

Annual Report 2004



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  
Mr. Wong Kin Fai, Kenny

## Supervisors

Mr. Zhang Jing Zhou  
Mr. Jia Zhi  
Mr. Li Bao Hai

## Company secretary

Mr. Wong Man Tai, CPA, FCCA

## Compliance officer

Mr. Zhang Hong

## Authorised representatives

Mr. Zhang Hong  
Mr. Wong Man Tai

## Audit committee

Mr. Nan Zheng  
Mr. Shen Yu Xiang  
Mr. Wong Kin Fai, Kenny

## 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  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Stock code

8049

## Website address

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



# Financial Highlights and Calendar

## Financial Highlights

	2004 RMB'000	2003 RMB'000
<b>Revenue</b>		
Turnover	<b>83,986</b>	91,592
<b>Profitability</b>		
Operating profit	<b>12,879</b>	10,384
Profit attributable to shareholders	<b>8,603</b>	8,707
<b>Net Worth</b>		
Shareholders' fund	<b>202,229</b>	193,626
<b>Per share</b>		
Basic earnings per share	<b>1.54 cents</b>	1.55 cents
Net assets per share	<b>36.1 cents</b>	34.6 cents

## Financial Calendar

Results for the year	Announcement on 30 March 2005
Annual report	Despatched to shareholders in late March 2005
Annual general meeting	28 June 2005



# 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 Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2004.

## Results of the year

The Group's turnover for the year ended 31 December 2004 amounted to RMB83,986,000, and net profit attributable to shareholders was RMB8,603,000, representing a decrease of turnover of approximately 8.3% and a decrease of profit attributable to shareholders of approximately 1.2 % as compared with last year. Earnings per share for the year ended 31 December 2004 was RMB1.54 cents.

## Review of the year

For the year under review, the Group has successfully completed several accomplishments, laying a solid foundation to sustain a strong business development. Firstly, the new medicine of "Hai Kun Shen Xi capsule" (海昆腎喜膠囊) has been penetrated into the market and has recorded a total revenue of approximately RMB7.6 million for the year ended 31 December 2004. Secondly, the Group has successfully launched 6 new clinical tested medicines during the year 2004. This has exceeded the business goal of launching at least 2 new clinical tested medicines each year. The production permit has been obtained for the 6 medicines, namely, Ku Shen Su for injection (注射用苦參素), Xue Mai Qing tablet (血脈清片), Lin Suan Chuan Qin for injection (注射用磷酸川嗪), Shuang Mi Da Mo for injection (注射用雙嘧達莫), Ku Shen Jian for injection (注射用苦參碱) and Yi Xian Gu Xian An for injection (注射用乙酰穀酰胺). Thirdly, the Group has established its third workshop for "Chinese medicine extracts" (中藥前處理車間) from its existing unused space in the new industrial complex. The Group has invested approximately RMB2 million to restructure the industrial complex to construct this workshop in mid 2004. This workshop is designed to extract ingredients from Chinese medicine and reprocess them for use as the raw material of the other new medicines.

In addition, the Group has continued to receive industrial and quality excellence awards during the year. For instance, the Company's new medicine of "Hai Kun Shen Xi capsule" (海昆腎喜膠囊) has received the following accreditations:

Date of grant	Award	Principal Issuer
July 2004	The Certificate of the State Major New Product	Ministry of Science and Technology of the People's Republic of China  Ministry of Commerce of the People's Republic of China  General Administration of Quality Supervision Inspection, Quarantine of the People's Republic of China



# Chairman's Statement

The Company has been granted a corporate award as indicated below:

<b>Date of grant</b>	<b>Award</b>	<b>Principal Issuer</b>
April 2004	Advanced Unit in Private Enterprise Archive Work, City of Tonghua	Archives Bureau, City of Tonghua; Private Enterprise Economic Development Bureau, City of Tonghua

The Group's Chairman, Mr. Zhang Hong, has received the following accreditation jointly from the seven authorities:

<b>Date of grant</b>	<b>Award</b>	<b>Principal Issuer</b>
February 2004	Provincial Non-public Economic Person – Distinguished Constructor of Chinese Socialistic Enterprise	Jilin Provincial Representative United Front Work Department, Chinese Communist Party; Jilin Province Labour and Social Security Office; Jilin Province State Tax Bureau; Jilin Province Private Enterprise Development Bureau; Jilin Province Industrial and Commercial United (Council); Jilin Province Industrial and Commercial Bureau; Jilin Province Private Land Tax Bureau

## Outlook and Prospects

The competition in the pharmaceutical industry has been increasingly intense during the year 2004. As a result, the Group's turnover has been affected by a slight decrease. Looking forward, it is expected that some small to medium size pharmaceutical manufacturers and distributors may be forced to exit from the market due to their failure to obtain the GMP and GSP certification. Thus, the competitions among enterprises will be expected to be focus on corporate image and products innovation and effectiveness. In view of this change in market positioning, we will focus on the maximization of corporate effectiveness, development of innovative products, strengthening and enhancement of our product quality in order to improve our overall quality.

Previously, the Group has placed a high level of reliance on its core product of Compound Huonaoshu capsule (複方活腦舒膠囊). In 2005, with the market maturity of its new medicine of "Hai Kun Shen Xi capsule" (海昆腎喜膠囊), the Group believes that the risk of product concentration can be reduced. It is the management intention that two revenue generators can be developed in the coming years.

In addition, from the aspect of new medicines development, the Group has decided to develop another product line of liquid solution (溶液) in 2005. In fact, the Group has commenced to construct a new workshop for the production of this formulation. The Group will coordinate internal resources to expedite the registration of the GMP certificate for this formulation so as to ensure the timely re-launch of the Group's prestige product of the Compound Bifonazole solution (複方聯苯苄唑溶液).

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### **Dividends**

The Directors do not recommend the payment of any dividend 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.

By order of the Board

**Zhang Hong**

*Chairman*

Jilin Province, the PRC

30 March 2005





# Management Discussion and Analysis

## Business Review

For the year ended 31 December 2004, the Group's turnover decreased by 8.3% from RMB91.59 million to RMB83.99 million while that of profit attributable to shareholders decreased by 1.2% from RMB8.7 million to RMB8.6 million. For the year ended 31 December 2004, basic earnings per share decreased to RMB1.54 cents from RMB1.55 cents last year.

For the year ended 31 December 2004, the manufacturing and selling of Compound Huonaoshu capsule (複方活腦舒膠囊) continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule (複方活腦舒膠囊) reached approximately RMB50 million, which represented approximately 60% of the total turnover. In addition, the new medicine "Hai Kun Shen Xi capsule" (海昆腎喜膠囊) has penetrated into the market and recorded a total revenue of approximately RMB7.6 million for the year ended 31 December 2004. Other products such as Xueshuan Xinmaining capsule (血栓心脈寧), Dangguilonghui tablet (當歸龍薈丸), Qianlie Guihuang tablet (前列桂黃片), Tou Bao Sai Fen Na (頭孢噻吩鈉), Nao Dan Bai Shui Jie Wu (腦蛋白水解物) also contributed more than one million sales each in 2004. This was further elaborated under the Section "Financial Review".

## Operation Review

### Good Manufacturing Practice (GMP) and Good Supply Practice (GSP)

The GMP are guidelines and regulations issued from time to time in pursuant to the Law of the PRC on the Administration of Pharmaceuticals as part of quality assurance which ensures that pharmaceutical products subject to those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use.

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) (青霉素片劑)

In addition, Jilin Province Huinan Changlong Pharmacy Trading Company Limited, the wholly owned subsidiary of the Company, obtained the GSP certificate (藥品經營質量管理規範證書) on 1 November 2004 from the State Food Drug Administration of China (SFDA) for the period of five years. The GSP certificate is required for the distribution of pharmaceutical products in the PRC. The GSP's guidelines and regulations shall be complied to ensure the medicines are distributed in consistency with prescribed quality control standards for safe and effective use by the public. Requirements are set in terms of hardware and software standards such as specified storage conditions for warehouse, information management policy and personnel distribution chain.

## Product Development

During the year 2004, the Group successfully obtained the production permit for 6 medicines. The six medicines are Ku Shen Su for injection (注射用苦參素), Xue Mai Qing tablet (血脈清片), Lin Suan Chuan Qin for injection (注射用磷酸川嗉), Shuang Mi Da Mo for injection (注射用雙嘍達莫), Ku Shen Jian for injection (注射用苦參碱) and Yi Xian Gu Xian An for injection (注射用乙酰穀酰胺). With these new products, the Group can diversify the risk of the high concentration on its core revenue generator of Compound Huonaoshu capsule (複方活腦舒膠囊). This has proven the achievement of our Research and Development ("R&D") staff. In addition, the success of the new medicine "Hai Kun Shen Xi capsule" (海昆腎喜膠囊), which was granted the Certificate of New Medicine on 21 May 2003, has justified the investment at RMB17 million in this medicine. The revenue from this medicine reached approximately RMB7.6 million for the year ended 31 December 2004 and "Hai Kun Shen Xi capsule" (海昆腎喜膠囊) was recorded as the third top best seller of the Group for the year 2004.

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 2004, the major products currently under these joint efforts of research and development are as follows:

Medicine Name	Type	Form
Xiong Xian Tai capsule (胸腺肽膠囊)	Biochemical Medicine	Capsules
Yan Suan Tou Bao Jia Wo for injection (注射用鹽酸頭孢甲胏)	Chemical Medicine Class 4	Powder for injection
Yan Suan Tou Bao Jia Wo (鹽酸頭孢甲胏)	Chemical Medicine Class 4	Raw Material
Ying Xing Yie Extracts for injection (注射用銀杏葉提取物)	Chinese Medicine Class 2	Lyophilized powder for injection
Ying Xing Yie Extracts (銀杏葉提取物)	Chinese Medicine Class 2	Raw Material
Yi Da 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 Hua Gan (梔子西紅花甘)	Chinese Medicine Class 2	Raw Material
Zhi Zi Xi Hong Hua Gan for injection (注射用梔子西紅花甘)	Chinese Medicine Class 2	Lyophilized powder for injection
Yan Suan Tou Bao Bi Wo (鹽酸頭孢吡胏)	Chemical Medicine Class 4	Raw Material
Yan Suan Tou Bao Bi Wo for injection (注射用鹽酸頭孢吡胏)	Chemical Medicine Class 4	Powder for injection
Yan Suan Ni Fei Ka Lan (鹽酸尼非卡蘭)	Chemical Medicine Class 2	Raw Material
Yan Suan Ni Fei Ka 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



# Management Discussion and Analysis

## Production facilities

The Group acquired a piece of land of approximately 14,000 sq. m. in mid 2002. At the end of 2004, the Group has completed the construction of the new industrial complex with three workshops. One workshop is constructed to produce the new medicine "Hai Kun Shen Xi capsule" (海昆腎喜膠囊) that has already commenced production operation since June 2003. The second workshop is designed to produce another new medicine currently named as "Yan Suan Tou Bau Jia Wo" (鹽酸頭孢甲胂). The production line of this workshop has already completed while the Group is waiting for the issuance of the production permit for the new medicines "Yan Suan Tou Bau Jia Wo" (鹽酸頭孢甲胂). Although the granting of the production permit of this medicine, which is classified as Chemical Medicine Class 4, is longer than expected, the Group is confident that this production permit shall be issued before mid 2005. The third workshop is named as the "Chinese medicine extracts" workshop (中藥前處理車間). The Group has invested approximately RMB2 million to restructure the industrial complex to construct this workshop in mid 2004. This workshop is designed to extract ingredients from Chinese medicine and reprocess them for use as the raw material of the other new medicines.

In addition, with the relocation of the production lines to the new industrial complex, the Group has redesigned its old production complex to utilize the vacant space. The Group has decided to construct a new workshop for the production of the Compound Bifonazole solution (複方聯苯苄唑溶液). The Group has not obtained the GMP certificate for the production of this type of liquid solution (溶液). As a result, it is the Group's target to develop this new formulation in 2005.

## Financial review

During the year ended 31 December 2004, the Group reported a turnover of approximately RMB84 million, representing a decrease of approximately RMB7.6 million or 8.3% as compared with the same period last year. The drop in turnover was primarily due to the decrease in revenue derived from the products Hongweishu (弘威舒) and Lidaosu for infection (利導速注射液). The Group had received a special order from its distributors to produce these two products which generate the revenue approximately RMB10 million in 2003. In addition, the revenue of Xiong Xian Tai for injection (注射用胸腺肽) decreased by approximately RMB1.3 million during the year due to the drastic demand of Xiong Xian Tai for injection (注射用胸腺肽) during the SARS period in 2003. The unsatisfactory performance of other products such as Jiangxianmei Defibrase for injection (注射用降纖酶) and Naoxueshuan tablet (腦血栓片) also attributed to the decrease in revenue in 2004.

Nevertheless, sales of Xueshuan Xinmaining capsule (血栓心脈寧膠囊) reached RMB9.2 million in 2004. This represented a 16% increment from approximately RMB7.9 million in 2003. In addition, the new medicine of "Hai Kun Shen Xi capsule" (海昆腎喜膠囊) has been penetrated into the market and has recorded a total revenue of approximately RMB7.6 million for the year ended 31 December 2004. Other products such as Dangguilonghui tablet (當歸龍薈丸), Qianlie Guihuang tablet (前列桂黃片), Tou Bao Sai Fen Na (頭孢噻吩鈉), Nao Dan Bai Shui Jie Wu (腦蛋白水解物) also contributed more than one million sales each in 2004.

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The gross profit margin for the year ended 31 December 2004 was approximately 76.1%, representing an 1.6% increase as compared to 74.5% to that of the year ended 31 December 2003. The Company has reviewed the production process during the year and successfully improved its operating scale so as to achieve economy of scale. The gross profit margin has increased 1.6% as a result of the cost reduction from the streamlining of its production process. However, this favorable impact to the profit margin has been offset by the increasingly high price of good quality material. During the year, the Company continued to purchase the top-graded quality material to maintain the superiority and effectiveness of its products.

Other income represented regional development subsidy receivable and calculated by reference to income tax paid in previous years. The Group will not rely on this one-off income to sustain its operation.

During the year, the Group continued to implement prudent cost control measures through the stringent quotation policy over advertising and other marketing and promotional expenses. As a result, selling and distribution expenses decreased to approximately RMB40.4 million for the year ended 31 December 2004 from approximately RMB44.9 million last year.

General and administrative expenses increased during the year ended 31 December 2004 to approximately RMB15.1 million from approximately RMB14.5 million last year. The increase of purchased know-how and prescription from approximately RMB21.9 million in 2003 to approximately RMB32.9 million in 2004 led to the increase of approximately RMB0.98 million in amortization expenses for the year ended 31 December 2004. Besides, a provision of approximately RMB2 million (2003: write back of approximately RMB40,000) was made for long outstanding trade receivables led to the increase of general and administrative expenses. Apart from the amortization and bad debt provision, general and administrative expenses were in fact only approximately RMB12.1 million for the year ended 31 December 2004, which was a decrease of approximately RMB2.4 million as compared with the same period last year. The Group will continue to implement the appropriate cost control measures and plan to tighten its credit and collection policy to reduce long overdue debts.

### **Liquidity and financial resources**

The Group has maintained a sound financial position during this year. As at 31 December 2004, the Group had cash and bank balances amounted to RMB19 million (2003: RMB22.4 million) and short-term bank borrowings of RMB10 million (2003: RMB10 million). These borrowings were unsecured, interest bearing at commercial rates and shall be repaid by 31 March 2005. As at 31 December 2004, the Group had total assets of RMB243,906,000 (2003: RMB235,284,000) which were financed by current liabilities of RMB41,677,000 (2003: RMB41,658,000) and shareholders' equity of RMB202,229,000 (2003: RMB193,626,000).

### **Gearing ratio**

As at 31 December 2004, the Group had a gearing ratio of approximately 4.9%. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 31 December 2004.

### **Employees**

The Group has a total of 364 employees, representing a decrease of 1 headcount from the previous year. For the year ended 31 December 2004, the total remuneration to employees, including director's emoluments amounted to approximately RMB7.1 million (2003: approximately RMB8.7 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 49, 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 15 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 40, 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 13 years of experiences in the business of pharmaceuticals. He joined the predecessor of the Company in August 1990.

**Li Yu Xian**, aged 52, 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 58, 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 53, 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 43, 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 nine 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 37, is the Director. He is the deputy financial controller of the Company. Mr. Zhao graduated from Jilin School of Finance and Taxation. He joined the predecessor of the Company in May 1995.

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### **Independent non-executive Directors**

**Nan Zheng**, aged 62, 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.

**Shen Yu Xiang**, aged 54, 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.

**Wong Kin Fai, Kenny**, aged 34, has over 10 years experience in auditing, financial accounting and operational aspects of the securities industry. He is a Certified Public Accountant in Australia, an associate member of the Hong Kong Institute of Certified Public Accountants, a Member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. Mr. Wong has now been working as the senior manager of Finance and Operations in SBI E2-Capital China Holdings Limited and the Group Financial Controller of E2-Capital (Holdings) Limited, whose shares are listed on the Main Board of The Stock Exchange.

### **Supervisors**

**Zhang Jing Zhou**, aged 55, 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 10 years since March 1995.

**Jia Zhi**, aged 51, has been the head of "Freezing and drying" workshop of the Company since 1990. He is responsible for overseeing quality control, quality assurance and technical improvement for the above workshop. During his employment, he has been awarded "Annual Best Employee's Performance Award" for three times.

**Li Bao Hai**, aged 47, 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.



# Directors, Senior Management and Staff

## Senior Management

**Wu Guo Wen**, aged 40, 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 Yan**, aged 45, 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 42, 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 34, 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. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public 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 55, is the head of production department of the Company. She graduated from Jilin University, majoring in biological pharmaceuticals. She joined the Company in 1997.

**Yang Ze Shu**, aged 36, is the head of quality control department of the Company. He graduated from Yan Bian Medical School. He joined the Company in January 2001.



# 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 2004.

## **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 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 48.

The directors do not recommend the payment of any dividend.

## **Summary financial information**

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





# Report of the Directors

## Results

	2004 RMB'000	2003 RMB'000
Turnover	83,986	91,592
Profit before tax	12,365	9,551
Taxation	(3,762)	(844)
Net profit from ordinary activities attributable to shareholders	8,603	8,707

## Assets and liabilities

	2004 RMB'000	2003 RMB'000
Total assets	243,906	235,284
Total liabilities	(41,677)	(41,658)
Net assets	202,229	193,626

### 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.

### Material investments, 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 2004. As at 31 December 2004, the Group had no future plans for material investments or capital assets.

### Subsidiaries

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

### Bank loan

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

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## **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 2004, the reserves of the Group available for cash distribution or distribution in specie amounted to approximately RMB73,148,000.

## **Major customers and suppliers**

During the year, the Group sold less than 30% of its goods to its five largest customers (2003: less than 30%).

In the year under review, purchases from the Group's five largest suppliers accounted for 19% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8%.

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.

## **Charge of assets**

As at 31 December 2004, the Group did not create any security on its assets.

## **Foreign exchange risk**

For the years ended 31 December 2004 and 2003, 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 2004 are set out in note 26 to the financial statement.

## **Contingent liabilities**

As at 31 December 2004 and 31 December 2003, the Group had no material contingent liabilities.



# Report of the Directors

## 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  
Wong Kin Fai, Kenny (appointed on 30 September 2004)

### Supervisors

Zhang Jing Zhou  
Kang Tai You (resigned on 27 May 2004)  
Li Bao Hai  
Jia Zhi (appointed on 27 May 2004)

## 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.

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### Purchase, sales or redemption of listed securities

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

### Directors' interests in shares

At 31 December 2004, the interests and short positions of the Directors and chief executive 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 5.46 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

Save as disclosed above, as at 31 December 2004, none of the Directors and chief executive of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 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 executive 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 executive to acquire such rights in any other body corporate.

### Interests discloseable under the SFO and substantial shareholders

As at 31 December 2004, the following persons (other than the Directors and chief executive 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.



# Report of the Directors

## 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 2004, 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.

## Competing interest

None of the directors or the management shareholders, significant shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any business, which competes or may compete with the business of the Group.

## Pre-emptive right

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

## Connected transactions

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

## Staff retirement scheme

Details of the staff retirement scheme of the Group and the employer's staff retirement costs charged to the profit and loss account for the year are set out in note 10 to the financial statements.

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## **Code of Conduct Regarding Securities Transactions by Directors**

During the year ended 31 December 2004, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

## **Compliance with the Board Practices and Procedures of the GEM listing rules**

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules at anytime during the year ended 31 December 2004.

## **Audit committee**

The Company set up an audit committee (the "Committee") on 24 May 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting procedures and internal control system of the Group. The Committee comprises the three independent non-executive directors, namely Mr. Nan Zheng, Mr. Shen Yu Xiang and Mr. Wong Kin Fai, Kenny. Mr. Nan Zheng is the chairman of the audit committee.

The committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the audited results of the Group for the year ended 31 December 2004.

## **Independence Of Independent Non-executive Directors**

Pursuant to the regulations prescribed by the GEM Listing Rules, each of the independent non-executive directors of the Company has confirmed with the Company their independence. The Company has received such confirmation from the independent non-executive Directors and considers the independent non-executive Directors as independent.

## **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  
30 March 2005



# 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 2004 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

30 March, 2005



# Report of the Auditors



**HORWATH HONG KONG  
CPA LIMITED**

*Certified Public Accountants*  
A member of Horwath International  
2001 Central Plaza  
18 Harbour Road  
Wanchai Hong Kong

Telephone : (852) 2526 2191  
Facsimile : (852) 2810 0502  
              : (852) 2810 0747  
E-mail : horwath@horwath.com.hk  
Web Site : www.horwath.com.hk

**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 24 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of Directors and Auditors**

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

It is our responsibility to form an independent opinion, based on our audit, on those 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 Institute of Certified Public 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 of the state of affairs of the Company and of the Group as at 31 December 2004, and of its profits and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosures requirements of the Hong Kong Companies Ordinance.

**HORWATH HONG KONG CPA LIMITED**  
*Certified Public Accountants*

**2001 Central Plaza**  
**18 Harbour Road**  
Wanchai  
Hong Kong

Hong Kong, 30 March 2005  
**Chan Kam Wing, Clement**  
Practising Certificate number P02038





# Consolidated Income Statement

For the year ended 31 December 2004  
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Turnover	4	83,986	91,592
Cost of sales		(20,056)	(23,376)
Gross profit		63,930	68,216
Other revenue	4	4,735	1,675
Distribution and selling costs		(40,373)	(44,885)
Administrative expenses		(15,049)	(14,530)
Other operating expenses		(364)	(92)
Profit from operations	5	12,879	10,384
Finance costs	6	(514)	(833)
Profit before taxation		12,365	9,551
Taxation	7	(3,762)	(844)
Profit attributable to shareholders		8,603	8,707
Earnings per share – Basic (RMB)	8	1.5 cents	1.6 cents

The notes on pages 29 to 48 form parts of these financial statements.



# Consolidated Balance Sheet

At 31 December 2004  
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets – mature	12	544	488
Property, plant and equipment	13	56,446	57,418
Construction in progress	14	4,750	3,305
Purchased know-how and prescription	16	25,467	16,766
		<b>87,207</b>	<b>77,977</b>
<b>Current assets</b>			
Inventories	17	22,956	26,150
Trade receivables	18	73,035	72,816
Other receivables, deposits and prepayments		41,697	35,956
Cash and cash equivalents	19	19,007	22,385
Tax recoverable		4	–
		<b>156,699</b>	<b>157,307</b>
<b>Current liabilities</b>			
Bank loan	20	10,000	10,000
Trade payables	21	12,219	11,021
Other payables, deposits received and accruals		19,458	16,945
Taxation		–	3,692
		<b>41,677</b>	<b>41,658</b>
<b>Net current assets</b>		<b>115,022</b>	<b>115,649</b>
<b>Net assets</b>		<b>202,229</b>	<b>193,626</b>
<b>Capital and reserves</b>			
<b>Share capital</b>	22	<b>56,025</b>	<b>56,025</b>
<b>Reserves</b>		<b>146,204</b>	<b>137,601</b>
<b>Shareholders' funds</b>		<b>202,229</b>	<b>193,626</b>

**Zhang Hong**  
Director

**Zhang Xiao Guang**  
Director

The notes on pages 29 to 48 form parts of these financial statements.



# Balance Sheet

At 31 December 2004  
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Bearer biological assets – mature	12	544	488
Property, plant and equipment	13	56,419	57,387
Construction in progress	14	4,750	3,305
Interest in subsidiaries	15	3,612	4,232
Purchased know-how and prescription	16	25,467	16,766
		<b>90,792</b>	82,178
<b>Current assets</b>			
Inventories	17	22,956	26,150
Trade receivables	18	85,291	84,539
Other receivables, deposits and prepayments		41,684	35,941
Cash and cash equivalents	19	14,168	15,263
Tax recoverable		577	–
		<b>164,676</b>	161,893
<b>Current liabilities</b>			
Bank loan	20	10,000	10,000
Trade payables	21	12,219	11,021
Other payables, deposits received and accruals		19,214	16,612
Taxation		–	3,047
		<b>41,433</b>	40,680
<b>Net current assets</b>		<b>123,243</b>	121,213
<b>Net assets</b>		<b>214,035</b>	203,391
<b>Capital and reserves</b>			
<b>Share capital</b>	22	<b>56,025</b>	56,025
<b>Reserves</b>	23	<b>158,010</b>	147,366
<b>Shareholders' funds</b>		<b>214,035</b>	203,391

**Zhang Hong**  
Director

**Zhang Xiao Guang**  
Director

The notes on pages 29 to 48 form parts of these financial statements.



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2004  
(Expressed in Renminbi)

	<b>Share capital</b>	<b>Share premium</b>	<b>PRC statutory funds</b>		<b>Retained profits</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>Statutory surplus reserve</b>	<b>Staff public welfare fund</b>	<b>RMB'000</b>	<b>RMB'000</b>
	<i>(Note 22)</i>		<i>(Note 23(a))</i>	<i>(Note 23(b))</i>		
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
Profit for the year	-	-	-	-	8,603	8,603
Transfer to statutory funds	-	-	1,570	785	(2,355)	-
<b>At 31 December 2004</b>	<b>56,025</b>	<b>51,098</b>	<b>14,639</b>	<b>7,319</b>	<b>73,148</b>	<b>202,229</b>

The notes on pages 29 to 48 form parts of these financial statements.



# Consolidated Cash Flow Statement

For the year ended 31 December 2004  
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
<b>Net cash generated from operating activities</b>	24	<b>12,872</b>	14,673
<b>Cash flows from investing activities</b>			
Payments to acquire biological assets		(56)	(488)
Payments to acquire know-how and prescription		(11,056)	(19,045)
Payments to acquire property, plant and equipment		(3,975)	(10,586)
Payments for construction in progress		(1,445)	(4,774)
Proceeds from disposal of property, plant and equipment		113	40
Interest received		169	408
<b>Net cash used in investing activities</b>		<b>(16,250)</b>	(34,445)
<b>Cash flows from financing activities</b>			
New bank loans raised		10,000	30,000
Repayment of bank loans		(10,000)	(20,000)
<b>Net cash generated from financing activities</b>		<b>-</b>	10,000
<b>Net decrease in cash and cash equivalents</b>		<b>(3,378)</b>	(9,772)
<b>Cash and cash equivalents at beginning of year</b>		<b>22,385</b>	32,157
<b>Cash and cash equivalents at end of year</b>	19	<b>19,007</b>	22,385

The notes on pages 29 to 48 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. Impact of recently issued Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRS, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRS in the financial statements for the year ended 31 December 2004. The new HKFRS may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

## 3. Principal accounting policies

### a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. 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 2004. All significant intercompany transactions and balances within the Group are eliminated on consolidation.



# Notes to the Financial Statements

(Expressed in Renminbi)

## 3. Principal accounting policies (Continued)

### 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.

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

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

### 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 straight-line 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 a 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.

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### 3. Principal accounting policies *(Continued)*

#### 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 *(Continued)*

### 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.

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.

.....

### 3. Principal accounting policies *(Continued)*

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**

*ij) 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.

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.



# Notes to the Financial Statements

(Expressed in Renminbi)

## 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.

	2004 RMB'000	2003 RMB'000
Turnover		
Sales of medicine	83,986	91,592
Other revenue		
Regional development subsidy receivable and others	4,506	1,207
Bank interest income	169	408
Rental income	60	60
	4,735	1,675
Total revenue for the year	88,721	93,267

## 5. Profit from operations

	2004 RMB'000	2003 RMB'000
Profit from operations is arrived at after charging:		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	15,945	18,578
Provision for obsolete and slow-moving inventories	3,263	4,014
Auditors' remuneration	500	502
Amortisation of purchased know-how and prescription	2,290	1,308
Depreciation	4,737	4,174
Loss on disposal of property, plant and equipment	97	10
Provision for bad and doubtful debts	2,495	66
Research expenditures written off	-	136
Staff costs (excluding directors' and supervisors' emoluments):		
- Salaries, bonus and allowances	5,734	7,294
- Retirement benefit scheme contributions	324	311

6. Finance costs

	2004 RMB'000	2003 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	507	826
Bank charges	7	7
	514	833

7. Taxation

(a) Taxation in the consolidated income statement represents:

	2004 RMB'000	2003 RMB'000
PRC income tax	3,762	844

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. The local tax bureau has approved the Company's application for an income tax relief of RMB878,000 (2003 : RMB3,788,000) in respect of the year ended 31 December 2004.

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



# Notes to the Financial Statements

(Expressed in Renminbi)

## 7. Taxation (Continued)

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	12,365	9,551
Taxation calculated at PRC statutory income tax of 33%	4,080	3,152
Tax effect of non-taxable item	(1,457)	(123)
Tax effect of expenses not deductible for taxation purposes	1,609	47
Tax effect on additional tax allowance in respect of PRC manufactured machinery acquired	(878)	(3,788)
Deferred tax benefits arising from tax losses of subsidiaries not recognised	408	1,556
Taxation for the year	3,762	844

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

## 8. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2004 is based on the consolidated profit attributable to shareholders of approximately RMB8,603,000 (2003: RMB8,707,000) and the weighted average of 560,250,000 (2003 : RMB560,250,000 shares) 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 2004 and 2003.

## 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:

	2004 RMB'000	2003 RMB'000
Fees	21	–
Other emoluments:		
Salaries, allowances and other benefits	60	68
Bonus	819	888
Retirement benefit scheme contributions	5	4
	<b>905</b>	<b>960</b>

Directors' fees disclosed above include RMB21,000 (2003: Nil) paid to an independent non-executive director.

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

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

	2004	2003
RMB Nil – RMB1,000,000	7	7

The seven executive directors received emoluments of approximately RMB287,000, RMB150,000, RMB148,000, RMB148,000, RMB148,000, RMB3,000 and RMB Nil for the year ended 31 December 2004; and approximately RMB313,000, RMB164,000, RMB161,000, RMB161,000, RMB161,000, RMB Nil and RMB Nil for the year ended 31 December 2003.



# Notes to the Financial Statements

(Expressed in Renminbi)

## 9. Directors' and senior executives' emoluments (Continued)

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

	2004 RMB'000	2003 RMB'000
Salaries, allowances and other benefits	29	31
Bonus	137	153
Retirement benefit scheme contributions	2	3
	<b>168</b>	187

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

	2004	2003
RMB Nil – RMB1,000,000	4	3

The four supervisors received emoluments of approximately RMB150,000, RMB10,000, RMB4,000 and RMB4,000 for the year ended 31 December 2004; and approximately RMB164,000, RMB15,000 and RMB8,000 for the year ended 31 December 2003.

None of the Company's directors or supervisors have waived any emoluments and no incentive payment for compensation for loss of office was paid or payable to any director during the year ended 31 December 2004.

iii) Details of the emoluments paid to the five highest paid individuals during the year included three directors (2003: three) and one supervisor (2003: one) whose emoluments are set out above. The details of the remuneration of the remaining one (2003: one) highest paid employee of the Company during the year are as follows:

	2004 RMB'000	2003 RMB'000
Salaries, allowances and other benefits	319	336
Bonus	27	27
Retirement benefit scheme contributions	13	13
	<b>359</b>	376

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

## 10. Retirement benefits 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 2004, 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 2004 amounted to approximately RMB331,000 (2003: RMB318,000).

## 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 2004 and 2003.

## 12. Bearer biological assets

	2004 RMB'000	2003 RMB'000
Carrying amount at 1 January 2004	488	-
Increases due to purchases of deer	56	488
Carrying amount at 31 December 2004	544	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
<b>The Group</b>					
Cost:					
At 1 January 2004	32,093	37,304	2,852	1,221	73,470
Additions	15	3,880	4	76	3,975
Disposals	–	(210)	–	–	(210)
At 31 December 2004	32,108	40,974	2,856	1,297	77,235
Accumulated depreciation:					
At 1 January 2004	4,266	10,456	778	552	16,052
Charge for the year	888	3,315	329	205	4,737
At 31 December 2004	5,154	13,771	1,107	757	20,789
Net book value:					
<b>At 31 December 2004</b>	<b>26,954</b>	<b>27,203</b>	<b>1,749</b>	<b>540</b>	<b>56,446</b>
At 31 December 2003	27,827	26,848	2,074	669	57,418

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 RMB592,000 (2003: RMB614,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

### 13. Property, plant and equipment (Continued)

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
<b>The Company</b>					
Cost:					
At 1 January 2004	32,093	37,304	2,852	1,155	73,404
Additions	15	3,880	4	66	3,965
Disposals	-	(210)	-	-	(210)
At 31 December 2004	32,108	40,974	2,856	1,221	77,159
Accumulated depreciation:					
At 1 January 2004	4,266	10,456	778	517	16,017
Charge for the year	888	3,315	329	191	4,723
At 31 December 2004	5,154	13,771	1,107	708	20,740
Net book value:					
<b>At 31 December 2004</b>	<b>26,954</b>	<b>27,203</b>	<b>1,749</b>	<b>513</b>	<b>56,419</b>
At 31 December 2003	27,827	26,848	2,074	638	57,387

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 RMB592,000 (2003: RMB614,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

### 14. Construction in progress

	<b>The Group and the Company</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
At beginning of year	<b>3,305</b>	4,668
Additions	<b>1,445</b>	4,774
Transferred to property, plant and equipment	-	(6,137)
At end of year	<b>4,750</b>	3,305



# Notes to the Financial Statements

(Expressed in Renminbi)

## 15. Interest in subsidiaries

	The Company	
	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost <i>(Note)</i>	500	500
Amount due from a subsidiary	3,112	3,732
	<b>3,612</b>	4,232

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.

## 16. Purchased know-how and prescription

RMB'000

### The Group and the Company

Cost:

At 1 January 2004	21,949
Additions	10,991
At 31 December 2004	32,940

Accumulated amortisation:

At 1 January 2004	5,183
Amortisation for the year	2,290
At 31 December 2004	7,473

Net book value:-

<b>At 31 December 2004</b>	<b>25,467</b>
At 31 December 2003	16,766

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

## 17. Inventories

	2004 RMB'000	2003 RMB'000
<b>The Group and the Company</b>		
Inventories comprise:		
At cost:		
Raw materials	9,397	9,478
Work in progress	4,955	5,745
Finished goods	20,541	19,602
	<b>34,893</b>	34,825
Less: Provision for obsolete and slow-moving inventories	<b>(11,937)</b>	(8,675)
	<b>22,956</b>	26,150

As at 31 December 2004, inventories amounting to approximately RMB8,604,000 (2003: RMB10,927,000) were carried at net realisable value.



# Notes to the Financial Statements

(Expressed in Renminbi)

## 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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Current	48,756	55,312	51,727	55,475
31-60 days	6,608	5,399	8,339	8,331
61-90 days	2,954	2,148	5,055	4,379
More than 90 days	14,717	9,957	20,170	16,354
	<b>73,035</b>	72,816	<b>85,291</b>	84,539

## 19. Cash and cash equivalents

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Deposits with banks	-	1,038	-	-
Cash at bank and in hand	19,007	21,347	14,168	15,263
	<b>19,007</b>	22,385	<b>14,168</b>	15,263

## 20. Bank loan

Bank loan of the Company was unsecured, interest bearing at commercial rates and shall be repaid by 31 March 2005.

## 21. Trade payables

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

	2004 RMB'000	2003 RMB'000
<b>The Group and the Company</b>		
Current	3,006	923
31-60 days	364	70
61-90 days	168	1,078
More than 90 days	8,681	8,950
	<b>12,219</b>	11,021

## 22. Share capital

	2004		2003	
	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
	<b>560,250,000</b>	<b>56,025</b>	560,250,000	56,025



# Notes to the Financial Statements

(Expressed in Renminbi)

## 23. Reserves

	Share premium RMB'000	PRC statutory funds		Retained profits RMB'000	Total RMB'000
		Statutory surplus reserve RMB'000 <i>(Note a)</i>	Staff public welfare fund RMB'000 <i>(Note b)</i>		
<b>The Company</b>					
At 1 January 2003	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
Profit for the year	–	–	–	10,644	10,644
Transfer to statutory funds	–	1,570	785	[2,355]	–
<b>At 31 December 2004</b>	<b>51,098</b>	<b>14,639</b>	<b>7,319</b>	<b>84,954</b>	<b>158,010</b>

### (a) Statutory surplus reserve

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

### (b) Statutory public welfare fund

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

## 24. Notes to the consolidated cash flow statement

### Reconciliation of profit before taxation to net cash generated from operating activities

	2004 RMB'000	2003 RMB'000
Profit before taxation	12,365	9,551
Adjustment for:		
Interest income	(169)	(408)
Interest expense	507	826
Provision for obsolete inventories	3,262	4,014
Provision for bad and doubtful debts	2,495	66
Amortisation	2,290	1,308
Depreciation	4,737	4,174
Loss on disposal of property, plant and equipment	97	10
Operating profit before working capital changes	25,584	19,541
(Increase)/decrease in inventories	(68)	1,983
Increase in trade receivables	(2,235)	(15,493)
(Increase)/decrease in other receivables, deposits and prepayments	(6,155)	17,917
Increase/(decrease) in trade payables	1,198	(143)
Increase in other payables, deposits received and accruals	2,513	2,097
(Decrease)/increase in other tax payables	(1,558)	1,161
Cash generated from operations	19,279	27,063
Interest paid	(507)	(826)
PRC income tax paid	(5,900)	(11,564)
Net cash generated from operating activities	12,872	14,673





# Notes to the Financial Statements

(Expressed in Renminbi)

## 25. Commitments under operating leases

	The Group	
	2004 RMB'000	2003 RMB'000
Minimum lease payments paid under operating leases	70	73

At 31 December 2004, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	2004 RMB'000	2003 RMB'000
Within one year	30	30

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 2004, the Group had capital commitments contracted for but not provided for in respect of the following:

	2004 RMB'000	2003 RMB'000
Acquisition of purchased know-how and prescription	6,500	23,661
Acquisition of property, plant and equipment	984	1,178
	7,484	24,839

## 27. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2005.



# Financial Summary

(Expressed in Renminbi)

## Operating Results

	Year ended 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Turnover	<b>83,986</b>	91,592	80,730	100,127	99,616
Cost of sales	<b>(20,056)</b>	(23,376)	(20,215)	(27,062)	(15,979)
Gross profit	<b>63,930</b>	68,216	60,515	73,065	83,637
Other revenue	<b>4,735</b>	1,675	1,367	1,011	1,442
Distribution and selling costs	<b>(40,373)</b>	(44,885)	(33,186)	(30,116)	(30,476)
Administrative expenses	<b>(15,049)</b>	(14,530)	(12,017)	(4,299)	(7,162)
Other operating expenses	<b>(364)</b>	(92)	(32)	(284)	(122)
Profit from operations	<b>12,879</b>	10,384	16,647	39,377	47,319
Finance costs	<b>(514)</b>	(833)	(312)	(658)	(1,053)
Profit before taxation	<b>12,365</b>	9,551	16,335	38,719	46,266
Taxation	<b>(3,762)</b>	(844)	(5,748)	(11,337)	(12,184)
Profit attributable to shareholders	<b>8,603</b>	8,707	10,587	27,382	34,082

## Assets and Liabilities

	As at 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Bearer biological assets – mature	<b>544</b>	488	–	–	–
Property, plant and equipment	<b>56,446</b>	57,418	44,919	43,706	35,170
Construction in progress	<b>4,750</b>	3,305	4,668	–	–
Purchased know-how and prescription	<b>25,467</b>	16,766	3,275	1,395	590
Current assets	<b>156,699</b>	157,307	171,320	184,844	90,659
Current liabilities	<b>(41,677)</b>	(41,658)	(39,263)	(55,613)	(46,092)
Net assets	<b>202,229</b>	193,626	184,919	174,332	80,327
Share capital	<b>56,025</b>	56,025	56,025	56,025	40,500
Reserves	<b>146,204</b>	137,601	128,894	118,307	39,827
Shareholders' funds	<b>202,229</b>	193,626	184,919	174,332	80,327



# 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 2004 (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 Tuesday, 28 June 2005 at 10:00 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 2004;
2. to consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2004;
3. to consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year ended 31 December 2004;
4. to consider the reappointment of Horwath Hong Kong CPA Limited as auditors of the Company for the year ending 31 December 2005 and authorize the Directors to fix their remuneration;
5. to consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2005;
6. to consider and if the right fit, pass with or without modifications, the following resolution as a special resolution:

(A) **"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% of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;

.....

(d) the aggregate nominal value of H Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% 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, 30 March 2005



# 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 need 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 46th 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 28 May 2005 to 28 June 2005 (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 27 May 2005 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 June 2005.
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