WEBSITE ADDRESS

[http:// www.jlchanglong.com](http://www.jlchanglong.com)



Financial Highlights and Calendar

FINANCIAL HIGHLIGHTS

	2001	2000
	RMB'000	RMB'000
<hr/>		
Revenue		
Turnover	100,127	99,616
<hr/>		
Profitability		
Operating profit	39,377	47,319
Profit attributable to shareholders	27,382	34,082
<hr/>		
Net worth		
Shareholders' funds	174,332	80,327
<hr/>		
Per share		
Basic earnings per share	5.5 cents	8.4 cents
Net assets per share	34.9 cents	19.8 cents
<hr/>		

FINANCIAL CALENDAR

Results for the year	Announcement on 25 March 2002
Annual report	Dispatched to shareholders in late March 2002
Annual general meeting	22 May 2002

I am pleased to announce the operating results of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the "Company") and its subsidiary (the "Group") for the year ended 31 December, 2001. This is our first annual report after the overseas listed foreign shares of the Company having been listed on the Growth Enterprise Market The Stock Exchange of Hong Kong Limited (the "GEM") on 24 May 2001.

RESULT

The Group recorded a turnover of approximately RMB100,127,000 and net profit attributable to the shareholders of RMB27,382,000 for the year ended 31 December, 2001. In the highly competitive biochemical pharmaceutical industry last year, the Group further enhanced its brand awareness after being successfully listed on GEM, while standing firm as one of the leaders in this industry with the effort of its management and sales teams.

BUSINESS REVIEW

All our staff have a mission of promoting the Changlong brand. Externally, sales employees of the Group continued to extend the sales network. Internally, the Research and Development Department ("R & D Department") concentrated on exploring new products. Against this backdrop, and with our previous great efforts, the Group's Changlong brandname has reached Xizang Zizhiqu (西藏自治區) and our representative offices can now be found in different provinces throughout China. The R & D Department has bought six new products, diversifying and enhancing the competitiveness of its Changlong products.

In terms of quality control, the Group introduced a TV remote monitoring system with the idea of "Vacuum workshop" (車間無塵化) in mid-2001. Under the system, our management in the computerized control room can monitor the production process in the "workshop" on a continuous basis so that any problem arising can be attended to instantly. This monitoring system greatly reduces the chance of producing dust particles and ensures the quality of the Group's products.

In the China market, Compound Huonaosu capsule (復方活腦素膠囊) is still the key product of the Group. Other new products such as the Cleansing Pill (排毒淨腸丸) and Pretty Lady (豐姿綽約) have been launched in the Hong Kong market.

The financial position of the Group remains healthy. The Group has cash and bank balances of approximately RMB69 million, out of which HK\$5.4 million is held in Hong Kong dollars. This adequate cashflow ensures the investment plan stated in the prospectus can be smoothly carried out. The Group is also actively involved in the search and promotion of new pharmaceutical products with special healing effects and good investment return, so as to achieve the goal of broadening its profit base.

PROSPECTS

The Company is well-poised to take advantage of China's entry into the World Trade Organisation to expand business. The Group is also planning to explore other potential markets to reduce reliance currently placed on the China market. The Directors believe that although there are business opportunities, there are also keen competitions in the China market with a multitude of pharmaceutical manufacturers. Therefore, the Group plans to introduce Chinese medicine to other potential markets, such as Malaysia and Japan under the Changlong brand name.



Chairman's Statement (Cont'd)

Besides exploiting new overseas markets, the Group also believes that the China market can bring about new business opportunities. Our R&D Department is the foundation of our technical capability while the professional sales teams are the backbones of our business. The Group will continue to strive for excellence with these two pillars and to maintain our continuous growth in the enlarging but competitive market. The Group's management expects the current success of our operations in China will continue and our profits will keep on growing in the few years ahead.

DIVIDEND

The Directors do not recommend payment of any dividend this year.

APPRECIATION

I would like to take this opportunity to thank the Directors, our management and staff for their dedications and full commitments, and our vendors, clients, banks and shareholders for their continuous support.

By order of the Board

Zhang Hong

Chairman

25 March 2002

BUSINESS REVIEW

For the year ended 31 December 2001, the Group achieved significant development and success.

AWARDS

Capitalising on the quality and technology advancement of its products, the Company has received several awards after its listing on GEM, details of which are set out below:

Date of grant	Award	Principal Issuer
July 2001	State Torch Project Bio-chemical Pharmacy Industry Base-Core Enterprise (國家火炬計劃通化生物醫藥 產業基地－骨幹企業)	Torch High-tech Enterprise Development Centre of Science and Technology Department (科學技術部火炬高技術 產業開發中心)
January 2002	Outstanding Achievement Enterprise for 2001 (2001年度突出貢獻企業)	Jilin Provincial People's Government Domestic Trade Administration Office (吉林省人民政府國內 貿易管理辦公室)

SALES ENHANCEMENT

The Company's sales network has been extended to a total of 28 provinces in the Mainland China after the establishment of its office in Xizang Zizhiqu(西藏自治區). The opening of its Hong Kong office in early July, 2001 has also marked our presence in Hong Kong. Taking advantage of the current trend of health consciousness, the Group marketed through a reputable dealer in Hong Kong its two health products, namely Cleansing Pill(排毒淨腸丸) and Pretty Lady(豐姿綽約). However, no profit is recorded during the year under review since the operations are still at an initial stage. The Group's management is confident that these investments will turn to be fruitful in the next financial year with meaningful sales turnover and profit contribution to the Group.



DEVELOPMENT OF NEW PRODUCTS

The Group strongly emphasises on research and development to improve the quality of its products and develop new Chinese medicine with special healing effects. During the year under review, two new products, namely Fu Fan Lian Ben Bian Zuo Rongye (復方聯苯苄唑溶液) and Gliclaxide tablets (格列齊特片) were launched into the market at the end of the second quarter of 2001. Besides developing new products by our own research and development ("R & D") department, the Group also carried out searches for new potential pharmaceutical products from other R & D companies. The Group has subsequently entered into technology transfer contracts with those companies in respect of their pharmaceutical products and is in the course of improving such pharmaceutical products and may apply to the State Drugs Administration of the People's Republic of China ("SDA") for production approval and issuance of new medicine certificates for such new pharmaceutical products. As at 31 December 2001, a number of technology transfer contracts were entered into in respect of the following products:

Name of products	Category
Zhi Zi Xi Hong Ha Gan Yuan Liao and its injection 梔子西紅花甘原料及其注射劑	Chinese Medicine Category 2
Yin Xing Xe Dong Gan Fen Zhen 銀杏葉凍乾粉針	Chinese Medicine Category 2
Tong Mai tablet 通脈片	Chinese Medicine Category 2
Tou Bao Jia Kui 頭孢甲肟	Western Medicine Category 4
Xiong Xian Tai Chang Rong capsule 胸腺腸溶膠囊	Biochemical medicine
Yi Da La Tong Yuan Liao and its injection 依達拉酮原料及注射液	Western Medicine Category 4

In respect of the above products, Tong Mai tablet (通脈片) and Zhi Zi Xi Hong Ha Gan Yuan Liao and its injection (梔子西紅花甘原料及其注射劑) will be the key products solely developed by the Group in 2002.

FINANCIAL REVIEW

In the 2001 financial year, the Group's gross profit and profit attributable to shareholders fell by 12.64 per cent. and 19.66 per cent. to approximately RMB 73,065,000 and RMB 27,382,000 respectively. The decline in gross profit was mainly due to the increase of material cost. During the year, the Group has successfully replaced its existing major materials with significantly upgraded quality materials to further enhance the superiority and effectiveness of its products. This effort not only increases customers' satisfaction with the Group's products through superior product quality, but also enables the Group to maintain its market shares in the increasingly competitive market condition. Although the increased materials cost had resulted in a decrease in gross profit and profit attributable to shareholders during the year, the Group believed that the long term benefits from customers' satisfaction and the excellent brand name awareness derived from the superior quality will outweigh this cost significantly.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources. As at 31 December 2001, total banking and loan facilities were reduced to approximately RMB8,300,000. The bank loans are unsecured, carry interest at market rates and are repayable within one year.

GEARING RATIO

As at 31 December 2001, the Group had a gearing ratio of approximately 4.8 per cent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 31 December 2001.

EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of 335 employees, representing an increase of 21 members of staff since its listing on GEM. The new recruits were mostly sales-persons. With enhanced efforts placed in research and development of new products, higher retention rate of professionals is expected. The zero per cent. staff turnover last year is a reflection of the faith of our staff in business development of the Group as well as their loyalty towards the Group.

Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.



Directors, Senior Management and Staff

EXECUTIVE DIRECTOR

Zhang Hong, aged 46, is the Chairman and the general manager of the Company. He is responsible for the company's overall business planning and policy making, in particular, finance and quality control. He has over 12 years of experience in the business of pharmaceuticals. In addition to his business responsibilities. Mr. Zhang is also a delegate to the Tonghua City People's Congress. He was awarded as Excellent Entrepreneur at provincial level and "Model Labour in the National Domestic Trading System". He joined the predecessor of the Company in December 1989.

Zhang Xiao Guang, aged 37, is the Director, vice general manager as well as secretary of the Board of Directors of the Company. He is responsible for the Company's corporate finance, foreign trading activities and business development. Mr. Zhang graduated from Correspondence College of the Central School of the Communist Party of China. He has over 10 years of experiences in the business of pharmaceuticals. He joined the predecessor of the Company in August 1990.

Li Yu Xian, aged 49, is a Director and vice general manager of the Company. She is responsible for managing the production of pharmaceutical products and supply of raw material reserves. Ms. Li graduated from Jilin School of Commerce, majoring in commercial accounting and statistics. She joined the predecessor of the Company in December 1989.

Qiao Hong Kuan, aged 55, is a Director and vice general manager of the Company. He is in charge of the Sales and Marketing Department. Mr. Qiao graduated from Correspondence United University of Finance, Trade and Economics Management, majoring in Management of Business Enterprise. Having joined the predecessor of the Company for more than 10 years since December 1989, he has contributed significantly to the setting up and development of the Company's sales network, with his profound experience in sales and marketing.

Cui Shu Mei, aged 50, is a Director and financial controller of the Company. She is responsible for the financial duties of the Company. Ms. Cui graduated from Jilin School of Commerce, majoring in commercial accounting and statistics. She has been engaged in financial and management positions for many years and has profound theories of financial practice. She joined the predecessor of the Company in December 1993.

Zhang Yuan Qiu, aged 40, is a Director and the head of Beijing representative office of the Company. He is responsible for planning market strategy for Beijing, selling and business development with other institutions in Beijing. Mr. Zhang has joined the Company for six years. He extends the Company's business to Beijing actively and leads the setting up of selling network. He joined the predecessor of the Company in January 1994.

Zhao Bao Gang, aged 34, is a Director. He is in charge of the power plant works. Mr. Zhao graduated from Jilin School of Finance and Taxation. He joined the predecessor of the Company in May 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Nan Zheng, aged 59, is an independent non-executive Director, a member of The 4th Medicine Appraisal Committee of MPH, the Vice Council Chairman of the 5th Jilin Provincial Committee of Traditional Chinese Medicine and Vice-Chairman of the Professional Committee under the Institute of Diabetes, the Institute of Internal Medicine and the Association of the Chinese Traditional Medicine as well. Mr. Nam was conferred the title of Jilin Province Honorable Chinese Medicine Doctor by Jilin Province People's Department.

Shen Yu Xiang, aged 51, is an independent non-executive Director. He has over 18 years' experience in accounting, auditing, taxation and management consulting. Currently, he plays an advisory and management role in an accounting firm in Huinan County. From April 1984 to May 1993, Mr. Shen worked

as Deputy Commissioner of Huinan County Auditing Bureau. He worked as the Deputy Commissioner of Huinan County Ministry of Finance from June 1993 to October 1995. From November 1995 to October 1998, Mr. Shen worked as the Officer of Office of Finance and Trade of Huinan County and from November 1998 to December 2000, Mr. Shen served as the Commissioner of Huinan County Auditing Bureau.

NON-EXECUTIVE DIRECTOR

Qu Lian Qin, aged 46, is the non-executive Director. She is also the Chairman and general manager of Jilin Dong Yuan Enterprise Strategy Company Limited. Ms. Qu graduated from Correspondence College of the Central School of the Communist Party of China. She has knowledge on securities management and is familiar with the operations of the capital market. She has equipped herself with the experience of the reorganization of joint stock limited companies.

SUPERVISORS

Zhang Jing Zhou, aged 52, is the Chairman of supervisory committee and labour union of the Company. He is responsible for the infrastructure and re-construction of the Company. He has worked in the Company for 7 years since March 1995.

Kang Tai You, aged 58, is a Supervisor and the Party deputy secretary of the Company. He has been engaged in the personnel and the Party's affairs for many years. He is responsible for the development of the Party as well as back-office support. He joined the predecessor of the Company in March 1993.

Li Bao Hai, aged 44, is a Supervisor. He is responsible for the electricity supply of the Company. He was engaged in the distribution of electricity when he was in the military unit. He joined the predecessor the Company in July 1990.

SENIOR MANAGEMENT

Wu Guo Wen, aged 37, is the Chief engineer and head of research and development department of the Company, responsible for the development of production technology and advanced-technique products. He is a postgraduate at Jilin University and has been awarded as "Model Labour in Jilin Province". He joined the predecessor of the Company in September 1991.

Yang Xiu uan, aged 42, is the head of the personnel and administration department of the Company. She graduated from Jilin University, majoring in biological pharmaceuticals. She joined the predecessor of the Company in March 1990.

Sun Li Juan, aged 39, is the head of the sales and marketing department of the Company. She graduated from Jilin Television University, majoring in industrial management. She joined the predecessor of the Company in February 1990.

Wong Man Tai, aged 31, is the authorized representative, financial controller and Company secretary. He graduated from the City University of Hong Kong in 1994 with a bachelor degree in accounting and is a member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Before joining the Company in December 2000, he already had over 7 years experience in finance and accounting and had also worked in an international accounting firm.

Au Ya Qin, aged 52, is the head of the production department of the Company. She graduated from Jilin University, majoring in biological pharmaceuticals. She has joined the Company since June 1997.

Yang Ze Shu, aged 33, is the head of the quality control department of the Company. He graduated from Yan Bian Medical School. He has joined the Company in January 2000.



Statement of Business Objectives

Set out below is a comparison between the Group's actual business progress up to 31 December 2001 and its business objectives as set out in the prospectus:

	Business objectives as set out in the prospectus	Actual business progress up to 31 December 2001
Establishment of new production capacity		
Expansion of production capacity of Qianlie Guihuang tablet (前列桂黃片)	Commencing the engineering and renovation work for the mass commercial production of Qianlie Guihuang tablet. (前列桂黃片)	The engineering and renovation work is partially completed. The remaining engineering and renovation work is pending because the Group is in the process of recruiting suitable experts and technical supports staff to carry out the engineering and renovation work of the production facilities.
Expansion of sales and distribution network in the PRC and Hong Kong		
Establishment of a sales channel in Hong Kong	Establishment of a sales office in Hong Kong	A Hong Kong sales office had been established in the form of a company incorporated in Hong Kong as a wholly owned subsidiary of the Company, namely Changlong Bio-pharmacy (Hong Kong) Company Limited on 29 June 2001.

	Business objectives as set out in the prospectus	Actual business progress up to 31st December 2001
Expansion of full-time sales employees	Increase the number of full-time sales employees to 100	The Group had strengthened the sales and marketing department through staff recruitment. The headcount of the sales employees had increased to 101.
Marketing activities for the PRC market	Launching television commercials through central television station and provincial broadcasting stations in the PRC to enhance the brand name recognition for the Company's products.	The Group possesses a dedicated sales and marketing team responsible for organizing a series of aggressive marketing campaigns. The Company has continuously advertised its products on various channel, such as CCTV channel 6, Cable TV of Shandong Province, Fujian Province, Yunnan Province, Sichuan Province, etc.
Research and development of new products		
Development and commercial production of Compound Glycine Theophylline Choline tablet/capsule (復方甘氨酸茶鹼納片／膠囊)	Commencing commercial production of Compound Glycine Theophylline choline tablet capsule. (復方甘氨酸茶鹼納片／膠囊)	The SDA is still processing our application for commercial production.
Development and commercial production of Tuoluo Yinxie capsule (陀螺銀屑膠囊)	Completion of the clinical examination for Tuoluo Yinxie capsule. (陀螺銀屑膠囊) Obtaining the approval from SDA for commercial production of Tuoluo Yinxie capsule. (陀螺銀屑膠囊)	Due to unexpected difficulties occurred during the clinical examination, the progress of the development of this product has slowed down.
Enhancement of the research and development capacity		
Establishment of a new research and development centre	In the process of establishing an animal experiment laboratory Construction in progress and refurbishment of the new research and development centre.	The Group had completed the establishment of the animal experiment laboratory since December 2001.



Statement of Business Objectives (Cont'd)

COMPARISON OF USE OF PROCEEDS

	From 24 May to 31 December 2001	
	Planned use of proceed as set out in the prospectus	Actual use of proceeds
	HKD million	HKD million
Expansion of production capacity of Qianlie Guihuang tablet (前列桂黃片)	10	6.5
Establishment of a sales channel in Hong Kong	2	0.8
Expansion of the Company's existing sales and distribution network	7.5	9.2
Enhancement of the Company's research and development ability	7	3.2
	26.5	19.7

Up to 31 December 2001, the Group had only utilized approximately HK\$19.7 million of the proceeds of the Placing. The under-utilization is mainly due to the following grounds:

1. Expansion of production capacity of Qianlie Guihuang tablet (前列桂黃片)

The Group has achieved substantial cost savings in the sourcing of its new equipment for the enhancement of the production line of Qianlie Guihuang tablet (前列桂黃片). This was due to the stringent vendor selection process of obtaining the best quotation. Besides, the engineering and renovation work had been delayed because the Group is still in the process of recruiting suitable experts and technical support staff to carry out engineering and renovation work of the production facilities.

2. Establishment of a sales channel in Hong Kong

The Hong Kong sales office was established in the form of a company incorporated in Hong Kong as a wholly-owned subsidiary of the Company named Changlong Bio-pharmacy (Hong Kong) Company Limited ("Changlong HK") on 29 June 2001. Changlong HK will be responsible for penetrating into the Hong Kong and overseas markets. Changlong HK has not yet commenced the distribution and promotional activities of the Changlong products as the Group is still conducting market feasibility studies of the Hong Kong and overseas market. A reputable local distributor has assisted in the research and development activities through providing free consultation service in redesigning the packaging of the Group's key products. As a result, the cost incurred in establishing a sales channel in Hong Kong is minimal.

3. Savings on establishment of the research and development centre

Up to 31 December 2001, the Group incurred only RMB3.2 million in the establishment of the animal experiment laboratory. The Group is still in the process of the negotiating and selecting vendors in the sourcing of computerized diagnosis equipment. This type of equipment is highly customized and requires a longer procurement lead-time in reaching a final purchasing decision.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2001.

BASIS OF PREPARATION

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 PRC Company Law, the Company was re-organised 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 GEM on 24 May 2001.

PRINCIPAL ACTIVITY

The Group is principally engaged in the manufacture and distribution of biochemical medicines in the PRC under the brandnames of Changlong and Shendi. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

Over 90% of the Group's turnover and contribution to the profit from operating activities was derived from the principal activities carried out in the PRC.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 23 to 42.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 11 to the financial statements.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2001, the Group has expanded its sales network through the establishment of a wholly-owned subsidiary in Hong Kong. Reference should be made to the section headed "Statement of Business Objectives" in this Report for details.

Saved as disclosed therein, the Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2001.



Report of the Directors (Cont'd)

SUBSIDIARY

Particulars of the Company's subsidiary, which were set up on 29 June 2001, are set out in note 12 to the financial statements.

SIGNIFICANT INVESTMENTS

The Group made no material significant investments since 1 January 2001.

BANK LOANS

Details of the short term bank loans of the Group are set out in note 19 to the financial statements.

CAPITAL STRUCTURE

On 24 May 2001, pursuant to the listing of the Company's overseas-listed foreign shares of RMB0.10 each in the Share Capital of the Company (the "H Shares") on GEM, the Company issued by way of the placing (the "Placing") 172,500,000 H Shares for cash at HK\$0.50 per share.

Immediately before the new issue, 17,250,000 registered shares previously held by the Huinan County Stated-owned Assets Administrative Bureau were converted into 17,250,000 H Shares.

Saved as disclosed therein, there is no change in the Company's share capital. As at 31 December 2001, the Group's operations were financed mainly by shareholder's equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund operations with internal resources.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the financial statements.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Other than in connection with the Company's placing of H shares on the GEM, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities during the period from 24 May 2001 (date of listing of the H shares on the GEM) to 31 December 2001.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves, available for cash distribution or distribution in specie, amounted to approximately RMB52,695,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 34% of its goods to its five largest customers.

In the year under review, purchases from the Group's five largest suppliers accounted for 29% of the total purchases for the year and purchases from the largest supplier included therein amounted to 12%.

None of the directors of the Company or any shareholders who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest suppliers noted above.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

The Group's future plans for material investments or capital assets and their expected sources of funding have been stated in the prospectus of the Company dated 14 May 2001 under the section "Business Objectives". Update on the progress of this area has been dealt with under the section "Statement of Business Objectives".

CHARGES ON ASSETS

As at 31 December 2001, the Group did not create any security on its assets.

FOREIGN EXCHANGE RISK

For the years ended 31 December 2001 and 2000, 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. The Group considered that as the exchange rate of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company as at 31 December 2001 are set out in note 24 to the financial statement.

CONTINGENT LIABILITIES

As at 31 December 2001 and 31 December 2000 respectively, the Group had no material contingent liabilities.



Report of the Directors (Cont'd)

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:-

Executive directors

Zhang Hong
Zhang Xiao Guang
Li Yu Xian
Qiao Hong Kuan
Cui Shu Mei
Zhang Yuan Qiu
Zhao Bao Gang

Independent non-executive directors

Nan Zheng
Shen Yu Xiang (appointed on 5 March 2001)

Supervisors

Zhang Jing Zhou
Kang Tai You
Li Bao Hai

Non-executive directors

Qu Lian Qin

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and senior management of Group are set out on pages 10 to 11 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in note 8 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors and supervisors has entered into a service contract with the Company for an initial term of three years, which may be renewed upon re-election and re-appointment.

The two independent non-executive directors of the Company are not appointed for specific terms.

Apart from the foregoing, no directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the Directors, Supervisors and Chief Executive in the registered capital of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong (the "SDI Ordinance"), to be entered in the register referred to therein, or which will be required, pursuant to rules 5.4 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the H Shares are listed, were as follows:

Director	Type of Interests	Interest in the Company's Share Capital %	Number of Domestic Shares
Zhang Hong	Personal	18.19	101,925,000
Zhang Xiao Guang	Personal	9.10	51,000,000
Qiao Hong Kuan	Personal	7.12	39,900,000

Save as disclosed above, none of the Directors, Supervisors or Chief Executive had any personal, family, corporate or other interests in the equity of the Company, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company a party to any arrangement to enable any directors of the Company or their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, according to the register required to be kept under section 16 (1) of the SDI Ordinance, shareholders with an interest of 10% or more of the issued shared capital of the Company were as follows:

Name	Number of Domestic Shares	Approximate effective interests in the registered capital of the Company %
Huinan County SAB (<i>Note</i>)	81,975,000	14.63
Zhang Hong	101,925,000	18.19

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.



Report of the Directors (Cont'd)

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

COMPETING INTEREST

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.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the article of association of the Company or the laws of the People's Republic of China ("PRC"), being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CONNECTED TRANSACTIONS

During the year, the Group had no related party transactions, which also constituted connected transactions under the GEM Listing Rules.

STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Group and the employer's staff retirement costs charged to the profit and loss account for the year are set out in note 9 to the financial statements.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsors, Oriental Patron Asia Limited ("OP"), as at 31 December 2001, neither OP nor their directors or employees or associates had any interests in the share capital of the Company.

Pursuant to the agreement dated 11 May 2001 made between OP as the sponsor and the Company, OP received fees for acting as the Company's retained sponsor for the period from 24 May 2001 to 31 December 2003.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the H Shares on GEM on 24 May 2001.



AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 24 May 2001 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises the two independent non-executive directors of the Company. The Committee has held three meetings since its formation.

AUDITORS

The financial statements have been audited by Horwath Hong Kong CPA Limited who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Zhang Hong

Chairman

Jilin, the PRC

25 March 2002



Report of the Auditors

TO THE SHAREHOLDERS OF JILIN PROVINCE HUINAN CHANGLONG BIO-PHARMACY COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 23 to 42 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 2001, and of the profits and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosures requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Chan Kam Wing, Clement

25 March 2002

2001 Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Consolidated Income Statement

For the year ended 31 December 2001
(Expressed in Renminbi)



	Note	2001 RMB'000	2000 RMB'000
Turnover	3	100,127	99,616
Cost of sales		(27,062)	(15,979)
Gross profit		73,065	83,637
Other revenue	3	1,011	1,442
Distribution and selling costs		(30,116)	(30,476)
Administrative expenses		(4,299)	(7,162)
Other operating expenses		(284)	(122)
Profit from operations		39,377	47,319
Finance costs	5	(658)	(1,053)
Profit before taxation	4	38,719	46,266
Taxation	6	(11,337)	(12,184)
Profit attributable to shareholders	21	27,382	34,082
Earnings per share – Basic	7	5.5 cents	8.4 cents

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the profit attributable to shareholders.



Consolidated Balance Sheet

At 31 December 2001
(Expressed in Renminbi)

	Note	2001 RMB'000	2000 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	11	43,706	35,170
Purchased know-how and prescription	13	1,395	590
		45,101	35,760
Current assets			
Inventories	14	27,597	26,312
Trade receivables	15	55,115	35,595
Other receivables, deposits and prepayments		32,968	9,503
Short term advance	16	–	8,000
Cash and cash equivalents	17	69,164	11,249
		184,844	90,659
Current liabilities			
Trade payables	18	11,670	9,508
Other payables, deposits received and accruals		17,116	10,232
Bank loans	19	8,300	14,350
Taxation		18,527	12,002
		55,613	46,092
Net current assets		129,231	44,567
Net assets		174,332	80,327
Capital and reserves			
Share capital	20	56,025	40,500
Reserves	21	118,307	39,827
Shareholders' funds		174,332	80,327

Zhang Hong
Director

Zhang Xiao Guang
Director

Balance Sheet

At 31 December 2001
(Expressed in Renminbi)



	Note	2001 RMB'000	2000 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	11	43,659	35,170
Interest in a subsidiary	12	5,989	–
Purchased know-how and prescription	13	1,395	590
		51,043	35,760
Current assets			
Inventories	14	27,597	26,312
Trade receivables	15	55,115	35,595
Other receivables, deposits and prepayments		32,952	9,503
Short term advance	16	–	8,000
Cash and cash equivalents	17	63,738	11,249
		179,402	90,659
Current liabilities			
Trade payables	18	11,670	9,508
Other payables, deposits received and accruals		17,116	10,232
Bank loans	19	8,300	14,350
Taxation		18,527	12,002
		55,613	46,092
Net current assets		123,789	44,567
Net assets		174,832	80,327
Capital and reserves			
Share capital	20	56,025	40,500
Reserves	21	118,807	39,827
Shareholders' funds		174,832	80,327

Zhang Hong
Director

Zhang Xiao Guang
Director



Consolidated Cash Flow Statement

For the year ended 31 December 2001
(Expressed in Renminbi)

	Note	2001 RMB'000	2000 RMB'000
Net cash inflow from operating activities	22(a)	13,124	26,573
Returns on investments and servicing of finance			
Interest received		408	266
Interest paid		(651)	(1,046)
Net cash outflow from returns on investments and servicing of finance		(243)	(780)
Taxation			
Income tax paid		(10,150)	(4,081)
Investing activities			
Payments to acquire know-how and prescription		(1,200)	(300)
Payments to acquire property, plant and equipment		(11,796)	(19,863)
Receipts from disposal of property, plant and equipment		205	195
Net cash outflow from investing activities		(12,791)	(19,968)
Net cash (outflow)/inflow before financing		(10,060)	1,744
Financing			
Proceeds from issue of shares		91,390	–
Share issue expenses		(17,365)	–
Repayment of short term bank loans		(6,050)	–
Net cash inflow for financing activities	22(b)	67,975	–
Increase in cash and cash equivalents		57,915	1,744
Cash and cash equivalents at the beginning of the year		11,249	9,505
Cash and cash equivalents at the end of the year	17	69,164	11,249

1. ORGANISATION AND OPERATIONS

The Company was established as a state-owned enterprise in the PRC in 1989. On 29 December 1995, under the relevant provisions of the Company Law of the PRC, the Company was re-organised 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 H shares were listed on GEM 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. PRINCIPAL ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and disclosure requirements of the Companies Ordinance Chapter 32 of the Laws of the Hong Kong Special Administrative Region of the PRC ("Hong Kong"). These financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of preparation

These financial statements have been prepared in the historical cost convention.

c) Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiary company for the year ended 31 December 2001. All significant transactions and balances within the Group are eliminated on consolidation.

d) Subsidiary company

A subsidiary is a company in which the Group, directly or indirectly, holds more than 50% of the issued share capital or controls more than 50% of the voting power, or where the Group controls the composition of its board of directors or equivalent governing body.

Investment in a subsidiary company is included in the Company's balance sheet at cost less any impairment losses. The result of the subsidiary is accounted for by the Company on the basis of dividends received and receivable.

e) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Company.

Sales revenue is recognised when the merchandise is delivered and title has been passed.

Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rates applicable.

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant lease.



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

f) Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation at the balance sheet date.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major expenditure on modifications and betterments of property, plant and equipment which will result in future economic benefits is capitalised, while expenditure on maintenance and repairs is expensed when incurred.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

The cost of land use rights is amortised over the period of the rights using the straight line method.

Depreciation is provided on a straight-line basis, with a 5% residual value, to write off the cost of property, plant and equipment over their estimated useful lives. The estimated useful lives are as follows:

Land use rights, leasehold land and buildings	Over the unexpired lease term
Plant and machinery	10 years
Transportation equipment	8 years
Furniture, fixtures and equipment	5 years

h) Research expenditure

Research expenditure is written off to the profit and loss account when incurred.

i) Purchased know-how and prescription

Purchased know-how and prescription are stated at cost, less amortisation calculated on a straight-line basis over a period of 60 months from the date of purchase.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated based on actual or estimated selling prices in the ordinary course of business, less further costs expected to be incurred for completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

j) Inventories (cont'd)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

k) Impairment of assets

Properties, plant and equipment and purchased knowhow and prescriptions are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

l) Retirement benefits scheme contributions

Contributions payable by the Group to its state-managed retirement benefits scheme in the PRC and to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account in the year in which they fall due.

m) Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the period are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains and losses are dealt with in the profit and loss accounts of the individual companies.

The Group prepares consolidated financial statements in Renminbi. For the purpose of consolidation, the financial statements of the subsidiary are translated into Renminbi at the applicable rates of exchange ruling at the balance sheet date. Exchange differences arising from such translations are dealt with in the exchange translation reserve.



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under the operating leases are charged to the profit and loss account on the straight-line basis over the lease term.

o) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

p) Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. TURNOVER AND REVENUE

The Group's turnover comprises the invoiced value of merchandise sold net of Value Added Tax of the PRC and after allowances for returns and discounts.

	2001 RMB'000	2000 RMB'000
Turnover		
Sales of medicine	100,127	99,616
Other revenue		
Interest subsidy	500	800
Rental income	60	60
Bank interest income	408	266
Others	43	316
	1,011	1,442
Total revenue for the year	101,138	101,058

Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)



4. PROFIT BEFORE TAXATION

	2001 RMB'000	2000 RMB'000
Profit before taxation is arrived at after charging:		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	24,009	15,001
Provision for obsolete and slow-moving inventories	173	–
Auditors' remuneration	550	150
Depreciation	2,879	1,446
Loss on disposal of property, plant and equipment	176	73
Write back of provision for bad and doubtful debts	(3,408)	(1,054)
Research expenditure written off	220	753
Amortisation of purchased know-how and prescription	395	730
Staff costs (excluding directors' and supervisors' emoluments)	4,748	4,374

5. FINANCE COSTS

	2001 RMB'000	2000 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	651	1,045
Bank charges	7	8
	658	1,053

6. TAXATION

	2001 RMB'000	2000 RMB'000
Taxation in the consolidated income statement represents:		
PRC income tax	11,337	16,492
PRC income tax relief	–	(4,308)
	11,337	12,184

The PRC income tax is computed according to the relevant laws and regulations in the PRC. During the year ended 31 December 2001, the Company was not entitled to any tax holiday or preferential tax rate. The applicable income tax rate was 33%.



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

6. TAXATION (cont'd)

Based on the relevant tax legislation of the PRC, a company is entitled to an income tax relief calculated at 40% of approved expenditure on property, plant and equipment for upgrading and improving production facilities, processes and technologies. On 24 December 2000, the local tax bureau has approved the Company's application for an income tax relief of approximately RMB4,308,000, being 40% of PRC manufactured plant and machinery purchased for upgrading and improving its production facilities in compliance with the Good Manufacturing Practice.

The Group's subsidiary in Hong Kong is subject to Hong Kong profit 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 year.

The Group did not have any significant unprovided deferred taxation at the year end.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2001 is based on the consolidated profit attributable to shareholders of approximately RMB27,382,000 (2000: RMB34,082,000) and the weighted average of 499,426,027 (2000: 405,000,000) shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the year ended 31 December 2001 (2000: Nil).

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- (a) Details of the emoluments paid to directors of the Company disclosed pursuant to Rules Governing the Listing of Securities on the GEM of the stock Exchange and section 161 of the Companies Ordinance were as follows:

	2001 RMB'000	2000 RMB'000
Fees	-	-
Other emoluments:		
Salaries, allowances and other benefits	93	114
Bonus	881	1,346
Retirement scheme contributions	6	6
	980	1,466

During the year, no emoluments were paid or payable by the Group to the two independent non-executive directors of the Company.

The number of directors whose remuneration falls within the following bands were as follows:

	2001	2000
RMBNil – RMB1,000,000	7	7

The seven directors received emoluments of approximately RMB520,000, RMB110,000, RMB113,000, RMB111,000, RMB113,000, RMB7,000 and RMB7,000 for the year ended 31 December 2001 ; and approximately RMB433,000, RMB254,000, RMB254,000, RMB252,000, RMB239,000, RMB17,000 and RMB17,000 for the year ended 31 December 2000.

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (cont'd)

(b) Details of the emoluments paid to supervisors of the Company were:

	2001 RMB'000	2000 RMB'000
Salaries, allowances and other benefits	43	43
Bonus	191	459
Retirement scheme contributions	2	2
	236	504

The three supervisors received emoluments of approximately RMB113,000, RMB113,000 and RMB10,000 for the year ended 31 December 2001; and approximately RMB254,000, RMB239,000 and RMB11,000 for the year ended 31 December 2000.

The number of supervisors whose remuneration falls within the following bands were as follows:

	2001	2000
RMBNil – RMB1,000,000	3	3

None of the Company's directors or supervisors have waived any emoluments, and no incentive payment for compensation for loss of office was paid or payable to any director during the year ended 31 December 2001.

(c) Details of the emoluments paid to the five highest paid individuals during the year included three directors (2000: four) and one supervisor (2000: one) whose emoluments are set out above. The details of the remuneration of the remaining one (2000: Nil) highest paid employee of the Company during the year are as follows:

	2001 RMB'000	2000 RMB'000
Salaries, allowances and other benefits	350	–
Bonus	–	–
Retirement scheme contributions	8	–
	358	–

During the year, no emoluments were paid by the Group to the highest paid employee as an inducement to join, or upon joining the Group, or as compensation for loss of offices.



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

9. RETIREMENT BENEFITS

Employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government, or in the case of employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Company is required to contribute a certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the scheme. The employer's contributions vest fully once they are made. At 31 December 2001, no forfeited contributions were available to reduce the contributions payable in future years.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2001 amounted to approximately RMB258,000 (2000: RMB233,000).

10. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

There were no significant transactions with related parties during the year (2000: None).

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
The Group					
Cost:					
At 1 January 2001	17,746	21,732	1,357	369	41,204
Additions	615	9,765	933	483	11,796
Disposals	-	(818)	-	(31)	(849)
At 31 December 2001	18,361	30,679	2,290	821	52,151
Accumulated depreciation:					
At 1 January 2001	1,708	3,757	410	159	6,034
Charge for the year	627	2,004	154	94	2,879
Written back on disposal	-	(439)	-	(29)	(468)
At 31 December 2001	2,335	5,322	564	224	8,445
Net book value:					
At 31 December 2001	16,026	25,357	1,726	597	43,706
At 31 December 2000	16,038	17,975	947	210	35,170

Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)



11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The Group's leasehold land and buildings are situated in the PRC and are held under medium-term land use rights.

Leasehold land and buildings include a workshop with a net book value of RMB658,000 (2000: RMB680,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
The Company					
Cost:					
At 1 January 2001	17,746	21,732	1,357	369	41,204
Additions	615	9,765	933	425	11,738
Disposals	-	(818)	-	(31)	(849)
At 31 December 2001	18,361	30,679	2,290	763	52,093
Accumulated depreciation:					
At 1 January 2001	1,708	3,757	410	159	6,034
Charge for the year	627	2,004	154	83	2,868
Written back on disposal	-	(439)	-	(29)	(468)
At 31 December 2001	2,335	5,322	564	213	8,434
Net book value:					
At 31 December 2001	16,026	25,357	1,726	550	43,659
At 31 December 2000	16,038	17,975	947	210	35,170

The Company's leasehold land and buildings are situated in the PRC and are held under medium-term land use rights.

Leasehold land and buildings include a workshop with a net book value of RMB658,000 (2000: RMB680,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

12. INTEREST IN A SUBSIDIARY

	The Company	
	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost (Note)	-	-
Amount due from a subsidiary	5,989	-
	5,989	-



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

12. INTEREST IN A SUBSIDIARY (cont'd)

Particulars of the subsidiary are as follows:

Name of company	Country of incorporation and operation	Percentage of ordinary shares held directly	Principal activity
Changlong Bio-Pharmacy (Hong Kong) Company Limited	Hong Kong	100%	Acting as a sales office

Note: The investment cost in the subsidiary is HK\$2, representing 2 ordinary shares issued at par value of HK\$1 each.

13. PURCHASED KNOW-HOW AND PRESCRIPTION

RMB'000

The Group and the Company

Cost:

At 1 January 2001	3,650
Additions	1,200
At 31 December 2001	4,850
Accumulated amortisation:	
At 1 January 2001	3,060
Amortisation for the year	395
At 31 December 2001	3,455
Net book value:	
At 31 December 2001	1,395
At 31 December 2000	590

Purchased know-how and prescription were all acquired by cash from independent third parties.

14. INVENTORIES

	2001	2000
	RMB'000	RMB'000
The Group and the Company		
Inventories comprise:		
At cost:		
Raw materials	12,954	11,190
Work in progress	5,230	4,179
Finished goods	12,074	16,102
	30,258	31,471
Less: Provision for obsolete and slow-moving inventories	(2,661)	(5,159)
	27,597	26,312

As at 31 December 2001, inventories amounting to RMB9,413,000 (2000: RMB10,943,000) were carried at net realisable value.

15. TRADE RECEIVABLES

Trade receivables are stated at cost less provision for doubtful debts. Specific and general provisions for doubtful debts are made based upon the Directors' knowledge of the customers, the creditworthiness and settlement history of the customers, and the aging of the outstanding trade receivables.

The following is an aged analysis of trade receivables at the balance sheet date:

	2001	2000
	RMB'000	RMB'000
The Group and the Company		
Current	11,447	5,698
31-60 days	9,003	7,822
61-90 days	5,055	5,915
More than 90 days	29,610	16,160
	55,115	35,595

16. SHORT TERM ADVANCE

The short term advance to Huinan County Co-operative Printing Factory (輝南縣福利彩印廠) was provided interest free, unsecured and was fully repaid during the year.



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

17. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Deposits with banks	5,067	–	–	–
Cash at bank and in hand	64,097	11,249	63,738	11,249
	69,164	11,249	63,738	11,249

18. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2001 RMB'000	2000 RMB'000
The Group and the Company		
Current	2,339	575
31–60 days	171	1,632
61–90 days	354	–
More than 90 days	8,806	7,301
	11,670	9,508

19. BANK LOANS

Bank loans of the Group and the Company are unsecured, interest bearing at commercial rates and repayable within one year.

20. SHARE CAPITAL

	2001		2000	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Registered:				
Registered shares of RMB0.10 each	560,250,000	56,025	405,000,000	40,500
Issued and fully paid:				
At 1 January	405,000,000	40,500	405,000,000	40,500
Conversion of domestic shares to H shares	(17,250,000)	(1,725)	–	–
New issue of H shares on public listing	172,500,000	17,250	–	–
At 31 December	560,250,000	56,025	405,000,000	40,500

20. SHARE CAPITAL (cont'd)

On 24 May 2001, pursuant to the listing of the Company's shares on the GEM, the Company issued by way of the share placement ("New Issue") 172,500,000 H shares of RMB0.10 each for cash at HK\$0.50 per share. Cash of HK\$86,250,000 was raised before the related issue expenses. The excess over the nominal value of the shares issued was credited to the share premium account.

Immediately before the new issue, 17,250,000 registered shares previously held by the Huinan County Stated-owned Assets Administrative Bureau ("Domestic Share") were converted into 17,250,000 H shares.

As a result of the new issue and the share conversion described above, the number of registered share was increased to 560,250,000 with a nominal value of RMB56,025,000.

21. RESERVES

Movements of reserves of the Group and the Company during the year ended 31 December 2001 were as follows:

	Share premium RMB'000	Retained profits RMB'000	PRC statutory funds		Total RMB'000
			Statutory surplus reserve RMB'000	Staff public welfare fund RMB'000	
The Group					
At 1 January 2001	-	29,111	7,144	3,572	39,827
Issue of H Shares	75,865	-	-	-	75,865
Share issue expenses	(17,364)	-	-	-	(17,364)
Conversion of domestic shares to H shares (Note)	(7,403)	-	-	-	(7,403)
Profit for the year	-	27,382	-	-	27,382
Transfer to statutory funds	-	(3,798)	2,532	1,266	-
At 31 December 2001	51,098	52,695	9,676	4,838	118,307

Note: In connection with listing of the Company's H Shares, RMB7,403,000 is required to be paid to Huinan County State-owned Assets Administrative Bureau for the conversion of 17,250,000 domestic shares of RMB0.10 each in the share capital of the Company to H Shares on GEM.



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

21. RESERVES (cont'd)

	Share premium RMB'000	Retained profits RMB'000	PRC statutory funds		Total RMB'000
			Statutory surplus reserve RMB'000	Staff public welfare fund RMB'000	
The Company					
At 1 January 2001	-	29,111	7,144	3,572	39,827
Issue of H Shares	75,865	-	-	-	75,865
Share issue expenses	(17,364)	-	-	-	(17,364)
Conversion of domestic shares to H shares (Note)	(7,403)	-	-	-	(7,403)
Profit for the year	-	27,882	-	-	27,882
Transfer to statutory funds	-	(3,798)	2,532	1,266	-
At 31 December 2001	51,098	53,195	9,676	4,838	118,807

Note: In connection with listing of the Company's H Shares, RMB7,403,000 is required to be paid to Huinan County State-owned Assets Administrative Bureau for the conversion of 17,250,000 domestic shares of RMB0.10 each in the share capital of the Company to H Shares on GEM.

a) Statutory surplus reserve

In accordance with the Company Law of the PRC and the Company's articles of association, the Company shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such issuance.

b) Statutory public welfare fund

According to the relevant financial regulations of the PRC and the Company's articles of association, the Company is also required to appropriate 5% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's employees and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the Company.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2001 RMB'000	2000 RMB'000
Profit before taxation	38,719	46,266
Interest income	(408)	(266)
Interest expenses	651	1,045
Profit before interest	38,962	47,045
Amortisation expenses	395	730
Depreciation	2,879	1,446
Loss on disposal of property, plant and equipment	176	73
Increase in inventories	(1,285)	(2,766)
Increase in trade receivables	(19,520)	(21,079)
Increase in other receivables, deposits and prepayments	(23,465)	(2,917)
Decrease/(increase) in short term advance	8,000	(8,000)
Increase in trade payables	2,162	1,223
(Decrease)/increase in other payables, deposits received and accruals	(518)	2,918
Increase in other tax payables	5,338	7,900
Net cash inflow from operating activities	13,124	26,573

(b) Analysis of changes in financing during the year

	Share capital and share premium RMB'000	Short term bank loans RMB'000
At 1 January 2001	–	14,350
Proceeds from H shares issued on placement	91,390	–
Share issue expenses paid	(17,365)	–
Repayment of the amounts borrowed	–	(6,050)
At 31 December 2001	74,025	8,300

23. COMMITMENTS UNDER OPERATING LEASES

	The Group	
	2001 RMB'000	2000 RMB'000
Minimum lease payments paid under operating leases	31	–



Notes to the Financial Statements (Cont'd)

(Expressed in Renminbi)

23. COMMITMENTS UNDER OPERATING LEASES (cont'd)

At 31 December 2001, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	2001 RMB'000	2000 RMB'000
Within one year	61	–
In the second to fifth year inclusive	31	–
	92	–

Operating lease payments represent rentals payable by the Group for certain of its office premises. The lease is negotiated for a term of two years at fixed rental.

24. CAPITAL COMMITMENTS

As at 31 December 2001, the Group had capital commitments contracted for but not provided for in respect of the following:

	2001 RMB'000	2000 RMB'000
Acquisition of purchased know-how and prescription	14,030	–
Acquisition of property, plant and equipment	–	292
	14,030	292

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2002.

Financial Summary

(Expressed in Renminbi)



Operating Results

	Year ended 31 December,			
	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
Turnover	100,127	99,616	63,343	48,081
Cost of sales	(27,062)	(15,979)	(13,399)	(13,402)
Gross profit	73,065	83,637	49,944	34,679
Other revenue	1,011	1,442	170	486
Distribution and selling costs	(30,116)	(30,476)	(20,657)	(19,747)
Administrative expenses	(4,299)	(7,162)	(9,912)	(8,582)
Other operating expenses	(284)	(122)	(35)	(181)
Profit from operations	39,377	47,319	19,510	6,655
Finance costs	(658)	(1,053)	(1,494)	(1,241)
Profit before taxation	38,719	46,266	18,016	5,414
Taxation	(11,337)	(12,184)	(8,399)	(2,260)
Profit attributable to shareholders	27,382	34,082	9,617	3,154

Assets and Liabilities

	As at 31 December,			
	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
Property, plant and equipment	43,706	35,170	17,021	11,469
Purchased know-how and prescription	1,395	590	1,020	1,700
Current assets	184,844	90,659	58,153	59,844
Current liabilities	(55,613)	(46,092)	(29,949)	(30,385)
Long-term bank loans	–	–	–	(6,000)
Net assets	174,332	80,327	46,245	36,628
Share Capital	56,025	40,500	40,500	27,000
Reserves	118,307	39,827	5,745	9,628
Shareholders' funds	174,332	80,327	46,245	36,628



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (“the Company”) for the year ended 31 December 2001 (the “AGM”) will be held at 31 Beishan Street, Chaoyang Town, Huinan County, Tonghua, Jilin Province, the People’s Republic of China (the “PRC”) on Wednesday, 22 May 2002 at 2:00 p.m. for the following purposes:

1. to receive and consider the audited consolidated financial statements of the Company and the reports of the directors of the Company (individually, the “Director”) and the auditors of the Company for the year ended 31 December 2001;
2. to consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year ended 31 December 2001;
3. to consider the reappointment of Horwath Hong Kong CPA Limited as auditors of the Company for the year ending 31 December 2002 and authorize the Directors to fix their remuneration;
4. to consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2002;
5. to consider and approve the resignation of Ms. Qu Lian Qin as non-executive Director with effect from 22 May 2002;
6. to consider and if the right fit, pass with or without modifications, the following resolution as a special resolution:

“THAT:

- (a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company (the “Board”) during the Relevant Period (as defined in paragraph (f) below) of all the powers of the Company separately or concurrently to allot, issue and deal with domestic shares of nominal value of RMB0.10 each in the share capital of the Company (the “Domestic Shares”) and/or overseas – listed foreign shares of nominal value of RMB0.10 each in the share capital of the Company (the “H Shares”) be and is hereby approved;
- (b) the approval in paragraph (a) above shall authorise the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares to be allotted and issued either during or after the end of the Relevant Period;
- (c) the aggregate nominal value of Domestic Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;

- (d) the aggregate nominal value of H Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20 per cent. of the aggregate nominal value of the H Shares then in issue at the date of the passing of this resolution;
- (e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory Commission being obtained by the Company;
- (f) for the purpose of this special resolution:

“Relevant Period” means the period from the passing of this special resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;
- (ii) the expiration of a period of 12 months following the passing of this special resolution; or
- (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

“Rights issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company on the register of members of the Company on a fixed record date and, where appropriate, the holders of the other equity securities of the Company entitled to be offered therein, in proportion to their then holdings of such shares or other equity securities (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any regulatory body or any stock exchange); and

- (g) the Board be and is hereby authorised to make such amendments to the articles of association of the Company as it thinks fit so as to increase the registered share capital and to reflect the new capital structure of the Company as a result of the allotment and issue of shares of the Company pursuant to the approval granted under paragraph (a) above”; and



Notice of Annual General Meeting

7. to transact any other business.

By order of the Board

Zhang Hong

Chairman

Tonghua, Jilin Province, PRC, 26 March 2002

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his, her or its behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.
2. In order to be valid, a proxy form of holder of H Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Hong Kong Registrars Limited on 2/F Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong ("the Company's Share Registrar") not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.
3. In order to be valid, a proxy form of holder of Domestic Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Registered Address of the Company not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.
4. Shareholders of the Company or their proxies shall produce documents of their proof of identity when attending the meeting.
5. The register of shareholders of the Company will be closed from 22 April 2002 to 22 May 2002 (both days inclusive), during which no transfer of shares will be registered. As regards holders of H Shares and in order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's Share Registrar not later than 19 April 2002 at 4:00 p.m. for registration.
6. Shareholders of the Company who intend to attend the AGM have to notify in writing of their attendance by sending such notice to the Company by hand, post or fax not later than 2 May 2002.
7. Registered Address of the Company and the contact details of the Company are as follows:

31 Beishan Street, Chaoyang Town, Huinan County,
Tonghua, Jilin Province, the PRC
Fax no: 86(448) 8212738