



annual report
2003



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)

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Corporate Information

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

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

Audit committee

Mr. Nan Zheng
 Mr. Shen Yu Xiang

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

GEM Stock code

8049

Website address

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

Financial Highlights and Calendar

FINANCIAL HIGHLIGHTS

	2003 RMB'000	2002 RMB'000
Revenue		
Turnover	91,592	80,730
Profitability		
Operating profit	10,384	16,647
Profit attributable to shareholders	8,707	10,587
Net Worth		
Shareholders' fund	193,626	184,919
Per share		
Basic earnings per share	1.55 cents	1.89 cents
Net assets per share	34.6 cents	33.0 cents

Financial Calendar

Results for the year

Announcement on 26 March 2004

Annual report

Despatched to shareholders in late March 2004

Annual general meeting

27 May 2004

Chairman's Statement

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 2003.

Results of the year

The Group's turnover for the year ended 31 December 2003 amounted to RMB 91,592,000, and net profit attributable to shareholders was RMB 8,707,000, representing an increase of turnover of approximately 13.5% and a decrease of profit attributable to shareholders of approximately 17.7% as compared with last year. Earning per shares for the year ended 31 December 2003 was dropped to RMB 1.55 cents.

Review of the year

During the past year, it is the Company's directive to prioritize its resources to boost sales performance, strengthen new product development capabilities and generate new product revenue stream. However, due to the unexpected impact of Severe Acute Respiratory Syndrome ("SARS"), the Company's sales result was affected to a certain extent. During this difficult period, all marketing and promotion activities have been suspended. After SARS had been successfully contained in the third quarter of 2003, both the management and sale persons resumed aggressive marketing efforts to keep actual financial results in track with the original plan that had been adversely affected by SARS. In addition, the Group has made further reform in the marketing system and improvement in supporting measures. Together with the launch of the new medicine Hai Kun Shen Xi capsule (海昆腎喜膠囊) in July, we have been successful in achieving our sales target for the year. For the previous year, the company recorded a turnover of RMB91.6 million, representing an increase of 13.5% over the year 2002, in which the turnover of Hai Kun Shen Xi capsule (海昆腎喜膠囊) from its initial launch has accounted for more than RMB1 million. It is expected this new medicine, which is classified as Chinese Medicine Class 2, has the potential to generate important economic benefits core revenue to the Company in future years.

In pursuing sales performance, the Company has also improved its overall corporate quality. Our tablet product of Penicillins (青霉素類) were accredited GMP Certificate on 2 February 2004. Also, during the previous year, we were granted certificates for our five new medicines. Moreover, the Company continued to make registration for our product brandnames to protect our patents. Meanwhile, we also received industrial and quality excellence awards continuously. For instance, the Company was awarded the "2002 Top Taxpayer" by Tonghua Committee of the Communist Party of China and Tonghua Municipal People's Government as well as "the 2001-2002 Civilized Unit" by these two authorities.

Outlook and Prospects

Though we will see a more challenging year 2004 in which the competition in the pharmaceutical industry is expected to be more intense, it is also an important year for Changlong to raise to a new height. It is imperative to make every effort to intensively pursue the targets of 2004 in both its corporate development pace and thus generate substantial improvement in our economic benefits.

There are a number of strategies for the year 2004. Our foremost work is to develop ourselves by opening our minds, venturing into innovation and capturing business opportunities. We will move along with the market to expand and improve our business and focus on the maximization of corporate effectiveness. Emphasis will be placed on innovative products, strengthening and enhancement of our product quality in order to improve our overall quality as well as annual production and operation for a historical new high.

Chairman's Statement

To improve our technology and develop new products, the Company will proceed to work in three aspects. Firstly, we must complete the improvement of technology for production in the shaping of water pill, film agent and Tou Bao raw material, as well as GMP certification in order to perfect our management in product development. Secondly, we aim to launch at least 2 new clinical tested medicines each year. Thus, we will co-ordinate internal resources to complete the registration and reporting procedures for the timely launch of these new medicines according to the plan. For example, "Xue Mai Qin Pian" (血脉清片) will be one of the clinical tested medicine to complete its registration and reporting procedures for its new launch in 2004. Thirdly, we will proactively finish the pre-registration basic work for these new products to pass the clinical observation and tests. In addition, we will actively apply for the Protected Chinese Medicine certificates as well as the renewal of the protection period.

In this year, we must keep abreast with international development and technology as well as continue to evaluate the current trends to explore and develop the new approach, best practice, challenge and demand. As such, Changlong may create a new era in all aspects.

Dividends

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

Appreciation

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

Zhang Hong

Chairman

Jilin Province, the PRC
26 March 2004

Management Discussion and Analysis

Business Review

For the year ended 31 December 2003, the Group's gross profit increased by 12.7% from RMB 60.5 million to RMB 68.2 million while that of profit attributable to shareholders decreased by 17.7% from RMB 10.59 million to RMB 8.71 million. For the year ended 31 December 2003, basic earning per share decreased to RMB 1.55 cents from RMB 1.89 cents last year.

For the year ended 31 December 2003, the manufacturing and selling of Compound Huonaoshu capsule (復方活腦舒膠囊) continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule (復方活腦舒膠囊) increased by 7.4% to approximately RMB 68 million as compared to last year. In addition, the new medicine of Hai Kun Shen Xi capsule (海昆腎喜膠囊) has been commencing production since the third quarter of 2003 and recorder a total revenue of approximately RMB 1 million for the year ended 31 December 2003. Other products such as Hongweishu (弘威舒) · Dongguilonghui tablet (當歸龍薈丸) · Qianlie Guihuang tablet (前列桂黃片) · Naofusu (腦復素) · Jiangxianmei Defibrase for injection (注射用降纖酶) etc also contributed a significant increase in sales turnover in 2003 compared with last year. This was further elaborated under the Section "Financial Review".

Operation Review

Good Manufacturing Practice (GMP)

The Company has stringent self-examination procedures in production management, product quality and product packaging not only to meet regulatory authority requirements but also to assume social responsibility to drug users. With these stringent self-examination procedures, the Company has been successful in obtaining GMP certification for each medicine category developed. On 2 February 2004, the Company's tablet product of Penicillins (青霉素類) was accredited the GMP Certificate.

The Company has already obtained GMP certifications for the following:

1. Lyophilized powder for injection (凍乾粉針劑)
2. Small volume Parenteral Solution (小容量注射劑)
3. Tablets (片劑)
4. Capsules (膠囊劑)
5. Granules (顆粒劑)
6. Powder for injection (Cephalosporins) (頭孢菌素類粉針劑)
7. Tablets (Penicillins) (青霉類片劑)

Management Discussion and Analysis

Product Development – Certificate of New Medicines

In new product development, the Company has achieved fruitful results with the intense effort of our Research and Development (“R&D”) department during 2003. Firstly, Hai Kun Shen Xi capsule (海昆腎喜膠囊) was granted the Certificate of New Medicine on 21 May 2003. This success has justified the investment in this medicine at RMB20 million that has been encouraging to our R&D staff. Secondly, another new medicine of Compound Glycine Theophylline Choline tablet/capsule (復方甘氨酸茶碱鈉片/膠囊), after application procedure for two years, was successfully granted the Certificate of New Medicine in 2003 by the State Drugs Approval Centre (“SDA”). This further has proven the achievement of our R&D staff.

Apart from the above two new medicines, the Company has also obtained Certificate of New Medicine in 2003 for other new medicines, including “Yan Suan Ding Ge Di Er” for injection (注射用鹽酸丁咯地爾)“ Ke Lin Du Su Lin Suan Zi” for injection (注射用克林霉素林酸酯) and “Ku Shen Jian” for injection (注射用苦參素). The new medicine certificates received in 2003 are as follows:

Medicine Name	Type	Form	Treatment
Yan Suan Ding Ge Di Er for injection (注射用鹽酸丁咯地爾)	Chemical Medicine Class 4	Lyophilized Powder for injection	1. Peripheral vascular disease; 2. syndrome arising from chronic insufficient blood supply to cerebral vas: faint, tinnitus, degeneration in intelligence, degeneration in memory or attention, disorientation, etc.
Hai Kun Shen Xi capsule (海昆腎喜膠囊) and raw material	Chinese Medicine Class 2	Capsules	Diuresis, reduction of swelling, removal of dampness, dissolving turbidity. To cure endogenous damp retention, chronic renal failure, renal syndrome.
Compound Glycine Theophylline Choline capsule (復方甘氨酸茶碱鈉膠囊)	Chemical Medicine Class 4	Capsules	Applicable to bronchia asthma, chronic gasp-type bronchitis and chronic obstructive emphysema and mitigation of the seriousness of reversible bronchia spasmus arising from it.
Compound Glycine Theophylline Choline tablet (復方甘氨酸茶碱鈉片)	Chemical Medicine Class 4	Tablets	Applicable to bronchia asthma, chronic gasp-type bronchitis and chronic obstructive emphysema and mitigation of the seriousness of reversible bronchia spasmus arising from it.

Management Discussion and Analysis

Medicine Name	Type	Form	Treatment
Ke Lin Du Su Lin Suan Zi for injection (注射用克林霉素林酸酯)	Chemical Medicine Class 4	Lyophilized Powder for injection	An antibiotic medicine. Applicable to infection of respiratory, genito-urinary system and skin soft organs arising from sensitive Gram-negative virus or anaerobic virus.
Ku Shen Jian for injection (注射用苦參素)	Chemical Medicine Class 4	Lyophilized Powder for injection	Applicable to low level of white cells arising from the treatment of chronic Hepatitis B as well as radiation or chemical treatment of oncosis, and leucopenia arising from other factors.

Product Development – Research and Development of New Products

It is the Group's directive to strengthen its new product development capabilities with new curative effect as well as focus on continuous product improvement. In the intense market competition, our business prospect and development is highly driven by our abilities to keep abreast with technological advancement and sustained by our new product development capabilities. In addition to our internal R&D resources, the Group also embarks on joint efforts with reputable R&D companies to develop new potential pharmaceutical products. As at 31 December 2003, the major products currently under these joint efforts of research and development are as follows:

Medicine Name	Type	Form
Xue Mai Qing Pian (血脈清片)	Chinese Medicine Class 2	Tablets
Ezhi Extracts(梔子提取物)	Chinese Medicine Class 2	Raw Material
Xiong Xian Tai capsule (胸腺肽膠囊)	Biochemical Medicine	Capsules
Yan Suan Tou Bao Jia Wo for injection (注射用鹽酸頭孢甲芎)	Chemical Medicine Class 5	Powder for injection
Yan Suan Tou Bao Jia Wo (鹽酸頭孢甲芎)	Chemical Medicine Class 3	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
Lin Suan Chuan Qin for injection (注射用磷酸川嗪)	Chemical Medicine Class 5	Lyophilized powder for injection

Management Discussion and Analysis

Medicine Name	Type	Form
Shuang Mi Da Mo for injection (注射用雙嘍達莫)	Chemical Medicine Class 5	Lyophilized powder for injection
Yi Da La Tong injection (依達拉酮注射液)	Chemical Medicine Class 2	Water for injection
Yi Da La Tong (依達拉酮)	Chemical Medicine Class 2	Raw Material
Zhi Zi Xi Hong Ha Gan (梔子西紅花苷)	Chinese Medicine Class 2	Raw Material
Zhi Zi Xi Hong Ha Gan for injection (注射用梔子西紅花苷)	Chinese Medicine Class 2	Lyophilized powder for injection
Ku Shen Jian for injection (注射用苦參城)	Chemical Medicine Class 6	Lyophilized powder for injection
Yan Suan Tou Bao Bi Wo (鹽酸頭孢吡肟)	Chemical Medicine Class 4	Raw Material
Yan Suan Tou Bao Bi Wo for injection (注射用鹽酸頭孢吡肟)	Chemical Medicine Class 4	Powder for injection
Yan Suan Ni Fei Ku Lan (鹽酸尼非卡蘭)	Chemical Medicine Class 2	Raw Material
Yan Suan Ni Fei Ku Lan for injection (注射用鹽酸尼非卡蘭)	Chemical Medicine Class 2	Lyophilized powder for injection
Long Zhu Ping Kang Wan (龍珠平亢丸)	Chinese Medicine Class 3	Water pill
Yi Xian Ke Xian An for injection (注射用乙酰穀酰胺)	Chemical Medicine Class 5	Lyophilized powder for injection
Chuan Su Jiu Xin spray (川蘇救心噴霧劑)	Not Applicable	Spray

Management Discussion and Analysis

Production facilities

The Group has devoted majority of its research and development resources in the new medicine of Hai Kun Shen Xi capsule (海昆腎喜膠囊) during the year 2003. In addition, the Group has also constructed the new industrial complex, which is located adjacent to the existing production complex, to expand its production capability. This industrial complex is composed of two workshops. One workshop is constructed to produce the new medicine Hai Kun Shen Xi capsule (海昆腎喜膠囊) that has already been in production since June 2003. The construction of the other workshop, which is designed to produce another new medicine currently named as "Yan Suan Tou Ban Jia Wo" (鹽酸頭孢甲芑) is currently in progress and all related machinery and equipment has already been installed into the production line. The Group believes that the production permit for this medicine will be issued shortly and after which the trial run will be implemented accordingly.

Financial review

This was a year full of challenges. The sudden outbreak of SARS almost revoked the Group's original sales target. With the aggressive marketing efforts of both the management and sale persons in the third quarter, the Group's turnover reached RMB 91.6 million, which was 13.5% higher than last year. The increase in the Group's turnover was attributed to an increase in revenue in its core product Compound Huonaoshu capsule (復方活腦舒膠囊) from approximately RMB63 million last year to approximately RMB 68 million for this year. In addition, the realization of sales from the new medicine of Hai Kun Shen Xi capsule (海昆腎喜膠囊) amounted to approximately RMB 1 million also increased the Group's revenue. The sales of Xueshuan Xinmaining capsule (血栓心脈寧膠囊) reached approximately RMB 7.9 million in 2003. This represented a significant increase from approximately RMB 4.2 million in 2002. Other products such as Hongweishu (弘威舒), Dongguilonghui tablet (當歸龍薈丸), Qianlie Guihuang tablet (前列桂黃片), Naofusu (腦復素), Jiangxianmei Defibrase for injection (注射用降纖酶) etc also contributed a significant increase in sales turnover in 2003 compared with last year. The management believes that the increase in sales volume of most products was attributed to the management reform in sales network, in which each sales person was allocated to a clearly defined territory to avoid the internal competition from the other sales person. Besides, our marketing campaign has been successful in the promotion of "Changlong" with the brand image of superior quality and instilling strong brand loyalty. The management believes that the successful marketing campaign has resulted in a general increase of the sales volume of most "Changlong" products. In addition, the great effort from the management, the sales persons as well as all supporting units cannot be undermined.

Despite the increase in turnover, the Group suffered a decrease in profit attributable to shareholders from RMB10.6 million last year to RMB8.7 million for the year ended 31 December 2003 due to the increase in selling and distribution expenses and general and administrative expenses.

Management Discussion and Analysis

Selling and distribution expenses increased to approximately RMB 44.9 million for the year ended 31 December 2003 from approximately RMB 33.2 million last year. The increase was mainly due to the increase of promotional and advertising activities. With the issuance of the production permit for our new product of Hai Kun Shen Xi capsule (海昆腎喜膠囊) in June 2003, a series of advertising program has been launched. The newly designed advertising program focused not only on the new medicine, but also promoted the brandname of "Changlong". Promotional activities also included the launching of television commercials, posting of product articles in newspapers, participating in trade conference, etc. For instance, the advertisements of the new medicine have been frequently seen in the Chinese Medicine Post and the Healthy Post in PRC. Furthermore, all senior management of the Group, together with the experts in our R&D Department, has been traveling around different provinces throughout PRC to introduce the new medicine to potential customers, such as the management in hospital and clinics. The management believes that intensive marketing effort is necessary during the launch of a new medicine while the advertising cost could be greatly reduced when the medicine is being widely recognized and accepted. The management has also implemented appropriate corrective cost control measures over selling and distribution expenses .

General and administrative expenses increased during the year ended 31 December 2003 to approximately RMB 14.5 million from approximately RMB 12 million last year. The increase of purchased know-how and prescription from approximately RMB 7.2 million in 2002 to approximately RMB 21.9 million in 2003 led to the increase of approximately RMB 1 million in amortization expenses for the year ended 31 December 2003. Besides, after overcoming the difficult time during the "SARS" period, the Group increased staff welfare expenses as well as bonus so as to enhance the staff morale. The establishment of a new industrial complex and the implementation of the management reform on the sale network also increased depreciation, office expenses, license fee, low value consumable, traveling cost, etc, which contributed to the increase in general and administrative expenses this year.

Liquidity and financial resources

The Group has maintained a sound financial position during this year. As at 31 December 2003, the Group had cash and bank balances amounted to RMB 22.4 million (2002: RMB 32.2 million) and short-term bank borrowings of RMB 10 million (2002: Nil). These borrowings were unsecured, interest bearing at commercial rates and shall be repaid by 18 February 2004. As at 31 December 2003, the Group had total assets of RMB 235,284,000 (2002: RMB 224,182,000) which were financed by current liabilities of RMB 41,658,000 (2002: RMB 39,263,000) and shareholders' equity of RMB 193,626,000 (2002: RMB 184,919,000).

Gearing ratio

As at 31 December 2003, the Group had a gearing ratio of approximately 5.2 per cent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 31 December 2003.

Employees

The Group has a total of 365 employees, representing an increase of 6 headcount from the previous year. The new recruits were mostly sale-persons. For the year ended 31 December 2003, the total remuneration to employees, including director's emoluments amounted to approximately RMB 8.7 million (2002: approximately RMB 6.7 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 48, 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 14 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 39, is the Director, vice general manager as well as secretary of the Board of Directors of the Company. He is responsible for the Company's corporate finance, foreign trading activities and business development. Mr. Zhang graduated from Correspondence College of the Central School of the Communist Party of China. He has over 12 years of experiences in the business of pharmaceuticals. He joined the predecessor of the Company in August 1990.

Li Yu Xian, aged 51, 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 57, 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 12 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 52, 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 42, 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 eight 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 36, 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 61, 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.

Directors, Senior Management and Staff

Shen Yu Xiang, aged 53, is the independent non-executive Director. He has over 20 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 54, is the Chairman of supervisory committee and labour union of the Company. He is responsible for the infrastructure and re-construction of the Company. He has worked in the Company for 7 years since March 1995.

Kang Tai You, aged 60, 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 46, 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 39, 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 uan, aged 44, 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 41, 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 33, 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 2000, he had over 7 years experience in finance and accounting and had worked in an international accounting firm.

Au Ya Qin, aged 54, 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 35, 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 2003:

	Expected project progress up to 31 December 2003	Actual project progress up to 31 December 2003
Establishment of new production capacity		
Expansion of production capacity of Qianlie Guihuang tablet	Project completed.	The present production capacity of Qianlie Guihuang tablet is 400,000 boxes per annum. However, this scale of production is still behind from the expected production capacity of 1,800,000 boxes per annum 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	Evaluation of the Company's marketing plan for Hong Kong and overseas market.	With the establishment of a sales channel in Hong Kong, the Group began to develop its business in the southeast Asia in 2004. The Group is currently in the process of arranging a tour to travel around southeast Asia to promote Company's brand name and products.

Statement of Business Objectives

Expected project progress up to 31 December 2003

Actual project progress up to 31 December 2003

Expansion of full-time sales employees

The number of full-time sales employees increase to 180

With the management reform in sales network, in which each sales person was allocated to a clearly defined territory, the reporting structure of sales persons has been streamlined. As a result, the management believes that the current customers base is adequately served by 130 full time sales employees.

Marketing activities for the PRC market

Launching new promotional activities (such as television commercials,) for individual principal products of the Company.

The Group's marketing resources has been prioritized for the Hai Kun Shen Xi capsule, which is the company's major new product in 2003. Meanwhile, the Group will continue its investment in launching television commercials to enhance the brand awareness for its products.

Research and development of new products

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

Implementing of any appropriate improvement in the production technique of Compound Glycine Theophylline Choline tablet. Capsule.

The Certificate of the New Medicines has finally been granted during the mid 2003. This approval for production permit is two years behind schedule. The Group has commenced commercial production since the third quarter of 2003.

Development and commercial production of Tuoluo Yinxie capsule

Implementing any appropriate improvement in the production technique 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.

Enhancement of competitiveness by research and development of new products

Development of other advanced new products

During the year 2003, six new medicine certificates have been granted by the SDA. Besides, our R&D teams have undergone over twenty research projects and we expect that at least five projects would be completed each year

Statement of Business Objectives

Expected project progress up to 31 December 2003

Actual project progress up to 31 December 2003

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.

COMPARISON OF USE OF PROCEEDS

From the date of listing on 24 May 2001, the Group had invested approximately HK\$ 19.7 million, HK\$ 27.3 million and HK\$ 8.9 million on various projects in the financial year ended 2001, 2002 and 2003, respectively. The use of proceeds for the year ended 31 December 2003 were as follows:

Item in (HK'million)	From 1 January 2003 to 31 December 2003	
	Planned use of proceed as set out in the prospectus HKD	Actual use of proceeds HKD
Expansion of production capacity of Qianlie Guihuang tablet	2	0.2
Establishment of a sales channel in Hong Kong	1.5	3.8
Expansion of the Company's existing sales and distribution network	2.5	3.1
Enhancement of the Company's research and development ability	0	1.8
	6	8.9

The Group anticipates that the uncertain market demand for medicines in relation to the treatment of prostatic diseases shall continue to sustain. Thus, the Group has revised the original plan to slow down the investment in the expansion plan of the production capacity 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 2003, the Group invested RMB3.8 million and RMB3.1 million in expanding the sales and distribution network in Hong Kong and PRC respectively. The actual investment amount exceeded the anticipated one because the Group intends to boost up the sales by increasing a series of promotional campaign. In addition, the management also intends to explore the southeast Asia market with the completion of establishment of a sales channel in Hong Kong. A flexibility study on oversea market has been done and trial implementation of the Group's marketing plan will be conducted soon.

Statement of Business Objectives

During the year 2003, the Group has further invested approximately RMB 1.8 million in R & D through entering into technological transfer contracts to develop new medicines. Under these contracts, the Group aims to strengthen its new product development capabilities and thus improve its future long term business development.

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 2003.

Basis of preparation

The Company was established as a state-owned enterprise in the People's Republic of China (the "PRC") in 1989. On 29 December 1995, under the relevant provisions of the PRC Company Law, the Company was re-organised from a state-owned enterprise to a limited liability company. On 16 August 1996, with the approval of the Economic Restructuring Commission of Jilin Province, the Company was further converted into a joint stock limited company. On 20 April 1999, the Company made a bonus issue from capitalisation of retained profits at the proportion of one bonus share for every two existing shares.

The Company's H shares were listed on the 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 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 29 to 54.

The directors do not recommend the payment of a dividend.

Report of the Directors

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

	2003 RMB'000	2002 RMB'000
Turnover	91,592	80,730
Profit before tax	9,551	16,335
Taxation	(844)	(5,748)
Net profit from ordinary activities attributable to shareholders	8,707	10,587

Assets and liabilities

	2003 RMB'000	2002 RMB'000
Total assets	235,284	224,182
Total liabilities	(41,658)	(39,263)
Net assets	193,626	184,919

Biological assets, property, plant and equipment and purchased know-how and prescription

Details of movements in biological assets, property, plant and equipment, and purchased know-how and prescription of the Group and the Company during the year are set out in notes 12, 13 and 16 to the financial statements respectively.

Acquisitions and disposals of subsidiaries and affiliated companies

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2003.

Subsidiaries

Particulars of the subsidiaries of the Company are set out in note 15 to the financial statements.

Report of the Directors

Bank loans

Particulars of bank loans of the Company are set out in note 20 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 22 to the financial statements.

Reserves

Details of movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 23 to the financial statements respectively.

Distributable reserves

As at 31 December 2003, the reserves of the Group available for cash distribution or distribution in specie was amounted to approximately RMB 66,900,000.

Major customers and suppliers

During the year, the Group sold less than 30% of its goods to its five largest customers (2002: less than 30%).

In the year under review, purchases from the Group's five largest suppliers accounted for 29% of the total purchases for the year and purchases from the largest supplier included therein amounted to 7%.

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 customers and 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.

Report of the Directors

Charge of assets

As at 31 December 2003, the Group did not create any security on its assets.

Foreign exchange risk

For the years ended 31 December 2003 and 2002, 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 2003 are set out in note 26 to the financial statement.

Contingent liabilities

As at 31 December 2003 and 2002, 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

In accordance with Article 89 of the Company's Articles of Association, all directors and supervisors will retire from office by rotation and being eligible offer themselves for re-election at the forthcoming annual general meeting of the Company.

Report of the Directors

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 supervisors and the five highest paid individuals

Details of the directors' and supervisors' emoluments and those of the five highest paid individuals in the Group are set out in note 9 to the financial statements.

Directors' and Supervisors' service contracts

None of the Directors and supervisors has any service contract with the Company that is not terminable by the Company within one year without payment of compensation 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.

Purchase, sale 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.

Directors' interests in shares

As at 31 December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules were as follows:

Long positions in shares

Director	Type of Interests	Capacity	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered Share Capital
Zhang Hong	Personal	Beneficial owner	101,925,000	26.28	18.19
Zhang Xiao Guang	Personal	Beneficial owner	51,000,000	13.15	9.10
Qiao Hong Kuan	Personal	Beneficial owner	39,900,000	10.29	7.12

Report of the Directors

Save as disclosed above, as at 31 December 2003, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

Directors' rights to acquire shares

Apart from as disclosed under the headings "Directors' interests in shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and chief executives or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors and chief executives to acquire such rights in any other body corporate.

Interests discloseable under the SFO and substantial shareholders

As at 31 December 2003, the following persons (other than the Directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares

Name of shareholder	Capacity/ Nature of Interest	Number of Domestic Shares	Percentage of Domestic Shares	Percentage of total registered share capital
Huinan County SAB (Note)	Beneficial owner	81,975,000	21.14	14.63
Zhang Hong	Beneficial owner	101,925,000	26.28	18.19
Zhang Xiao Guang	Beneficial owner	51,000,000	13.15	9.10
Qiao Hong Kuan	Beneficial owner	39,900,000	10.29	7.12

Note : Apart from the equity interest in the Company, Huinan County SAB does not have any direct or indirect interest in the Company, including representation in the Board of Directors.

Save as disclosed above, as at 31 December 2003, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Group and the Company was entered into or existed during the year.

Report of the Directors

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.

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 2003. The first meeting was held on 26 March 2003 for discussion 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 2002. The second meeting was held on 8 August 2003 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 2003. The third meeting was held on 7 November 2003 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 2003.

Report of the Directors

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 Province, the PRC

26 March 2004

Report of Supervisory Committee

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

(吉林省輝南長龍生化藥業股份有限公司)

(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 2003 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 Province, the PRC

26 March, 2004

Report of the Auditors



Horwath Hong Kong CPA Limited

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Wanchai, Hong Kong
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TO THE SHAREHOLDERS OF JILIN PROVINCE HUINAN CHANGLONG BIO-PHARMACY COMPANY LIMITED

(吉林省輝南長龍生化藥業股份有限公司)

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

We have audited the financial statements on pages 29 to 54 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003, 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

Hong Kong, 26 March 2004

Chan Kam Wing, Clement

Practising Certificate number P02038

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Consolidated Income Statement

For the year ended 31 December 2003

(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Turnover	4	91,592	80,730
Cost of sales		(23,376)	(20,215)
Gross profit		68,216	60,515
Other revenue	4	1,675	1,367
Distribution and selling costs		(44,885)	(33,186)
Administrative expenses		(14,530)	(12,017)
Other operating expenses		(92)	(32)
Profit from operations	5	10,384	16,647
Finance costs	6	(833)	(312)
Profit before taxation		9,551	16,335
Taxation	7	(844)	(5,748)
Profit attributable to shareholders		8,707	10,587
Earnings per share – Basic (RMB)	8	1.6 cents	1.9 cents

The notes on pages 34 to 54 form parts of these financial statements.

Consolidated Balance Sheet

At 31 December 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets – mature	12	488	–
Property, plant and equipment	13	57,418	44,919
Construction in progress	14	3,305	4,668
Purchased know-how and prescription	16	16,766	3,275
		77,977	52,862
Current assets			
Inventories	17	26,150	32,146
Trade receivables	18	72,816	57,494
Other receivables, deposits and prepayments		35,956	49,523
Cash and cash equivalents	19	22,385	32,157
		157,307	171,320
Current liabilities			
Bank loans	20	10,000	–
Trade payables	21	11,021	11,164
Other payables, deposits received and accruals		16,945	14,848
Taxation		3,692	13,251
		41,658	39,263
Net current assets		115,649	132,057
Net assets		193,626	184,919
Capital and reserves			
Share capital	22	56,025	56,025
Reserves		137,601	128,894
Shareholders' funds		193,626	184,919

ZHANG HONG
Director

ZHANG XIAO GUANG
Director

The notes on pages 34 to 54 form parts of these financial statements.

Balance Sheet

At 31 December 2003

(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets – mature	12	488	–
Property, plant and equipment	13	57,387	44,883
Construction in progress	14	3,305	4,668
Interest in subsidiaries	15	4,232	5,809
Purchased know-how and prescription	16	16,766	3,275
		82,178	58,635
Current assets			
Inventories	17	26,150	32,146
Trade receivables	18	84,539	58,757
Other receivables, deposits and prepayments		35,941	49,508
Cash and cash equivalents	19	15,263	26,213
		161,893	166,624
Current liabilities			
Bank loans	20	10,000	–
Trade payables	21	11,021	11,164
Other payables, deposits received and accruals		16,612	14,765
Taxation		3,047	12,609
		40,680	38,538
Net current assets		121,213	128,086
Net assets		203,391	186,721
Capital and reserves			
Share capital	22	56,025	56,025
Reserves	23	147,366	130,696
Shareholders' funds		203,391	186,721

ZHANG HONG

Director

ZHANG XIAO GUANG

Director

The notes on pages 34 to 54 form parts of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

(Expressed in Renminbi)

	Share Capital RMB'000 (Note 22)	Share premium RMB'000	PRC statutory funds		Retained profits RMB'000	Total RMB'000
			Statutory surplus reserve RMB'000 (Note 23(a))	Staff public welfare fund RMB'000 (Note 23(b))		
At 1 January 2002	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
Profit for the year	-	-	-	-	8,707	8,707
Transfer to statutory funds	-	-	1,828	914	(2,742)	-
At 31 December 2003	56,025	51,098	13,069	6,534	66,900	193,626

The notes on pages 34 to 54 form parts of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2003

(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Net cash generated from/(used in) operating activities	24	14,673	(17,149)
Cash flows from investing activities			
Payments to acquire biological assets		(488)	–
Payments to acquire know-how and prescription		(19,045)	(2,300)
Payments to acquire property, plant and equipment		(10,586)	(5,496)
Payments for construction in progress		(4,774)	(4,668)
Proceeds from disposal of property, plant and equipment		40	350
Interest received		408	556
Net cash used in investing activities		(34,445)	(11,558)
Cash flows from financing activities			
New bank loans raised		30,000	–
Repayment of bank loans		(20,000)	(8,300)
Net cash generated from/(used in) financing activities		10,000	(8,300)
Net decrease in cash and cash equivalents		(9,772)	(37,007)
Cash and cash equivalents at beginning of year	19	32,157	69,164
Cash and cash equivalents at end of year		22,385	32,157

The notes on pages 34 to 54 form parts of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi)

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 15 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 12 (Revised)	:	Income Taxes
SSAP 35	:	Government Grants

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

Under the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred taxation is provided for on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The adoption of revised SSAP 12 has had no material impact on the results for the current and prior accounting periods.

In accordance with SSAP 35, government grants are recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the requirements of SSAP 35 retrospectively, but the adoption of the Standard has not had any material effect on the results for the current or prior accounting periods since government grants towards technology development received in prior periods have already been recognised as income. Accordingly, no prior period adjustment has been required.

Notes to the Financial Statements

(Expressed in Renminbi)

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.

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 2003. All significant transactions and balances within the Group are eliminated on consolidation.

d) *Biological assets*

Biological assets are measured at their fair value less estimated point-of-sale costs. The fair value of biological assets is determined based on market prices of biological assets of similar age, breed and genetic merit.

e) *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.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Principal accounting policies (cont'd)

e) *Property, plant and equipment (cont'd)*

Depreciation is provided on a straightline 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

f) *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.

g) *Purchased know-how and prescription*

Purchased know-how and prescription are stated at cost less amortisation and impairment losses. Amortisation is calculated on a straightline basis over their estimated useful life, which range from 5 to 12 years from the date of commercial production.

h) *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.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Principal accounting policies (cont'd)

i) *Impairment of assets*

Assets 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 profit and loss account. 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 profit and loss account.

j) *Inventories*

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

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

k) *Receivables*

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

l) *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.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Principal accounting policies (cont'd)

m) *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.

n) *Government subsidies*

Subsidies from the PRC government are recognised at their fair value when they are received, or when there is reasonable assurance that they will be received and all attached conditions have been complied with. When a subsidy relates to an expense item, it is recognised as income over the periods necessary to match the subsidy, on a systematic basis, with the costs which it is intended to compensate. Where a subsidy relates to an asset, the fair value of the subsidy is deducted in arriving at the carrying amount of the related asset, or, as appropriate, is initially recorded as deferred income in the balance sheet, and thereafter recognised as income over the useful life of the relevant asset.

o) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

p) *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 in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Principal accounting policies (cont'd)

p) *Taxation (cont'd)*

Deferred taxation is provided for on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

q) *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 account of the individual companies.

The Group prepares consolidated financial statements in Renminbi. For the purpose of consolidation, the financial statements of the subsidiaries 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.

r) *Employees' benefits*

i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

ii) *Retirement benefit scheme contributions*

Contributions payable by the Group to its state-managed retirement benefits scheme in the PRC are charged to the profit and loss account in the year in which they fall due.

Notes to the Financial Statements

(Expressed in Renminbi)

3. Principal accounting policies (cont'd)

s) *Borrowing costs*

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

t) *Research expenditure*

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

u) *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.

4. Turnover and revenue

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

	2003 RMB'000	2002 RMB'000
Turnover		
Sales of medicine	91,592	80,730
Other revenue		
Bank interest income	408	556
Government subsidy	350	532
Rental income	60	60
Others	857	219
	1,675	1,367
Total revenue for the year	93,267	82,097

Notes to the Financial Statements

(Expressed in Renminbi)

5. Profit from operations

	2003 RMB'000	2002 RMB'000
Profit from operations is arrived at after charging:		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	18,578	17,483
Provision for obsolete and slow-moving inventories	4,014	2,000
Auditors' remuneration:		
– Current year	502	551
– Overstatement in previous year	–	(50)
Amortisation of purchased know-how and prescription	1,308	420
Depreciation	4,174	3,785
Loss on disposal of property, plant and equipment	10	148
Provision for bad and doubtful debts	66	1,229
Research expenditures written off	136	–
Staff costs (excluding directors' and supervisors' emoluments):		
– Salaries, bonus and allowances	7,294	5,215
– Retirement benefit scheme contributions	311	327

6. Finance costs

	2003 RMB'000	2002 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	826	311
Bank charges	7	1
	833	312

Notes to the Financial Statements

(Expressed in Renminbi)

7. Taxation

- (a) Taxation in the consolidated income statement represents:–

	2003 RMB'000	2002 RMB'000
PRC income tax	844	5,748

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

Based on tax legislation of the PRC, a company is entitled to an income tax relief calculated at 40% of approved expenditure on acquisition of PRC manufactured machinery for upgrading and improving production facilities, processes and technologies. On 28 September 2003, the local tax bureau has approved the Company's application for an income tax relief of RMB3,788,000.

The Group's subsidiary in Hong Kong is subject to Hong Kong profit tax calculated at 17.5% on the estimated assessable profits. No provision has been made for Hong Kong profits tax as the subsidiary did not earn income subject to Hong Kong profits tax during the year.

- (b) The taxation charge for the year can be reconciled to the profit before taxation as stated in the financial statements as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	9,551	16,335
Taxation calculated at PRC statutory income tax of 33%	3,152	5,391
Tax effect of non-taxable item	(123)	(198)
Tax effect of expenses not deductible for taxation purposes	47	119
Tax effect on additional tax allowance in respect of PRC manufactured machinery acquired	(3,788)	–
Deferred tax benefits arising from tax losses of subsidiaries not recognised	1,556	436
Taxation for the year	844	5,748

- (c) The Group did not have any significant unprovided deferred taxation at the year end.

Notes to the Financial Statements

(Expressed in Renminbi)

8. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2003 is based on the consolidated profit attributable to shareholders of approximately RMB8,707,000 (2002: RMB10,587,000) and the weighted average of 560,250,000 (2002: 560,250,000) shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the years ended 31 December 2003 and 2002 .

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:-

	2003 RMB'000	2002 RMB'000
Fees	-	-
Other emoluments:-		
Salaries, allowances and other benefits	68	84
Bonus	888	822
Retirement benefit scheme contributions	4	4
	960	910

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:-

	2003 RMB'000	2002 RMB'000
RMB Nil – RMB1,000,000	7	7

The seven directors received emoluments of approximately RMB313,000, RMB164,000, RMB161,000, RMB161,000, RMB161,000, RMBNil and RMBNil for the year ended 31 December 2003 ; and approximately RMB295,000, RMB155,000, RMB154,000, RMB154,000, RMB152,000 RMBNil and RMBNil for the year ended 31 December 2002.

Notes to the Financial Statements

(Expressed in Renminbi)

9. Directors' and senior executives' emoluments (cont'd)

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

	2003 RMB'000	2002 RMB'000
Salaries, allowances and other benefits	31	39
Bonus	153	199
Retirement benefit scheme contributions	3	3
	187	241

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

	2003	2002
RMBNil – RMB1,000,000	3	3

The three supervisors received emoluments of approximately RMB164,000, RMB15,000 and RMB8,000 for the year ended 31 December 2003; and approximately RMB155,000, RMB70,000 and RMB16,000 for the year ended 31 December 2002.

None of the Company's directors or supervisors has 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 2003.

iii) Details of the emoluments paid to the five highest paid individuals during the year included three directors (2002: three) and one supervisor (2002: one) whose emoluments are set out above. The details of the remuneration of the remaining one (2002: one) highest paid employee of the Company during the year are as follows:–

	2003 RMB'000	2002 RMB'000
Salaries, allowances and other benefits	336	382
Bonus	27	74
Retirement benefit scheme contributions	13	16
	376	472

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

Notes to the Financial Statements

(Expressed in Renminbi)

10. Retirement benefits scheme

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 schemes. The employer's contributions vest fully once they are made. At 31 December 2003, 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 2003 amounted to approximately RMB318,000 (2002: RMB334,000).

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.

There were no significant transactions with related parties during the years ended 31 December 2003 and 2002.

12. Bearer biological asset

	2003 RMB'000	2002 RMB'000
Increase due to purchase of deer and carrying amount at 31 December 2003	488	–

Notes to the Financial Statements

(Expressed in Renminbi)

13. 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 2003	21,106	32,190	2,527	984	56,807
Reclassification	800	(800)	–	–	–
Additions	4,050	5,974	325	237	10,586
Transferred from construction in progress	6,137	–	–	–	6,137
Disposals	–	(60)	–	–	(60)
At 31 December 2003	32,093	37,304	2,852	1,221	73,470
Accumulated depreciation:					
At 1 January 2003	2,980	8,046	482	380	11,888
Reclassification	532	(532)	–	–	–
Charge for the year	754	2,952	296	172	4,174
Written back on disposal	–	(10)	–	–	(10)
At 31 December 2003	4,266	10,456	778	552	16,052
Net book value:					
At 31 December 2003	27,827	26,848	2,074	669	57,418
At 31 December 2002	18,126	24,144	2,045	604	44,919

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 RMB614,000 (2002: RMB636,000) 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)

13. 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 2003	21,106	32,190	2,527	926	56,749
Reclassification	800	(800)	–	–	–
Additions	4,050	5,974	325	229	10,578
Transferred from construction in progress	6,137	–	–	–	6,137
Disposals	–	(60)	–	–	(60)
At 31 December 2003	32,093	37,304	2,852	1,155	73,404
Accumulated depreciation:					
At 1 January 2003	2,980	8,046	482	358	11,866
Reclassification	532	(532)	–	–	–
Charge for the year	754	2,952	296	159	4,161
Written back on disposal	–	(10)	–	–	(10)
At 31 December 2003	4,266	10,456	778	517	16,017
Net book value:					
At 31 December 2003	27,827	26,848	2,074	638	57,387
At 31 December 2002	18,126	24,144	2,045	568	44,883

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 RMB614,000 (2002: RMB636,000) 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)

14. Construction in progress

	The Group and the Company	
	2003	2002
	RMB'000	RMB'000
At beginning of year	4,668	–
Additions	4,774	4,668
Transferred to property, plant and equipment	(6,137)	–
At end of year	3,305	4,668

15. Interest in subsidiaries

	The Company	
	2003	2002
	RMB'000	RMB'000
Unlisted shares, at cost (Note)	500	500
Amount due from a subsidiary	3,732	5,309
	4,232	5,809

Particulars of the subsidiaries are as follows:–

Name of companies	Country of incorporation and operation	Percentage of ordinary shares held directly	Principal activity
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")	PRC	100%	Trading of biochemical medicines

Note: 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.

Notes to the Financial Statements

(Expressed in Renminbi)

16. Purchased know-how and prescription

	RMB'000
The Group and the Company	
Cost:	
At 1 January 2003	7,150
Additions	14,799
At 31 December 2003	21,949
Accumulated amortisation:–	
At 1 January 2003	3,875
Amortisation for the year	1,308
At 31 December 2003	5,183
Net book value:–	
At 31 December 2003	16,766
At 31 December 2002	3,275

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

Notes to the Financial Statements

(Expressed in Renminbi)

17. Inventories

	2003 RMB'000	2002 RMB'000
The Group and the Company		
Inventories comprise:		
At cost:		
Raw materials	9,478	9,662
Work in progress	5,745	6,823
Finished goods	19,602	20,322
	34,825	36,807
Less: Provision for obsolete and slow-moving inventories	(8,675)	(4,661)
	26,150	32,146

As at 31 December 2003, inventories amounting to approximately RMB10,927,000 (2002: RMB15,661,000) were carried at net realisable value.

18. 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 dates:-

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Current	55,312	35,472	55,475	34,695
31-60 days	5,399	4,143	8,331	4,533
61-90 days	2,148	3,691	4,379	4,952
More than 90 days	9,957	14,188	16,354	14,577
	72,816	57,494	84,539	58,757

Notes to the Financial Statements

(Expressed in Renminbi)

19. Cash and cash equivalents

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Deposits with banks	1,038	3,428	-	-
Cash at bank and in hand	21,347	28,729	15,263	26,213
	22,385	32,157	15,263	26,213

20. Bank loans

Bank loans of the Company were unsecured, interest bearing at commercial rates and shall be repaid by 18 February 2004.

21. Trade payables

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

	2003 RMB'000	2002 RMB'000
The Group and the Company		
Current	923	2,369
31-60 days	70	463
61-90 days	1,078	301
More than 90 days	8,950	8,031
	11,021	11,164

22. Share capital

	2003		2002	
	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)

23. Reserves

	Share premium RMB'000	PRC statutory funds Statutory surplus reserve RMB'000 (Note a)	Staff public welfare fund RMB'000 (Note b)	Retained profits RMB'000	Total RMB'000
The Company					
At 1 January 2002	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
Profit for the year	–	–	–	16,670	16,670
Transfer to statutory funds	–	1,829	914	(2,743)	–
At 31 December 2003	51,098	13,069	6,534	76,665	147,366

(a) Statutory surplus reserve

In accordance with the Company Law of the PRC and the Company's articles of association, the Company shall appropriate 10 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.

(b) Statutory public welfare fund

According to the relevant financial regulations of the PRC and the Company's articles of association, the Company is also required to appropriate 5 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)

24. Notes to the consolidated cash flow statement

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

	2003 RMB'000	2002 RMB'000
Profit before taxation	9,551	16,335
Adjustment for:		
Interest income	(408)	(556)
Interest expense	826	311
Provision for obsolete inventories	4,014	(2,000)
Provision for bad and doubtful debts	66	1,229
Amortisation of purchased know-how and prescription	1,308	420
Depreciation	4,174	3,785
Loss on disposal of property, plant and equipment	10	148
Operating profit before working capital changes	19,541	23,672
Decrease/(increase) in inventories	1,983	(6,550)
Increase in trade receivables	(15,493)	(3,192)
Decrease/(increase) in other receivables, deposits and prepayments	17,917	(16,969)
Decrease in trade payables	(143)	(505)
Increase/(decrease) in other payables, deposits received and accruals	2,097	(2,268)
Increase/(decrease) in other tax payables	1,161	(2,726)
Cash generated from/(used in) operations	27,063	(8,538)
Interest paid	(826)	(311)
PRC income tax paid	(11,564)	(8,300)
Net cash generated from/(used in) operating activities	14,673	(17,149)

Notes to the Financial Statements

(Expressed in Renminbi)

25. Commitments under operating leases

	The Group	
	2003	2002
	RMB'000	RMB'000
Minimum lease payments paid under operating leases	73	61

At 31 December 2003, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:-

	2003	2002
	RMB'000	RMB'000
Within one year	30	31

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.

26. Capital commitments

As at 31 December 2003, the Group had capital commitments contracted for but not provided for in respect of the following:-

	2003	2002
	RMB'000	RMB'000
Acquisition of purchased know-how and prescription	23,661	30,412
Acquisition of property, plant and equipment	1,178	6,008
	24,839	36,500

27. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2004.

Financial Summary

(Expressed in Renminbi)

Operating Results

	Year ended 31 December,				
	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000
Turnover	91,592	80,730	100,127	99,616	63,343
Cost of sales	(23,376)	(20,215)	(27,062)	(15,979)	(13,399)
Gross profit	68,216	60,515	73,065	83,637	49,944
Other revenue	1,675	1,367	1,011	1,442	170
Distribution and selling costs	(44,885)	(33,186)	(30,116)	(30,476)	(20,657)
Administrative expenses	(14,530)	(12,017)	(4,299)	(7,162)	(9,912)
Other operating expenses	(92)	(32)	(284)	(122)	(35)
Profit from operations	10,384	16,647	39,377	47,319	19,510
Finance costs	(833)	(312)	(658)	(1,053)	(1,494)
Profit before taxation	9,551	16,335	38,719	46,266	18,016
Taxation	(844)	(5,748)	(11,337)	(12,184)	(8,399)
Profit attributable to shareholders	8,707	10,587	27,382	34,082	9,617

Assets and Liabilities

	As at 31 December,				
	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000
Bearer biological assets – mature	488	–	–	–	–
Property, plant and equipment	57,418	44,919	43,706	35,170	17,021
Construction in progress	3,305	4,668	–	–	–
Purchased know-how and prescription	16,766	3,275	1,395	590	1,020
Current assets	157,307	171,320	184,844	90,659	58,153
Current liabilities	(41,658)	(39,263)	(55,613)	(46,092)	(29,949)
Net assets	193,626	184,919	174,332	80,327	46,245
Share capital	56,025	56,025	56,025	40,500	40,500
Reserves	137,601	128,894	118,307	39,827	5,745
Shareholders' funds	193,626	184,919	174,332	80,327	46,245

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 2003 (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, 27 May 2004 at 9:00 a.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 and the auditors of the Company for the year ended 31 December, 2003;
2. to consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2003;
3. to consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year ended 31 December 2003;
4. to consider the reappointment of Horwath Hong Kong CPA Limited as auditors of the Company for the year ending 31 December 2004 and authorize the Directors to fix their remuneration;
5. to re-elect the retiring Directors and supervisors of the Company and to consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2004;
6. to consider and if the right fit, pass with or without modifications, the following resolution as a special resolution:

"THAT:

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

Notice of Annual General Meeting

(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

7. 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 2004

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 27 April 2004 to 27 May 2004 (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 26 April 2004 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 7 May, 2004.
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