



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

2002

Bio-pharmacy





CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET

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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 subsidiaries (“the Group”). The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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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 (resigned on 22 May 2002)

SUPERVISORS

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

COMPANY SECRETARY

Mr. Wong Man Tai, AHKSA, FCCA

COMPLIANCE OFFICER

Mr. Zhang Hong

AUTHORISED REPRESENTATIVES

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

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 A2, 12 Floor
Eton Building
288 Des Voeux Road Central
Central, Hong Kong

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Room 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8049

WEBSITE ADDRESS

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

FINANCIAL HIGHLIGHTS AND CALENDAR

FINANCIAL HIGHLIGHTS

	2002 RMB'000	2001 RMB'000
Revenue		
Turnover	80,730	100,127
Profitability		
Operating profit	16,647	39,377
Profit attributable to shareholders	10,587	27,382
Net Worth		
Shareholders' fund	184,919	174,332
Per share		
Basic earnings per share	1.9 cents	5.5 cents
Net assets per share	33.0 cents	34.9 cents

FINANCIAL CALENDAR

Results for the year	Announcement on 26 March 2003
Annual report	Despatched to shareholders in late March 2003
Annual general meeting	22 May 2003

As the Chairman and on behalf of the Board of Directors (the "Board"), I am pleased to present the audited consolidated results of Jilin Province Huinan Changlong Bio-pharmacy Company Ltd. (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2002.

FINANCIAL PERFORMANCE

The Group's turnover for the year ended 31 December 2002 was RMB80,730,000, and net profit attributable to shareholders was RMB10,587,000, representing a decrease of approximately 19.4% and 61.3% respectively as compared with last year. Earning per share for the year ended 31 December 2002 has dropped to RMB1.9 cents. Confronted with new challenges such as the weak market sentiment, high medical price sensitivity and long development lead time of new medicines, the Group's performance is not as good as expected. During this difficult period, Changlong stands firmly on maintaining the superiority of the product quality as well as focuses on research projects for new medicine products to explore for another core revenue generator.

QUALITY CONTROL

Emphasis on quality control is Changlong's key to success. Therefore, the Company constantly introduces new technologies and equipment to manufacture medicine, strictly carries out the procedure for quality control, and always applies high standards from purchasing to manufacture. For the implementation of GMP standards, the Company has bought world standard equipment for the manufacture of traditional Chinese medicine. These included manufacture facilities such as the multi-function extractor, the high speed rotating machine, and the low-temperature and high-speed centrifuge for extracting biochemical medicine and such modern analysis and inspection equipment such as the German light beam reflex inspector, the American liquidoid chromatographer and the Japanese two-band thin layer scanner.

On 16 April 2002, the production lines of the Powder For Injection (粉針劑) – Cephalosporins (頭孢菌素類) were successfully granted the Certificate of GMP For Human Drugs (藥品GMP證書). As a result, the Group was accredited as the first modern pharmaceutical enterprise in the Jilin Province to be awarded the state GMP certification for all its existing production lines.

PRODUCT DEVELOPMENT

During the year 2002, we invested approximately 30 million in new product development. Firstly, we have successfully completed the conversion of all existing chemical drugs and Chinese medicine from Provincial Standards to State Standards. Besides, the Company's key product "Compound Huonaosu" Capsule (復方活腦素膠囊) was renamed "Compound Huonaoshu" Capsule (復方活腦舒膠囊) and achieved the State Standard. The "Yusanxiao" Capsule (愈三消膠囊) was renamed "Zhilian Sanxiao" Capsule (芪連三消膠囊) and its quality standard has been amended and improved significantly. The quality standard of "Qianlie Guihuang" tablet (前列桂黃片) has also been revised and complemented. The "Rensheng Jingye Zhaogan" Capsule (人參莖葉皂苷膠囊) got a new name of Huolibao Capsule (活力寶膠囊). The "Chuanhua" Pain Relief Plaster (川花止痛膜) also got a new name of "Shengdi" Pain Relief Plaster (神迪止痛膜), and achieved "State Standard certificate. Meanwhile", some Class 2 Chinese medicine (中藥二類) such as "Jian Zhi" Pills (降脂片), "Ezhi" Extracts (梔子提取物), "Shen Hai Kang" Capsules (腎海康膠囊), "San Huang Yi Xie" Capsules (三黃益血膠囊), have already passed inspection of provincial units and are in the process of getting state approval. In addition, another two medicines, which are Class 2 Chinese medicine, namely "Ying Xing Yie" Extracts for injection (注射用銀杏葉提取物) and "Ying Xing Yie" Extracts (銀杏葉提取物) are currently being inspected by provincial units and all



CHAIRMAN'S STATEMENT

documentation works required for submission to the state units are completed. Over 20 biochemical medicines, chemical drugs and Chinese medicines are either in the process of applying or planning to apply for the state approval for manufacture. Two new medicines, namely Xantinol Nicotinate for Injection (注射用己酮可可碱) and Pentoxifylline for Injection (注射用烟酸占替诺) had successfully completed the research process and were granted the Certificate of New Medicines (新藥證書) in September 2002. These medicines are classified as chemical medicine Class 4 and had commenced production at the end of year 2002.

OUTLOOK

We have made great efforts as well as achievements to implement the strategy of building the plant based on science and technology during the past year. The continuous approval and production of new medicines will further optimize the company's product mix, create the brand name effect of Changlong, and put in new energy and momentum for Changlong's second phrase of growth. What is noteworthy is that under the support of the local government, we have begun the construction of a 7,642 square meters synthesis and abstraction workshop involving an investment of approximately RMB7 million. An initial RMB3 million has been invested in manufacturing equipment and it is now in the installation process. We firmly believe that with the full implementation of our "Proceed With Technology" strategy, a much better Changlong (carrying the meaning of long dragon) will appear in front of the world.

DIVIDENDS

The Directors do not recommend the payment of any dividends this year.

APPRECIATION

I hereby avail myself of this opportunity to thank the Directors, our management and staff for their diligence and wholehearted service, and the persisting support of our vendors, clients, bankers and shareholders.

By order of the Board

Zhang Hong

Chairman

26 March 2003

BUSINESS REVIEW

For the year ended 31 December 2002, the Group recorded a turnover of approximately RMB80.7 million, representing a decrease of 19.4% from RMB100.1 million recorded in the prior year. Profit attributable to shareholders for the year ended 31 December 2002 was RMB10.6 million, representing a decrease of 61.3% from RMB27.4 million recorded in the prior year. For the year ended 31 December 2002, basic earning per share was RMB1.9 cents.

For the year ended 31 December 2002, the manufacturing and selling of Compound Huonaosu capsule (復方活腦素膠囊) continued to be the Group's core revenue generator. However, the revenue of the Compound Huonaosu capsule (復方活腦素膠囊) decreased by 16.1% to approximately RMB63.3 million as compared to the prior year. The decrease of revenue was mainly due to a longer-than-anticipated processing time in upgrading it to the State Standard, which was approved in November 2002. This was further elaborated under the Section "Financial Review".

OPERATION REVIEW

Good Manufacturing Practice (GMP)

GMP imposes strict compliance procedures, which are related to the design of production facilities; the qualification of the personnel involved; the handling of raw material hygiene; the packaging and labeling of products; the production management; the documentation of production processes; the quality control, etc. In addition to the existing production lines of Lyophilized Powder For Injection (凍干粉針劑), Small Volume Parenteral Solution (小容量注射劑), Tablets (片劑), Capsules (膠囊劑), Granules (顆粒劑), the production line of the Powder For Injection (粉針劑) – Cephalosporins (頭孢菌素類) was successfully granted the Certificate of GMP For Human Drugs (藥品GMP證書) in April 2002. As a result, all the existing production lines of the Company's major products have obtained the GMP standard certification. The success in obtaining the GMP standard certification not only effectively heightened the morale of the Company, but also accredited the Group as the first modern pharmaceutical enterprise in the Jilin Province which has obtained GMP certification for all of its existing production lines.

Product development

During the year 2002, the Group successfully completed the conversion of its last four chemical drugs and Chinese medicines from Provincial Standard to State Standard. The four products are "Compound Huonaosu" capsule (復方活腦素膠囊), "San Huang Yi Xie" Capsule (三黃益血膠囊), "Rensheng Jingye Zhaogan" Capsule (人參莖葉皂苷膠囊) and "Chuanhua" Pain Relief Plaster (川花止痛膜). As a result, the Group has fully complied with the State Drugs Administration of the People's Republic of China (the "SDA") requirement to convert all its existing chemical drugs and Chinese medicines to State Standard. In addition, with the effort of our Research and Development (R&D) department, the research of two medicines, namely, "Xantinol Nicotinate" for Injection (注射用己酮可可碱) and "Pentoxifylline" for Injection (注射用煙酸占替諾), were successfully completed and the two medicines were granted the Certificate of New Medicines in September 2002. In addition, this two new medicines were granted a protection period of six years in accordance with the Regulations on New Medicines Protection and Technology Transfer (新藥保護和技術轉讓的規定). Besides, the Chinese name of the Group's key product "Compound Huonaosu" Capsule (復方活腦素膠囊) was changed to "Compound Huonaoshu" Capsule (復方活腦舒膠囊) so as to symbolize its new image of achieving the State Standard.

MANAGEMENT DISCUSSION AND ANALYSIS

The Construction of the new workshops

To cope with the Group's rapid development of new medicines, the Group invested approximately RMB7 million to construct a synthesis and abstraction workshop. In mid 2002, the Group acquired a piece of land of approximately 14,000 sq.m. Within half a year, the construction of the twin towers workshop has already been completed on the new site. Currently, the Group is in the process of installing production lines and a total of approximately RMB3 million of machinery and equipment were acquired. With the addition of this workshop that is expected to commence production at the end of 2003, the Group will be capable of producing new medicines upon obtaining the production permit.

RESEARCH AND DEVELOPMENT OF NEW PRODUCTS

The Group has strongly focused on research and development activities to improve the quality of its products and to develop new medicines that possess special healing effects. Other than developing new products through our own R & D efforts, the Group also embarks on joint efforts with reputable R & D companies to develop new potential pharmaceutical products. The Group has subsequently entered into technology transfer contracts with these R & D companies in respect of their pharmaceutical products and is in the course of improving such pharmaceutical products and may apply to the SDA for production approval and issuance of new medicine certificates. As at 31 December, 2002, other than the two products that have been granted the Certificate of the New Medicines, the major products currently under these joint efforts of research and development are as follows:

Name of Medicines	Category	Form
"Jian Zhi" Pill (降脂片)	Chinese Medicine Class 2	Tablets
"Ezhi" Extracts (梔子提取物)	Chinese Medicine Class 2	Raw material
"Xong Xian Tai" capsule (胸腺肽膠囊)	Biochemical medicine	Capsules
"Shen Hai Kang" capsule (腎海康膠囊及原料)	Chinese Medicine Class 2	Capsules
"Yan Suan Tou Ban Jia Wo" for injection (注射用鹽酸頭孢甲肟)	Biochemical medicine Class 4	Powder for injection
"Yan Suan Tou Ban Jia Wo" (鹽酸頭孢甲肟)	Biochemical medicine Class 4	Raw material
"Ying Xing Yie" Extracts for injection (注射用銀杏葉提取物)	Chinese Medicine Class 2	Lyophilized powder for injection
"Ying Xing Yie" Extracts (銀杏葉提取物)	Chinese Medicine Class 2	Raw material
"Yi Da Lu Tong" for injection (依達拉酮注射液)	Biochemical medicine Class 2	Water for injection

Name of Medicines	Category	Form
"Yi Da Lu Tong" (依達拉酮)	Biochemical medicine Class 4	Raw material
"Zhi Zi Xi Hong Hua Gan" (梔子西紅花甘)	Chinese Medicine Class 2	Raw material
"Zhi Zi Xi Hong Hua Gan" for injection (注射用梔子西紅花甘)	Chinese Medicine Class 2	Lyophilized powder for injection
"Ku Shen Jian" for injection (注射用苦參鹼)	Biochemical medicine Class 4	Lyophilized powder for injection
"Fu Fong Gan Zn Suan Cha Jian Na" capsule (復方甘氨酸茶鹼鈉膠囊)	Biochemical medicine Class 4	Capsule
"Fu Fong Gan Zn Suan Cha Jian Na" Pill (復方甘氨酸茶鹼鈉片)	Biochemical medicine Class 4	Tablets
"Yan Suan Ding Ge Di Er" for injection (注射用鹽酸丁咯地爾)	Biochemical medicine Class 4	Lyophilized powder for injection
"Yan Suan Tou Bao Bi Wo" (鹽酸頭孢吡肟)	Biochemical medicine Class 4	Raw material
"Yan Suan Tou Bao Bi Wo" for injection (注射用鹽酸頭孢吡肟)	Biochemical medicine Class 4	Powder for injection
"Yan Suan Ni Fei Ku Lan" (鹽酸尼非卡蘭)	Biochemical medicine Class 2	Raw material
"Yan Suan Ni Fei Ku Lan" for injection (注射用鹽酸尼非卡蘭)	Biochemical medicine Class 2	Lyophilized powder for injection
"Ku Shen Su" for injection (注射用苦參素)	Biochemical medicine Class 4	Lyophilized powder for injection
"Ke Lin Mei Su Lin Suan" for injection (注射用克林霉素磷酸酯)	Biochemical medicine Class 4	Lyophilized powder for injection
"Hu Po Xian Ming Jiao Yong Yie" (琥珀酰明膠溶液)	Biochemical medicine	Powder for injection
"Hu Po Xian Ming Jian" for injection (琥珀酰明膠注射液)	Biochemical medicine	Powder for injection

In respect of the above products, "Shen Hai Kang" capsule (腎海康膠囊) is one of the key products that the Directors consider as the "Important Product Development Project in 2003".

MANAGEMENT DISCUSSION AND ANALYSIS

Shen Hai Kang capsule 腎海康膠囊

During the year, the Group invested RMB20 million in the research and development of a new medicine – Shen Hai Kang capsule that has an important medical breakthrough in the curing of renal failure and uremia. This medicine is currently at its final stage of obtaining the production permit as a Chinese Medicine Class 2 from the SDA. A production line was assigned to this new medicine in the planning and development of the new industrial workshop. The Directors believed that this medicine has the potential to be as successful as Compound Huonaosu capsule (復方活腦素膠囊) to become the Group's another core revenue generator.

FINANCIAL REVIEW

In the financial year 2002, the Group's gross profit and profit attributable to shareholders decreased by 17.1% and 61.3% to approximately RMB60.5 million and RMB10.6 million respectively.

The decrease in the Group's profitability was attributed to a decrease in revenue in its core product Compound Huonaosu capsule (復方活腦素膠囊) from approximately RMB75.5 million for the prior financial year to approximately RMB63 million for this financial year. The decrease in turnover was mainly due to a unanticipated delay in obtaining the State Standard Certificate for this core product, which was eventually approved in November 2002. Since March 2002, most of the hospitals and clinics in major provinces and cities in the PRC have begun to comply strictly with the SDA mandatory regulations that no medicines without State Standard Certificate are permitted for tendering. As a result, the sales of Compound Huonaosu capsule (復方活腦素膠囊) was adversely affected for almost the entire year of 2002.

Secondly, the practice of using the tendering system in hospitals had directly caused intense price competition amongst manufacturers. The management in hospitals invite manufacturers to tender by product types. Under this tendering system, manufacturers of lower quality will be first disqualified while the cheapest manufacturers among the qualified ones will usually be awarded the contract. Despite the intense price competition, the Directors decided not to participate in the price war because they consider that there may be an adverse impact on the Group's image of superior quality that has been strenuously built over the decade. As a result of the Group's strategy of keeping the price intact, the drop in the Group's sales volume was inevitable. The Directors believed that the price competition is a short-term phenomenon while in the long run, superior quality will still be the main criteria considered by the customers in selecting products.

Thirdly, under the notice number 275(2002) issued by SDA (國藥監注[2002]275號文件) to all relevant parties, all application and approval process for the certificate of new medicines will be prolonged by another 100 working days due to the unexpected increase in volume of applications. As a result, this delay in the realization of sales from new medicines was outside the expectations of the Directors and also affect the Group's expected revenue stream.

Other factors, such as the unfavorable impact of the global economic downturn and weak market sentiment, the change of customers' purchasing pattern and inventory management practices due to the growing consciousness of customers over cost reductions in this economic downturn, etc, also attributed to the decrease in the Group's turnover.

The overall gross profit ratio increased from 73% to 75% compared to last year. However, the Group suffered a decrease in operating profit from RMB39.4 million to RMB16.7 million for the year ended 31 December 2002 due to the increase in selling and distribution expenses and general and administrative expenses.

Selling and distribution expenses increased to approximately RMB33 million for the year ended 31 December 2002 from approximately RMB30 million in the previous financial year. Firstly, the increase was mainly due to the increase of promotional and advertising activities. The management intended to boost up the sales by a series of promotional campaigns to counteract the decrease in turnover. Promotional activities included launching television commercials, posting product articles in newspapers, participating in trade conference, etc. For instance, the Group participated in the 49th Annual National Pharmacy Trade Conference cum the 1st National non-prescription Medicines Trade Conference in Guangzhou (第49屆全國藥品交易會暨第一屆全國非處方藥品交易會). Secondly, the headcount of the sales team increased to 125 from 101 in the previous year also attributed to the increase in salaries expenditure. In addition, a bonus payment of approximately RMB500,000 made to sales employees in relation to sales performance in 2001, which had not been provided for in previous year, was reflected in this financial year.

General and administrative expenses increased during the year ended 31 December 2002 to approximately RMB12.0 million from approximately RMB4.3 million in last year. Provision for bad and doubtful debt was RMB1.2 million for the year ended 31 December 2002 as compared to a write back of provision RMB3.4 million in prior year. Besides, the cost incurred in establishing a sales channel in Hong Kong from RMB0.8 millions in the corresponding last year to RMB2.8 millions in this financial year also led to the increase of general and administrative expenses. The establishment of a new industrial complex and the conclusion of the technical transfer contract also increase in the expenditure of salaries, depreciation, office expenses, license fee, low value consumable, traveling cost, etc, which contributed to the significant increase of general and administrative expenses in this financial year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this year. For the year ended 31 December 2002, the Group's primary source of funds was cash from the operating activities. As at 31 December 2002, the Group had cash and bank balances and consolidated net asset value of approximately RMB32.2 million and RMB184.9 million respectively.

GEARING RATIO

During this financial year, the Group had settled all its bank borrowing and turned its gearing ratio to zero.

EMPLOYEES

The Group has a total of 359 employees, representing an increase of 24 headcount from the previous year. The new recruits were mostly sale-persons. For the year ended 31 December 2002, the total remuneration to employees, including director's emoluments amounted to approximately RMB6.7 million (2001: approximately RMB6.4 million)

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 DIRECTORS

Zhang Hong, aged 47, 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 13 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 38, is the Director and 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 11 years of experiences in the business of pharmaceuticals. He joined the predecessor of the Company in August 1990.

Li Yu Xian, aged 50, is the Director and vice general manager of the Company. She is responsible for managing the production of pharmaceutical products and the 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 56, is the 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 11 years since December 1989, he has contributed a lot to the setting up and development of the Company's sales network, with his profound experience in sales and marketing.

Cui Shu Mei, aged 51, is the 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 engaged in financial and management jobs for many years and has profound theories of financial practice. She joined the predecessor of the Company in December 1993.

Zhang Yuan Qiu, aged 41, is the Director and 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 seven 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 35, is the 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 60, is the 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS (cont'd)

Shen Yu Xiang, aged 52, is the independent non-executive Director. He has over 19 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 2001, Mr. Shen served as the Commissioner of Huinan County Auditing Bureau.

SUPERVISORS

Zhang Jing Zhou, aged 53, 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 6 years since March 1995.

Kang Tai You, aged 59, is the Supervisor and Party deputy secretary of the Company. He has 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 45, is the Supervisor. He is responsible for the electricity of the Company. He was engaged in distribution of electricity when he was in military unit. He joined the predecessor the Company in July 1990.

SENIOR MANAGEMENT

Wu Guo Wen, aged 38, is the Chief engineer and head of research and development department of the Company, responsible for 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 Yuan, aged 43, is the head of 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 40, is the head of 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 32, is the authorized representative, the 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 is a fellow member of the Association of Chartered Certified Accountants. Before joining the Company in December 2001, he had over 7 years experience in finance and accounting and had worked in an international accounting firm.

Au Ya Qin, aged 53, is the head of 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 34, is the head of quality control department of the Company. He graduated from Yan Bian Medical School. He has joined the Company in January 2001.



STATEMENT OF BUSINESS OBJECTIVES

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from listing date to 31 December 2002:

	Expected project progress up to 31 December 2002	Actual project progress up to 31 December 2002
Establishment of new production capacity		
Expansion of production capacity of Qianlie Guihuang tablet	Commencing mass commercial production of Qianlie Guihuang tablet upon completion of the improvement in the related production facilities.	The Group has doubled the production capacity of Qianlie Guihuang tablet from 200,000 boxes per annum in 2001 to 400,000 boxes per annum in 2002. However, the increase in present capacity is still far behind from the expected production capacity stated in the Prospectus. This is due to a slow down of production schedule under the uncertain market demand for medicines in relation to the treatment of prostatic diseases. Going forward, the Group will continue to review the market condition and take the necessary actions to fulfill the original plan when appropriate.
Expansion of sales and distribution network in the PRC and Hong Kong		
Establishment of a sales channel in Hong Kong	Trial implementation of the Company's marketing plan for Hong Kong and overseas market.	With the establishment of a wholly-owned subsidiary in Hong Kong as a sales channel, 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 since 2001. The Group is in the process of designing a new series of promotional activities, such as product repackaging, advertising in magazines, etc. Meanwhile, the management has been in discussion with different reputable local distributors with regard to the possible cooperation in expanding the Hong Kong market.

STATEMENT OF BUSINESS OBJECTIVES

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Expected project progress up to 31 December 2002

Actual project progress up to 31 December 2002

Expansion of full-time sales employees

The number of full-time sales employees increase to 150

The Group has streamlined the reporting structure of the sales teams during the year 2002. Thus, the increase in the headcount of full-time sales employees was not as much as expected. As at 31 December 2002, there were 125 full-time sales employees.

Marketing activities for the PRC market

Launching a new series of promotional activities (such as television commercials, exhibitions and seminars) for individual principal products of the Company.

The Group will continue its investment in launching television commercials to enhance the brand awareness for its products. The Group also participated in trade conferences during the year. For instance, the Group participated in the 49th Annual National Pharmacy Trade Conference cum the 1st National non-prescription Medicines Trade Conference in Guangzhou in December, 2002.

Research and development of new products

Development and commercial production of Compound Glycine Theophylline Choline tablet/capsule

Evaluating the production technique of Compound Glycine Theophylline Choline tablet/capsule

The State Drugs Approval Centre (國家藥審中心) is still processing our application for production permit. The Company has submitted the final batch of supplementary information on 9 January 2003. The approval is expected to be granted not later than the end of 2003.

Development and commercial production of Tuoluo Yinxie capsule

Commencing commercial production of Tuoluo Yinxie capsule.

Due to unexpected difficulties occurred during the clinical examination, the progress of the development of this product has been slowed down. This product is currently at its 2nd stage of implementing the clinical examination and the Director will decide whether to discontinue the development of this product in six months' time.



STATEMENT OF BUSINESS OBJECTIVES

Expected project progress up to 31 December 2002

Actual project progress up to 31 December 2002

Enhancement of competitiveness by research and development of new products

Development of other advanced new products

Other than developing new products through our own R & D efforts, the Group also embarks on joint efforts with reputable R & D companies to develop new potential pharmaceutical products. As at 31 December 2002, two products have been granted the Certificate of the New Medicines. In addition, the Group's R & D Department, together with the joint efforts from other R & D companies, has engaged in R & D on more than 20 new medicines since 2001.

Enhancement of the research and development capacity

Establishment of a new research and development center

Project completed

The establishment of the animal experiment laboratory, which was located adjacent to the existing production workshop, has been completed since December 2001.

STATEMENT OF BUSINESS OBJECTIVES

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COMPARISON OF USE OF PROCEEDS

Item in (HK' million)	From 1 January 2002 to 31 December 2002		From 24 May 2001 to 31 December 2002	
	Planned use of proceed as set out in the prospectus HKD	Actual use of proceeds HKD	Planned use of proceed as set out in the prospectus HKD	Actual use of proceeds HKD
Expansion of production capacity of Qianlie Guihuang tablet	18	4	28	10.5
Establishment of a sales channel in Hong Kong	1.5	1.9	3.5	2.7
Expansion of the Company's existing sales and distribution network	5	10.4	12.5	19.6
Enhancement of the Company's research and development ability	2	11	9	14.2
	26.5	27.3	53	47

The Group has achieved substantial cost savings in the sourcing of its new equipments 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 in obtaining the best quotation. Besides, due to the uncertain market demand for medicines in relation to the treatment of prostatic diseases, the Group revised the original plan to slow down the production schedule of the new production facilities. The current status of the development is revised to a scale to reflect the current market demand for the product. As a result, part of the engineering work has been delayed and the cost incurred was reduced. Going forward, the Group will continue to review the market condition and make the necessary actions to fulfill the original plan when appropriate.

During the year ended 31 December 2002, the Group invested RMB10.4 million in expanding the sales and distribution network. The actual investment amount exceeded the anticipated one because the Group has reorganized the sales teams. The sales teams were restructured to require all sales representatives to report to a provincial manager who in turn report to the regional managers. As at 31 December 2002, there were a total of 32 provincial managers and 5 regional managers respectively. The Chairman of the Group directly supervise the 5 regional managers. Provincial managers are given a sales target and penalty will be given to those who could not fulfill the target given. In return, attractive bonus will be given based on the sales amounts over the budgeted sales. This monetary incentive was the appraisal method used since 2002. In addition, a permanent establishment is set up for each sales point located in all regions and it is expected that this customer-oriented corporate structure will enhance our relationship with customers. The management also intends to boost up the sales by increasing a series of promotional campaign to counteract the decrease in turnover during the year 2002. Promotional activities includes launching television commercials, posting product articles on newspapers, participating in trade conference, etc. For instance, the Group participated in the 49th Annual National Pharmacy Trade Conference cum the 1st National non-prescription Medicines Trade Conference in Guangzhou (第49屆全國藥品交易會暨第一屆全國非處方藥品交易會) in December 2002.

During the year 2002, the Group further invested approximately RMB11 million in R & D through entering into technological transfer contracts to develop new medicines. Under these contracts, the Group will be entitled to the protected production rights and hold Certificate of New Medicine upon the completion of the R & D of new medicines.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

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 reorganised 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 (the "Stock Exchange") 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 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 48.

The directors do not recommend the payment of a dividend.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and the assets and liabilities of the Group prepared on the basis set out in the notes below. This summary is not part of the audited financial statements.

Results

	2002 RMB'000	2001 RMB'000
Turnover	80,730	100,127
Profit before tax	16,335	38,719
Taxation	(5,748)	(11,337)
Net profit from ordinary activities attributable to shareholders	10,587	27,382

SUMMARY FINANCIAL INFORMATION (cont'd)**Assets and liabilities**

	2002 RMB'000	2001 RMB'000
Total assets	224,182	229,945
Total liabilities	(39,263)	(55,613)
Net assets	184,919	174,332

PROPERTY, PLANT AND EQUIPMENT AND PURCHASED KNOW-HOW AND PRESCRIPTION

Details of movements in property, plant and equipment, and purchased know-how and prescription of the Group are set out in notes 12 and 14 to the financial statements respectively.

SUBSIDIARIES

Particulars of the subsidiaries of the Company are set out in note 13 to the financial statements.

CAPITAL STRUCTURE

The operations of the Group were financed mainly by shareholders' 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 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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

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 2002, the Group's reserves, available for cash distribution/or distribution in specie, amounted to RMB60,935,000.



REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 25% of its goods to its five largest customers.

In the year under review, purchases from the Group's five largest suppliers accounted for 19.1% of the total purchases for the year and purchases from the largest supplier included therein amounted to 9.1%.

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

Update on the progress of the Group's future plans for material investments or capital assets and their expected sources of funding have been dealt with under the section "Statement of Business Objectives" of the annual report.

CHARGES OF ASSETS

As at 31 December 2002, the Group did not create any security on its assets.

FOREIGN EXCHANGE RISK

For the years ended 31 December 2002 and 2001, 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. Accordingly the Group did not employ any financial instruments for hedging purposes.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group as at 31 December 2002 are set out in note 24 to the financial statement.

CONTINGENT LIABILITIES

As at 31 December 2002 and 31 December 2001, the Group had no material contingent liabilities.

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

Supervisors

Zhang Jing Zhou
Kang Tai You
Li Bao Hai

Non-executive directors

Qu Lian Qin (Resigned on 22 May 2002)

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out in the section "Directors, Senior Management and Staff" 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 9 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 determinable 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 subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, 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 2002, 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 interest in the registered capital of the Company %
Huinan County SAB (Note)	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

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 (the "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 10 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 2002, 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.

Three meetings have been conducted by the audit committee in 2002. The first meeting was held on 6 February 2002 for discussion with auditor on the operating results, state of affairs and accounting policies with respect to the audited financial statements of the Group for the year ended 31 December 2001. The second meeting was held on 18 July 2002 for discussion of the operating results, state of affairs and accounting policies with respect to the unaudited interim report of the Group for the six months ended 30 June 2002. The third meeting was held on 11 November 2002 for discussion of the operating results, state of affairs and accounting policies with respect to the unaudited third quarterly report of the Group for the nine months ended 30 September 2002.

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
26 March 2003



REPORT OF SUPERVISORY COMMITTEE

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

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

The Supervisory Committee of the Company, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and articles of association of the Company (the "relevant rules and regulations"), exercised conscientiously its authority, safeguarded the interests of the shareholders of the Company and the Company, during the year ended 31 December 2002 followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year, we provided reasonable suggestions and advice on the operations and development plans to the Directors and strictly and effectively monitored whether the policies of the Company had conformed with the relevant rules and regulations or safeguarded the interests of the shareholders of the Company.

After investigation, we consider that the audited financial statements of the Company truly and sufficiently reflect the operating results and asset position of the Company. We also consider that the Report of the Directors and the profit distribution proposal meet the relevant rules and regulations. We have attended the meeting of the Board. We are of the opinion that the meeting was convened in accordance with the relevant rules and regulations. We consider that the members of the Board, the general manager and other senior management of the Company have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. None of the Directors, general manager nor other senior management of the Company have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated the relevant rules and regulations.

We are satisfied with the various accomplishments and the cost-effectiveness of the Company. We are confident that the Company will have a good prospect of future development.

By order of the Supervisory Committee
Jilin Province Huinan Changlong Bio-pharmacy Company Limited
Zhang Jing Zhou
Chairman

Jilin, the PRC

26 March, 2003

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

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

We have audited the financial statements on pages 26 to 48 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 2002, and of its 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

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Chan Kam Wing, Clement

Practising Certificate number P02038

26 March 2003

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2002
(Expressed in Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Turnover	4	80,730	100,127
Cost of sales		(20,215)	(27,062)
Gross profit		60,515	73,065
Other revenue	4	1,367	1,011
Distribution and selling costs		(33,186)	(30,116)
Administrative expenses		(12,017)	(4,299)
Other operating expenses		(32)	(284)
Profit from operations	5	16,647	39,377
Finance costs	6	(312)	(658)
Profit before taxation		16,335	38,719
Taxation	7	(5,748)	(11,337)
Profit attributable to shareholders	21	10,587	27,382
Earnings per share – Basic	8	1.9 cents	5.5 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2002
(Expressed in Renminbi)

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	Note	2002 RMB'000	2001 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	12	44,919	43,706
Construction in progress		4,668	–
Purchased know-how and prescription	14	3,275	1,395
		52,862	45,101
Current assets			
Inventories	15	32,146	27,597
Trade receivables	16	57,494	55,115
Other receivables, deposits and prepayments		49,523	32,968
Cash and cash equivalents	17	32,157	69,164
		171,320	184,844
Current liabilities			
Trade payables	18	11,164	11,670
Other payables, deposits received and accruals		14,848	17,116
Bank loans	19	–	8,300
Taxation		13,251	18,527
		39,263	55,613
Net current assets		132,057	129,231
Net assets		184,919	174,332
Capital and reserves			
Share capital	20	56,025	56,025
Reserves	21	128,894	118,307
Shareholders' funds		184,919	174,332

Zhang Hong
Director

Zhang Xiao Guang
Director

BALANCE SHEET

At 31 December 2002
(Expressed in Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	12	44,883	43,659
Construction in progress		4,668	–
Interest in subsidiaries	13	5,809	5,989
Purchased know-how and prescription	14	3,275	1,395
		58,635	51,043
Current assets			
Inventories	15	32,146	27,597
Trade receivables	16	58,757	55,115
Other receivables, deposits and prepayments		49,508	32,952
Cash and cash equivalents	17	26,213	63,738
		166,624	179,402
Current liabilities			
Trade payables	18	11,164	11,670
Other payables, deposits received and accruals		14,765	17,116
Bank loans	19	–	8,300
Taxation		12,609	18,527
		38,538	55,613
Net current assets		128,086	123,789
Net assets		186,721	174,832
Capital and reserves			
Share capital	20	56,025	56,025
Reserves	21	130,696	118,807
Shareholders' funds		186,721	174,832

Zhang Hong
Director

Zhang Xiao Guang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2002
(Expressed in Renminbi)

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	Share Capital RMB'000 (Note 20)	Share premium RMB'000	PRC statutory funds		Retained profits RMB'000	Total RMB'000
			Statutory surplus reserve RMB'000 (Note 21)	Staff public welfare fund RMB'000 (Note 21)		
At 1 January 2001	40,500	-	7,144	3,572	29,111	80,327
New issue of H shares on public listing	17,250	75,865	-	-	-	93,115
Share issue expenses	-	(17,364)	-	-	-	(17,364)
Conversion of domestic shares to H shares (Note 21)	(1,725)	(7,403)	-	-	-	(9,128)
Profit for the year	-	-	-	-	27,382	27,382
Transfer to statutory funds	-	-	2,532	1,266	(3,798)	-
At 31 December 2001	56,025	51,098	9,676	4,838	52,695	174,332
Profit for the year	-	-	-	-	10,587	10,587
Transfer to statutory funds	-	-	1,565	782	(2,347)	-
At 31 December 2002	56,025	51,098	11,241	5,620	60,935	184,919

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002
(Expressed in Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Net cash (used in)/generated from operating activities	22	(17,149)	2,323
Cash flows from investing activities			
Payments to acquire know-how and prescription		(2,300)	(1,200)
Payments to acquire property, plant and equipment		(5,496)	(11,796)
Payments for construction in progress		(4,668)	–
Receipts from disposal of property, plant and equipment		350	205
Interest received		556	408
Net cash used in investing activities		(11,558)	(12,383)
Cash flows from financing activities			
Proceed from issue of shares		–	91,390
Share issue expenses		–	(17,365)
Repayment of short term bank loans		(8,300)	(6,050)
Net cash (used in)/generated from financing activities		(8,300)	67,975
(Decrease)/increase in cash and cash equivalents		(37,007)	57,915
Cash and cash equivalents at beginning of year	17	69,164	11,249
Cash and cash equivalents at end of year		32,157	69,164

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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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-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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 24 May 2001.

The Company is principally engaged in the manufacture and distribution of biochemical medicines in the PRC under the brandnames of Changlong and Shendi. The principal activities of the subsidiaries are set out in note 13 to the financial statements.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants:—

SSAP 1 (Revised) :	Presentation of financial statements
SSAP 11 (Revised) :	Foreign currency translation
SSAP 15 (Revised) :	Cash flow statements
SSAP 34 :	Employee benefits

In accordance with SSAP1 (Revised), the consolidated statement of changes in equity has been presented in place of the consolidated statement of recognised gains and losses.

SSAP11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no material impact on the results of the current and prior accounting periods.

In accordance with SSAP15 (Revised), cash flows are classified by operating, investing and financing activities. The presentation of the cash flow statement has been changed to conform with the requirements of this revised SSAP.

SSAP 34 prescribes the accounting and disclosure for employee benefits. This new SSAP has had no material impact on the results of the current and prior accounting periods.

3. 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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 companies for the year ended 31 December 2002. 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.

Investments in subsidiary companies are included in the Company's balance sheet at cost less any impairment losses. The results of the subsidiaries are 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 term of the relevant lease.

Government subsidies of a revenue nature are recognised as other income in the profit and loss account in the year when they become receivable with reasonable assurance.

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) Construction in progress

Construction in progress is stated at cost less any impairment losses which includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Cost on completed construction works are transferred to the appropriate property, plant and equipment category.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses 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

i) Research expenditure

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

j) Purchased know-how and prescription

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

k) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

l) 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.

m) 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.

n) 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.

o) 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.

p) Borrowing costs

Borrowing costs are charged to profit and loss account in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

q) 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.

4. 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.

	2002 RMB'000	2001 RMB'000
Turnover		
Sales of medicine	80,730	100,127
Other revenue		
Bank interest income	556	408
Government subsidy	532	500
Rental income	60	60
Others	219	43
	1,367	1,011
Total revenue for the year	82,097	101,138

5. PROFIT FROM OPERATIONS

	2002 RMB'000	2001 RMB'000
Profit from operations is arrived at after charging:		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	17,483	24,009
Provision for obsolete and slow-moving inventories	2,000	173
Auditors' remuneration:		
– Current year	551	550
– Overstatement in previous year	(50)	–
Depreciation	3,785	2,879
Loss on disposal of property, plant and equipment	148	176
Provision/(Write back) of provision for bad and doubtful debts	1,182	(3,408)
Research expenditures written off	–	220
Amortisation of purchased know-how and prescription	420	395
Staff costs (excluding directors' and supervisors' emoluments)	5,542	4,748

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

6. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	311	651
Bank charges	1	7
	312	658

7. TAXATION

	2002 RMB'000	2001 RMB'000
Taxation in the consolidated income statement represents:		
PRC income tax	5,748	11,337

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate was 33%.

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.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2002 is based on the consolidated profit attributable to shareholders of approximately RMB10,587,000 (2001: RMB27,382,000) and the weighted average of 560,250,000 (2001 : 499,426,027) shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the years ended 31 December 2002 and 2001.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- i) 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:

	2002 RMB'000	2001 RMB'000
Fees	–	–
Other emoluments:		
Salaries, allowances and other benefits	84	93
Bonus	822	881
Retirement scheme contributions	4	6
	910	980

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:

	2002	2001
RMB Nil – RMB1,000,000	7	7

The seven directors received emoluments of approximately RMB295,000, RMB155,000, RMB154,000, RMB154,000 and RMB152,000, RMB Nil and RMB Nil for the year ended 31 December 2002 ; and approximately RMB520,000, RMB110,000, RMB113,000, RMB111,000, RMB113,000, RMB7,000 and RMB7,000 for the year ended 31 December 2001.

- ii) Details of the emoluments paid to supervisors of the Company were as follows:

	2002 RMB'000	2001 RMB'000
Salaries, allowances and other benefits	39	43
Bonus	199	191
Retirement scheme contributions	3	2
	241	236

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

	2002	2001
RMBNil – RMB1,000,000	3	3

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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

The three supervisors received emoluments of approximately RMB155,000, RMB70,000 and RMB16,000 for the year ended 31 December 2002; and approximately RMB113,000, RMB113,000 and RMB10,000 for the year ended 31 December 2001.

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 2002.

- iii) Details of the emoluments paid to the five highest paid individuals during the year included three directors (2001: three) and one supervisor (2001: one) whose emoluments are set out above. The details of the remuneration of the remaining one (2001: one) highest paid employee of the Company during the year are as follows:—

	2002 RMB'000	2001 RMB'000
Salaries, allowances and other benefits	382	350
Bonus	74	—
Retirement scheme contributions	16	8
	472	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.

10. 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 the 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 2002, 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 2002 amounted to approximately RMB333,000 (2001: RMB258,000).

11. 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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11. RELATED PARTY TRANSACTIONS (cont'd)

There were no significant transactions with related parties during the years ended 31 December 2002 and 2001.

12. 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 2002	18,361	30,679	2,290	821	52,151
Additions	2,745	1,711	877	163	5,496
Disposals	-	(200)	(640)	-	(840)
At 31 December 2002	21,106	32,190	2,527	984	56,807
Accumulated depreciation:					
At 1 January 2002	2,335	5,322	564	224	8,445
Charge for the year	645	2,743	241	156	3,785
Written back on disposal	-	(19)	(323)	-	(342)
At 31 December 2002	2,980	8,046	482	380	11,888
Net book value:					
At 31 December 2002	18,126	24,144	2,045	604	44,919
At 31 December 2001	16,026	25,357	1,726	597	43,706

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 RMB636,000 (2001: RMB658,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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

	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 2002	18,361	30,679	2,290	763	52,093
Additions	2,745	1,711	877	163	5,496
Disposals	-	(200)	(640)	-	(840)
At 31 December 2002	21,106	32,190	2,527	926	56,749
Accumulated depreciation:					
At 1 January 2002	2,335	5,322	564	213	8,434
Charge for the year	645	2,743	241	145	3,774
Written back on disposal	-	(19)	(323)	-	(342)
At 31 December 2002	2,980	8,046	482	358	11,866
Net book value:					
At 31 December 2002	18,126	24,144	2,045	568	44,883
At 31 December 2001	16,026	25,357	1,726	550	43,659

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 RMB636,000 (2001: RMB658,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

13. INTEREST IN SUBSIDIARIES

	The Company	
	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost (Note 1)	500	-
Amount due from a subsidiary	5,309	5,989
	5,809	5,989

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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13. INTEREST IN SUBSIDIARIES (cont'd)

Particulars of the subsidiaries are as follows:

Name of companies	Country of incorporation and operation	Percentage of ordinary shares held directly	Principal activities
Changlong Bio-Pharmacy (Hong Kong) Company Limited ("Changlong HK")	Hong Kong	100%	Acting as a sales office
Jilin Province Huinan Changlong Pharmacy Trading Company Limited ("Changlong Trading") (Note 2)	PRC	100%	Trading of biochemical medicines

Notes:

- (1) The investment cost included the investment cost in Changlong HK of HK\$2, representing 2 ordinary shares issued at par value of HK\$1 each.
- (2) Changlong Trading was acquired by the Group on 1 April 2002. Analysis of the net cash flow in respect of the acquisition of the subsidiary is as follows:–

	RMB'000
Cash consideration	500
Cash at banks and in hand	(500)
Net cash flow	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

14. PURCHASED KNOW-HOW AND PRESCRIPTION

	RMB'000
The Group and the Company	
Cost:	
At 1 January 2002	4,850
Additions	2,300
At 31 December 2002	7,150
Accumulated amortisation:	
At 1 January 2002	3,455
Amortisation for the year	420
At 31 December 2002	3,875
Net book value:-	
At 31 December 2002	3,275
At 31 December 2001	1,395

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

15. INVENTORIES

	2002 RMB'000	2001 RMB'000
The Group and the Company		
Inventories comprise:		
At cost:		
Raw materials	9,662	12,954
Work in progress	6,823	5,230
Finished goods	20,322	12,074
	36,807	30,258
Less: Provision for obsolete and slow-moving inventories	(4,661)	(2,661)
	32,146	27,597

As at 31 December 2002, inventories amounting to approximately RMB15,661,000 (2001: RMB9,413,000) were carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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16. 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, their creditworthiness and settlement history, and the aging of outstanding trade receivables.

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

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Current	35,472	11,447	34,695	11,447
31-60 days	4,143	9,003	4,533	9,003
61-90 days	3,691	5,055	4,952	5,055
More than 90 days	14,188	29,610	14,577	29,610
	57,494	55,115	58,757	55,115

17. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Deposits with banks	3,428	5,067	–	–
Cash at banks and in hand	28,729	64,097	26,213	63,738
	32,157	69,164	26,213	63,738

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

18. TRADE PAYABLES

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

	2002 RMB'000	2001 RMB'000
The Group and the Company		
Current	2,369	2,339
30-60 days	463	171
61-90 days	301	354
More than 90 days	8,031	8,806
	11,164	11,670

19. BANK LOANS

Bank loans of the Group and the Company were unsecured, interest bearing at commercial rates and have been fully repaid during the year.

20. SHARE CAPITAL

	2002		2001	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Domestic shares of RMB0.10 each	387,750,000	38,775	387,750,000	38,775
H shares of RMB0.10 each	172,500,000	17,250	172,500,000	17,250
	560,250,000	56,025	560,250,000	56,025

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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21. RESERVES

Movements of reserves of the Group and the Company during the year ended 31 December 2002 were as follows:

	Share premium RMB'000	PRC statutory funds Statutory surplus reserve RMB'000 (Note b)	Staff public welfare fund RMB'000 (Note c)	Retained profits RMB'000	Total RMB'000
The Group					
At 1 January 2001	–	7,144	3,572	29,111	39,827
New issue of H shares on public listing	75,865	–	–	–	75,865
Share issue expenses	(17,364)	–	–	–	(17,364)
Conversion of domestic shares to H shares (Note a)	(7,403)	–	–	–	(7,403)
Profit for the year	–	–	–	27,382	27,382
Transfer to statutory funds	–	2,532	1,266	(3,798)	–
At 31 December 2001	51,098	9,676	4,838	52,695	118,307
Profit for the year	–	–	–	10,587	10,587
Transfer to statutory funds	–	1,565	782	(2,347)	–
At 31 December 2002	51,098	11,241	5,620	60,935	128,894

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

21. RESERVES (cont'd)

	Share premium RMB'000	PRC statutory funds		Retained profits RMB'000	Total RMB'000
		Statutory surplus reserve RMB'000 (Note b)	Staff public welfare fund RMB'000 (Note c)		
The Company					
At 1 January 2001	–	7,144	3,572	29,111	39,827
New issue of H shares on public listing	75,865	–	–	–	75,865
Share issue expenses	(17,364)	–	–	–	(17,364)
Conversion of domestic shares to H shares (Note a)	(7,403)	–	–	–	(7,403)
Profit for the year	–	–	–	27,882	27,882
Transfer to statutory funds	–	2,532	1,266	(3,798)	–
At 31 December 2001	51,098	9,676	4,838	53,195	118,807
Profit for the year	–	–	–	11,889	11,889
Transfer to statutory funds	–	1,564	782	(2,346)	–
At 31 December 2002	51,098	11,240	5,620	62,738	130,696

Notes:

- (a) 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.
- (b) **Statutory surplus reserve**
In accordance with the Company Law of the PRC and the Company's articles of association, the Company shall appropriate 10 percent 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 percent 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 percent of share capital after such issuance.
- (c) **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 percent 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit before taxation to net cash (used in)/generated from operating activities

	2002 RMB'000	2001 RMB'000
Profit before taxation	16,335	38,719
Adjustment for:		
Interest income	(556)	(408)
Interest expense	311	651
Amortisation	420	395
Depreciation	3,785	2,879
Loss on disposal of property, plant and equipment	148	176
Operating profit before working capital	20,443	42,412
Increase in inventories	(4,550)	(1,285)
Increase in trade receivables	(2,378)	(19,520)
Increase in other receivables, deposits and prepayments	(16,554)	(23,465)
Decrease in short term advance	–	8,000
(Decrease)/increase in trade payables	(505)	2,162
Decrease in other payables, deposits received and accruals	(2,268)	(518)
(Decrease)/increase in other tax payables	(2,726)	5,338
Cash (used in)/generated from operations	(8,538)	13,124
Interest paid	(311)	(651)
Income tax paid	(8,300)	(10,150)
Net cash (used in)/generated from operating activities	(17,149)	2,323

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

23. COMMITMENTS UNDER OPERATING LEASES

	The Group	
	2002 RMB'000	2001 RMB'000
Minimum lease payments paid under operating leases	61	31

At 31 December 2002, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	2002 RMB'000	2001 RMB'000
	Within one year	31
In the second to fifth year inclusive	–	31
	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 2002, the Group had capital commitments contracted for but not provided for in respect of the following:

	2002 RMB'000	2001 RMB'000
	Acquisition of purchased know-how and prescription	30,412
Acquisition of property, plant and equipment	6,088	–
	36,500	14,030

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approval and authorised for issue by the board of directors on 26 March 2003.

Financial Summary

(Expressed in Renminbi)

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Operating Results

	Year ended 31 December,				
	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
Turnover	80,730	100,127	99,616	63,343	48,081
Cost of sales	(20,215)	(27,062)	(15,979)	(13,399)	(13,402)
Gross profit	60,515	73,065	83,637	49,944	34,679
Other revenue	1,367	1,011	1,442	170	486
Distribution and selling costs	(33,186)	(30,116)	(30,476)	(20,657)	(19,747)
Administrative expenses	(12,017)	(4,299)	(7,162)	(9,912)	(8,582)
Other operating expenses	(32)	(284)	(122)	(35)	(181)
Profit from operations	16,647	39,377	47,319	19,510	6,655
Finance costs	(312)	(658)	(1,053)	(1,494)	(1,241)
Profit before taxation	16,335	38,719	46,266	18,016	5,414
Taxation	(5,748)	(11,337)	(12,184)	(8,399)	(2,260)
Profit attributable to shareholders	10,587	27,382	34,082	9,617	3,154

Assets and Liabilities

	As at 31 December,				
	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
Property, plant and equipment	44,919	43,706	35,170	17,021	11,469
Construction in progress	4,668	–	–	–	–
Purchased know-how and prescription	3,275	1,395	590	1,020	1,700
Current assets	171,320	184,844	90,659	58,153	59,844
Current liabilities	(39,263)	(55,613)	(46,092)	(29,949)	(30,385)
Long-term bank loans	–	–	–	–	(6,000)
Net assets	184,919	174,332	80,327	46,245	36,628
Share capital	56,025	56,025	40,500	40,500	27,000
Reserves	128,894	118,307	39,827	5,745	9,628
Shareholders' funds	184,919	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 2002 (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 Thursday, 22 May 2003 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 2002;
2. to consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year ended 31 December 2002;
3. to consider the reappointment of Horwath Hong Kong CPA Limited as auditors of the Company for the year ending 31 December 2003 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 2003;
5. 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;

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- (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
6. to transact any other business.

By Order of the Board of
Jilin Province Huinan Changlong Bio-pharmacy Company Limited
Zhang Hong
Chairman

Tonghua, Jilin Province, the PRC, 26 March 2003



NOTICE OF ANNUAL GENERAL MEETING

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 or her 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 Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong ("the Company's Shares 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 the 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 2003 to 22 May 2003 (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 17 April 2003 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 30 April, 2003.
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