吉林省輝南長龍生化藥業股份有限公司
Jilin Province Huinan Changlong Bio-pharmacy Company Limited

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

Annual Report 2005

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This report, for which the directors of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to Jilin Province Huinan Changlong Bio-pharmacy Company Limited and its subsidiary ("the Group"). The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have bee arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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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

AUTHORIZED REPRESENTATIVES

Mr. Zhang Hong
Mr. Wong Man Tai

AUDIT COMMITTEE

Mr. Nan Zheng *(Chairman)*
Mr. Shen Yu Xiang
Mr. Wong Kin Fai, Kenny

REMUNERATION COMMITTEE

Mr. Shen Yu Xiang *(Chairman)*
Mr. Nan Zheng
Mr. Zhang Hong

NOMINATION COMMITTEE

Mr. Shen Yu Xiang *(Chairman)*
Mr. Nan Zheng
Mr. Zhang Xiao Guang

AUDITORS

Horwath Hong Kong CPA Limited
Certified Public Accountants
Hong Kong

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Mr. Wong Man Tai, CPA, FCCA

PRINCIPAL BANKER

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
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STOCK CODE

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WEBSITE ADDRESS

http:// www.jlchanglong.com

LEGAL ADDRESS

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

FINANCIAL HIGHLIGHTS

	2005 RMB'000	2004 RMB'000
Revenue		
Turnover	**81,889**	83,986
Profitability		
Operating profit	**12,396**	12,879
Profit attributable to shareholders	**8,017**	8,603
Net Worth		
Shareholders' fund	**210,246**	202,229
Per share		
Basic earnings per share	**1.43 cents**	1.54 cents
Net assets per share	**37.5 cents**	36.1 cents

FINANCIAL CALENDAR

Results for the year	Announcement on 29 March 2006
Annual report	Dispatched to shareholders in late March 2006
Annual general meeting	30 May 2006

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 2005.

BUSINESS REVIEW

For the year ended 31 December 2005, the Group's turnover amounted to approximately RMB82,000,000, net profit attributable to shareholders was approximately RMB8,000,000, representing a slight decrease from last year. The Directors are of the view that the decline was caused by the intense competition of the domestic pharmaceutical market, where not only a price war was started for pharmaceuticals, but also attracted significant investment in advertising. The falling prices together with the rising costs directly eroded the profits of the Company. The Company adheres to the corporate mission of "pursuing excellence and benefiting the society and people" and insists on the use of top quality material to produce the Chinese medicine products. It competes in the pharmaceutical market with a reputation of good therapeutic effects and a quality brandname. The Board considers that a direct price war will cause vicious competition, which in turn will adversely affect the long-term development of the industry.

REVIEW OF THE YEAR

Although the Company is not able to record a strong growth given the fierce competition of the pharmaceutical market, the Company remains at an advantageous position and continues to consolidate its existing customer base to maintain its profit and revenue. On the other hand, the Company has speeded up the development of new products with the aim to establish a strong foundation for the sustainable growth of the Company's business. The year in review has seen a lot of good news in product development. Firstly, the new medicine, "Hai Kun Shen Xi capsule" has successfully penetrated the market and ventured into the list of "Medical Benefit Scheme" (醫保用藥) in 15 provinces and cities of the PRC. Under the Medical Benefit Scheme, all patients enrolled in the Scheme could reimburse for medicine in the approval list through the government hospitals. For the year ended 31 December 2005, the product contributed a total revenue of more than RMB14,000,000. Secondly, regarding the development of new types of medicines, Qing Xiu Suan Gao Wu Jia Su for injection (注射用氫溴酸高烏甲素) and Long Zhu Ping Kang pill (龍珠平亢丸) have been approved for production and will be released to the market at an appropriate time in coordination with advertising. Thirdly, Xiong Xian Tai capsule (胸腺肽膠囊), Yan Suan Tou Bao Jia Wo for injection (注射用鹽酸頭孢甲肟), Yan Suan Tou Bao Bi Wo for injection (注射用鹽酸頭孢比肟) and Yi Da La Tong for injection (依達拉酮注射液) have completed clinical trials and awaited approval for production from the relevant authority. These new products, which are scheduled to launch in the market one by one, will contribute to the Company's profits.

Furthermore, Xue Mai Qing tablet (血脈清片) (Chinese Medicine Class 2 of the State) will soon be launched in the market. Being a natural organic medicine, this product is the only medicine in the world to treat hyperlipidemia with extracts the effective components of the Cape Jasmine Fruit Extract Powder. It is highly effective in regulating blood fat for hyperlipidemia patients and also safer than statins and cholestaGel (colesevelam). This discovery has broke through the current international standard and filled the gap of natural organic medicine's treatment of hyperlipidemia both at home and abroad. Xue Mai Qing tablet provides a new option to hyperlipidemia patients. It has been awarded a certificate of invention patent (patent no.: ZL94111504.6, international patent master classification no. C07H1/08) by the State Intellectual Property Office and designated by the National Development and Reform Commission as a high technology project targeted for commercialization. Xue Mai Qing tablet will be the next primary product of the Company after Compound Hounaoshu Capsule and Hai Kun Shen Xi Capsule.

In regard to the administrative measures on certification of good pharmaceutical manufacturing practices (GMP certification), the State Drug Administration of the PRC provides that the GMP certifications obtained for drugs are generally required to renew every five years so as to ensure that the drugs are manufactured in accordance with the quality standards required. Five of the Company's formulations that were awarded GMP certifications in 2001 are required to renew certifications by 2006. The certifications undertaken last year have been completed smoothly and successfully as the Company has a strict in-house quality control system. Furthermore, the Company also passed the GMP certifications for the formulations of solution (external use) and condensed pellet.

The formulations having been granted GMP certifications for drugs are as follows:

1. Tablets (片劑)
2. Capsules (膠囊劑)
3. Granules (顆粒劑)
4. Solution (external use) (外用溶液劑)
5. Pill (Condensate) (濃縮丸丸劑)
6. Powder for injection (Cephalosporins) (頭孢菌素類粉針劑)
7. Tablets (Penicillins) (青霉素片劑)
8. Sterile Bulk (Cefpiramide, Cefalotin Soduim) (無菌原料藥 (頭孢噻吩鈉、頭孢匹胺))
9. Pills (Water Pills), Membrance (丸劑（水丸），膜劑)
10. Lyophilized powder for injection (凍乾粉針劑)
11. Small volume Parenteral Solution (小容量注射劑)

Except for the GMP certificates for lyophilized powder for injection and small volume parenteral solution that are yet to deliver to the Company, the certificates for the remaining formulations have been filed with the Company.

The Company has engaged in the reconstruction of its plants. Following the completion of the Chinese medicine extraction workshop, the reconstruction project comprising the building of a new factory complex and three workshops attaching to it on the newly acquired parcel of land has been fully finished. The Group is planning to redesign the production facilities of its existing workshops to cope with the promotion of various new products next year.

In addition, the Company has not yet ceased to receive awards in recognition of its quality brand and outstanding products. The following awards have been presented to the Group during the year:

Date of grant	Principal Issuer	Award
January 2005	Municipal Government of Jilin	Famous Brand of Jilin City (Compound Hounaoshu Capsule) – The Compound Hounaoshu Capsule under the brand name of "Changlong" manufactured by Jilin Province Huinan Changlong Bio-pharmacy Company Limited was acclaimed "the Famous Brand name of Jilin City".
January 2005	Municipal Government of Jilin	Famous Brand of Jilin City (Hai Kun Shen Xi Capsule) – Hai Kun Shen Xi Capsule under the brand name of "Changlong" manufactured by Jilin Province Huinan Changlong Bio-pharmacy Company Limited was acclaimed "the Famous Brand name of Jilin City".
October 2005	The Leading Group of China's first national economic census, Municipal Government of Jilin	The outstanding unit in China's first national economic census
November 2005	CPC Jilin Provincial Committee, Municipal Government of Jilin	The Human Resources Advance Unit

OUTLOOK AND PROSPECTS

The competition in the pharmaceutical industry has been increasingly intense during the year 2005. As a result, the Group's turnover has been affected with a slight decrease. Looking forward, since the new pharmaceutical product, Hai Kun Shen Xi Capsule has reached maturity in the market and another new drug, Xue Mai Qing tablet will soon be launched in the market, the Group believes that the high degree of dependence on its core product, Compound Hounaoshu Capsule will be greatly lessened and the risk of product concentration will also be lowered. The Group intends to cultivate the growth of these pharmaceutical products to become its three primary revenue sources next year.

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
29 March 2006

BUSINESS REVIEW

For the year ended 31 December 2005, the Group's turnover decreased by 2.5% from RMB83.99 million to RMB81.89 million while that of profit attributable to shareholders decreased by 7% from RMB8.6 million to RMB8.0 million. For the year ended 31 December 2005, basic earning per share decreased to RMB1.43 cents from RMB1.54 cents last year.

For the year ended 31 December 2005, the manufacturing and selling of Compound Huonaoshu capsule continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule reached approximately RMB36.9 million, which represented approximately 45% of the total turnover. In addition, the new medicine of Kai Kun Shen Xi capsule has been penetrated into the market and has recorded a total revenue of approximately RMB14.2 million for the year ended 31 December 2005. The sales of Xueshuan Xinmaining capsule(血栓心脈寧) has reached 7.2 million for the year ended 31 December 2005, which represented the third top best seller of the Group in the year 2005. Other products such as Yi Li Xin Tou Bao Pi An for injection (意利信(注射用頭孢匹胺), Dong Gui Long Hui tablet (當歸龍薈丸), Qian Lie Gui Huang tablet (前列桂黃片), Nao Dan Bai Shui Jie Wu (腦蛋白水解物), Ming Mu Ji Li pill (明目蒺藜丸) and Ke Lin Mei Su for injection (注射用克林霉素) also contributed more than one million sales in 2005. This was further elaborated under the Section "Financial Review".

OPERATION REVIEW

Good Manufacturing Practice (GMP)

The Company has stringent self-examination procedures in production management, product quality and product packaging not only to meet regulatory authority requirements but also to assume social responsibility to drug users. With these stringent self-examination procedures, the Company has been successful in obtaining GEM certification for each medicine category developed.

The Company has already obtained GMP certifications for the following:

1. Tablets (片劑) – valid until 25 January 2011

2. Capsules (膠囊劑) – valid until 25 January 2011

3. Granules (顆粒劑) – valid until 25 January 2011

4. Solution (external use)(外用溶液劑) – valid until 25 January 2011

5. Pill (Condensate) (濃縮丸丸劑) – valid until 25 January 2011

6. Sterile Bulk (Cefalotin sodium, Cefpiramide) (無菌原料藥(頭孢噻吩鈉、頭孢匹胺)) – valid until 14 May 2010

7. Pills (Water Pills), Membrane (丸劑(水丸)、膜劑)– valid until 6 February 2010

8. Powder for injection (Cephalosporins) (頭孢菌素類粉針劑) – valid until 16 April 2007

9. Tablets (Penicillins) (青霉素類片劑) – valid until 1 February 2009

In addition, the Company has already completed the GMP's renewal processes for two more production lines. It is believed that these GMP certifications will be issued shortly. These production lines are:

10. Lyophilized powder for injection (凍乾粉針劑)

11. Small volume Parenteral Solution (小容量注射劑)

As a result, all the existing production lines of the Company's major products have already obtained the GMP standard certification. The success in obtaining the GMP standard certification not only effectively accredited the continued effort of our Research and Development ("R&D") Department, but also accredited the Group as a modern pharmaceutical enterprise in the Jilin Province to have awarded GMP certification for more than 10 production lines.

PRODUCT DEVELOPMENT

During the year 2005, our R&D department has successfully passed through the clinical trials of four new medicines. As a result, the Group has successfully obtained their production permits from the State Drugs Approval Centre ("SDA"). The four medicines are "An Bian Xi Lin Na Sha Ba Tan Na" for injection (注射用氨苄西林鈉舒巴坦鈉), "Tou Bao Pai Tong Na Sha Ba Tan Na" for injection (注射用頭孢哌酮鈉舒巴坦鈉), "Long Zhu Ping Kang pill" (龍珠平亢丸) and "Qíng Xiù Suàn Gào Wù Jiâ Sù" for injection (注射用氫溴酸高烏甲素). In addition, the revenue from Hai Kun Shen Xi capsule reached approximately RMB14.2 million for the year ended 31 December 2005, which was recorded as the second top best seller of the Group for the year 2005. The success of this medicine has justified the investment at RMB17 million in this medicine.

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 2005, the major products currently under these joint efforts of research and development are as follows:

Medicine Name	Type	Form
Xong Xian Tai capsule (胸腺肽膠囊)	Biochemical Medicine	Capsules
Yan Suan Tou Bao Jia Wo for injection (注射用鹽酸頭孢甲肟)	Chemical Medicine Class 4	Powder for injection
Yan Suan Tou Bao Jia Wo (鹽酸頭孢甲肟)	Chemical Medicine Class 4	Raw Material

Medicine Name	Type	Form
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 Ha Gan (梔子西紅花苷)	Chinese Medicine Class 2	Raw Material
Zhi Zi Xi Hong Ha Gan for injection (注射用梔子西紅花苷)	Chinese Medicine Class 2	Lyophilized powder for injection
Yan Suan Tou Bao Bi Wo (鹽酸頭孢吡肟)	Chemical Medicine Class 4	Raw Material
Yan Suan Tou Bao Bi Wo for injection (注射用鹽酸頭孢吡肟)	Chemical Medicine Class 4	Powder for injection
Yan Suan Ni Fei Ku Lan (鹽酸尼非卡蘭)	Chemical Medicine Class 2	Raw Material
Yan Suan Ni Fei Ka Lan for injection (注射用鹽酸尼非卡蘭)	Chemical Medicine Class 2	Lyophilized powder for injection

Xue Mai Qing Tablet (血脈清片)

With the continued effort of our R&D department, Xue Mai Qing Tablet 血脈清片 (the Chinese Medicine Class 2) is currently at its final stage to be launched in the market. The Group has totally invested more than RMB5 million in this medicine and the Directors believed that this medicine has the potential to be as successful as Compound Huonaoshu capsule and Hai Kun Shen Xi capsule to become the Group's another core revenue generator.

Xue Mai Qing Tablet is a natural organic medicine which is the only medicine in the world to extracts the effective components from the Cape Jasmine Fruit Extract Powder (梔子提取物) to cure hyperlipidemia. Xue Mai Qing Tablet has a remarkable fat-depressing effect for hyperlipidemia patients and is relatively safer than statins and CholestaGel (colesevelam). Thus, it broke through the present international standard and filled the gap of natural organic medicine's treatment of hyperlipidemia both at home and abroad, which has a potential for wide use of this medicine in clinics and hospitals in the future. In addition, it could be used for preventions on occurrences of the hyperlipidemia as it is effective in reducing cholesterol, triglyceride, low density lipoprotein, very low density lipoprotein and Atherosclerosis. It also has the capability to raise the high density lipoprotein. At the same time, this medicine is comparatively strong in resisting the clumps of blood platelets and prolonged the formation of the protein fibrosis in blood, and finally to improve the blood circulation.

PRODUCTION FACILITIES

The Group acquired a piece of land of approximately 14,000 sq.m. in mid 2002. During the year of 2005, the Group has completed the construction of the third workshop named as the "Chinese medicine extracts" workshop (中葯前處理車間). This completion of the third workshop was the final stage of the construction project over the new industrial land.

In order to utilize the vacant space in its original complex, the Group has began another renovation program to redesign the workshop as well as the expansion of production lines to accommodate the manufacturing of new medicine which will be launched in the coming years. For instance, the Group has decided to re-construct a workshop for the production of the Compound Bifonazole solution (複方聯苯苄唑溶液) in the original complex. In addition, all existing production lines in the original complex will be re-allocated if necessary in order to produce the new products.

FINANCIAL REVIEW

During the year ended 31 December 2005, the Group reported a turnover of approximately RMB81.89 million, representing a decrease of approximately RMB2.1 million or 2.5% as compared with the same period last year. The new medicine of Hai Kun Shen Xi capsule has been penetrated into the market and has reached RMB14.2 million in 2005. This represented a 87% increment from approximately RMB7.6 million in 2004. However, the unsatisfactory performance of Compound Huonaoshu capsule and Xueshuan Xinmaining capsule due to a downturn in these market segments has attributed to the decrease in revenue in 2005. The sales of the Compound Huonaoshu capsule recorded approximately RMB36.9 million in 2005. This represented a significant decrease from approximately RMB50 million in 2004. The sales for Xueshuan Xinmaining capsule amounted to approximately RMB7.2 million for the year ended 31 December 2005 while it had recorded approximately RMB9.2 million in revenue same period last year.

Other products, such as Qianlie Guihuang tablet (前列桂黃片), Nao Dan Bai Shui Jie Wu (腦蛋白水解物) and Yi Li Xin Tou Bao Pi An for injection (意利信(注射用頭孢匹胺)), has recorded more than two million sales in 2005. Dang Gui Long Hui tablet (當歸龍薈丸), Ming Mu Ji Li pill (明目蒺藜丸) and Ke Lin Mei Su for injection (注射用克林霉素) also contributed more than one million sales in 2005.

The gross profit margin for the year ended 31 December 2005 was approximately 71.5%, representing a 4.6% decrease as compared to that of 76.1% for the year ended 31 December 2004. The gross profit margin has decreased 4.6% mainly due to the relatively low gross profit margin for some new products namely Ming Mu Ji Li pill (明目蒺藜丸), Hai Li Tou Bao Pi An for injection (海麗(注射用頭孢匹胺))and Ke Lin Mei Su for injection (注射用克林霉素). The gross profit margin in 2005 for these products was 45%, -0.1% and 9.1% respectively. The reason for low gross profit margin for these new medicines was mainly due to the Group's intention to penetrate into this market segment and increase the product awareness at the product introductory stage. Besides, since the Group would not consider these new medicines as the Group's important revenue stream, the selling of these medicines with a special lower price was a discount offer to the loyalty customers on bulk purchase of the Group's products. Furthermore, the fixed cost of producing these new medicines, which included the absorption of overhead and labor cost, was approximately RMB1 million each in 2005, while the sales of these medicines for the year ended 31 December 2005 was only approximately RMB1 million to RMB3 million each. In addition, the Group continued to purchase the top-graded quality material to maintain the superiority and effectiveness of all its existing products. The increase in material cost also led to the unfavorable impact on gross profit margin.

Other income mainly represented regional development subsidy. The Group will not rely on this one-off income to sustain its operation.

Selling and distribution expenses decreased to approximately RMB37.5 million for the year ended 31 December 2005 from approximately RMB40.4 million last year. The decrease in selling and distribution expenses by approximately RMB2.9 million was a result of the Group's implementation of prudent cost control measures through the stringent quotation policy over advertising and other marketing and promotional expenses.

General and administrative expenses increased during the year ended 31 December 2005 to approximately RMB15.7 million from approximately RMB15.1 million last year. The increase of purchased know-how and prescription from approximately RMB32.9 million in 2004 to approximately RMB42.4 million in 2005 led to the increase of approximately RMB1.6 million in amortization expenses for the year ended 31 December 2005. Besides, a provision of approximately RMB3.1 million (2004: approximately RMB2.5 million) was made for long outstanding trade receivables led to the increase of general and administrative expenses. Apart from the amortization expenses, the provision for obsolete and slow-moving inventories and bad debt provision, general and administrative expenses were in fact only approximately RMB7.4 million for the year ended 31 December 2005, which was a slightly increase of approximately RMB0.4 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 2005, the Group had cash and bank balances amounted to RMB21.7 million (2004: RMB19 million) and short-term bank borrowings of RMB8.9 million (2004: RMB10 million). These borrowings were interest bearing at commercial rates and shall be repaid by 10 July 2006 and 13 July 2006. As at 31 December 2005, the Group had total assets of RMB252,066,000 (2004: RMB243,906,000) which were financed by current liabilities of RMB41,820,000 (2004: 41,677,000) and shareholders' equity of RMB210,246,000 (2004: RMB202,229,000)

PLEDGE OF ASSETS

The bank loan of RMB8.9 million was secured by certain equipment of the Group. Details of bank loans at 31 December 2005, which were secured by certain assets of the Group, are included in note 22 to the financial statements.

GEARING RATIO

As at 31 December 2005, the Group had a gearing ratio of approximately 4.2 per cent. The calculation of the gearing ratio was based on the short-term bank loans and shareholders' equity as at 31 December 2005.

EMPLOYEES

The Group has a total of 360 employees, representing a decrease of 4 headcount from the previous year. For the year ended 31 December 2005, the total remuneration to employees, including director's emoluments amounted to approximately RMB6.8 million (2004: approximately RMB7.1 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 50, 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 16 years of experience in the business of pharmaceutics. 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 41, 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 14 years of experiences in the business of pharmaceutics. He joined the predecessor of the Company in August 1990.

Li Yu Xian, aged 53, 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 59, 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 54, 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 44, 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 ten 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 38, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Nan Zheng, aged 63, 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 55, 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 35, has over 12 years experience in auditing, financial accounting and operational aspects of the securities industry in Hong Kong. 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 is now the Chief Financial Officer of E2-Capital (Holdings) Limited, whose shares are listed on the Main Board of The Stock Exchange.

SUPERVISORS

Zhang Jing Zhou, aged 56, 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 11 years since March 1995.

Jia Zhi, aged 52, 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 48, is the Supervisor. He is responsible for the electricity of the Company. He was engaged in distribution of electricity when he was in military unit. He joined the predecessor the Company in July 1990.

SENIOR MANAGEMENT

Wu Guo Wen, aged 41, is the Chief engineer and head of research and development department of the Company, responsible for development of production technology and advanced-technique products. He is a postgraduate at Jilin University and has been awarded as "Model Labour in Jilin Province". He joined the predecessor of the Company in September 1991.

Yang Xiu uan, aged 46, is the head of personnel and administration department of the Company. She graduated from Jilin University, majoring in biological pharmaceutics. She joined the predecessor of the Company in March 1990.

Sun Li Juan, aged 43, 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 35, 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 56, is the head of production department of the Company. She graduated from Jilin University, majoring in biological pharmaceutics. She has joined the Company since June 1997.

Yang Ze Shu, aged 37, is the head of quality control department of the Company. He graduated from Yan Bian Medical School. He has joined the Company in January 2001.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

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 95% 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 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 31 to 64.

The directors do not recommend the payment of a dividend.

SUMMARY FINANCIAL INFORMATION

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

Results

	2005	2004
	RMB'000	RMB'000
Turnover	**81,889**	83,986
Profit before tax	**11,999**	12,365
Taxation	**(3,982)**	(3,762)
Net profit from ordinary activities attributable to shareholders	**8,017**	8,603

Assets and liabilities

	2005	2004
	RMB'000	RMB'000
Total assets	**252,066**	243,906
Total liabilities	**(41,820)**	(41,677)
Net assets	**210,246**	202,229

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 13, 14 and 18 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 2005. As at 31 December 2005, 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 17 to the financial statements.

BANK LOANS

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

CAPITAL STRUCTURE

The operations of the Group were financed mainly by shareholders' equity. The Group will continue to adopt its treasury policy of placing the Group's cash and cash equivalents in interest bearing deposits, and to fund operations with internal resources.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 24 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 25 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the reserves of the Group available for cash distribution or distribution in specie was amounted to approximately RMB80,240,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group sold less than 30% of its goods to its five largest customers (2004: less than 30%) and sales to the largest customer included therein amounted to 13.6%.

In the year under review, the Group's purchases from the five largest suppliers accounted for less than 30% of the Group's purchases.

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.

FOREIGN EXCHANGE RISK

For the years ended 31 December 2005 and 2004, 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 2005 are set out in note 27 to the financial statement.

CONTINGENT LIABILITIES

As at 31 December 2005 and 31 December 2004, the Group had no material contingent liabilities.

DIRECTORS

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

Executive directors

Zhang Hong *(Chairman)*
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

Supervisors

Zhang Jing Zhou
Li Bao Hai
Jia Zhi

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 10 to the financial statements.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS OR LETTERS OF APPOINTMENT

Each of the Directors and Supervisors (including the independent non-executive Directors and the Supervisors) has entered into a service contract or letter of appointment with the Company for a term of three years. None of the Directors or the Supervisors had entered into any service contract or letter of appointment with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

PURCHASE, 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 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (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 2005, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 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 executives to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following persons (other than the Directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares

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

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

Save as disclosed above, as at 31 December 2005, 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 11 to the financial statements.

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 2005.

AUDITORS

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

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 24 to 28 of the annual report.

By order of the Board

Zhang Hong
Chairman

Jilin Province, the PRC
29 March 2006

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice (the "Code") as set out in the Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2005 subject to the deviations disclosed hereof.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises seven executive Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The biographical details of the Directors are set out on pages 14 to 16. All directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Hong assumes the role of both the chairman and the chief executive officer of the Company. The Board is of the view that this has not compromised accountability and independent decision making for the following reasons:

– the Audit Committee composes exclusively of independent non-executive directors;

– the independent directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

Mr. Zhang Hong, the chairman, is a substantial shareholder of the Company and has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

The executive Directors include Mr. Zhang Hong, Mr. Zhang Xiao Guang, Mr. Qiao Hong Kuan, Ms. Li Yu Xian, Ms. Cui Shu Mei, Mr. Zhao Bao Gang and Mr. Zhang Yuan Qiu. The Company also appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Nan Zheng and Mr. Shen Yu Xiang are the independent non-executive Directors. Mr. Wong Kin Fai, Kenny has been appointed as an independent non-executive Director for a term of two years commencing on 30 September 2004 and is subject to retirement by rotation and re-election at the forthcoming annual general meeting in accordance with Company's articles of association, provided that the appointment may be terminated by the Company or Mr. Wong Kin Fai, Kenny with a written notice of not less than one month unless both parties agree otherwise.

The term of appointment Mr. Nan Zheng and Mr. Shen Yu Xiang commenced from 24 May 2001 and expired on the date on which the annual general meeting of the Company for the year of 2003 was held. Their appointments were further extended for a term expiring on the date on which the annual general meeting of the Company for the year of 2006 was held and would continue thereafter subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company, provided that the appointment may be terminated by the Company or Mr. Nan/Mr. Shen with a written notice of not less than one month unless both parties agree otherwise.

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.

Board meetings

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the board of Directors are as follows:

Directors	**Meetings attended/Held**
Mr. Zhang Hong *(Chairman)*	4/4
Mr. Zhang Xiao Guang	4/4
Ms. Li Yu Xian	4/4
Mr. Qiao Hong Kuan	4/4
Ms. Cui Shu Mei	4/4
Mr. Zhang Yuan Qiu	2/4
Mr. Zhao Bao Gang	4/4
Mr. Nan Zheng *(Independent non-executive)*	3/4
Mr. Shen Yu Xiang *(Independent non-executive)*	4/4
Mr. Wong Kin Fai, Kenny *(Independent non-executive)*	0/4

Board papers are circulated not less than 2 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the board meetings. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meeting. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable notice by any Director.

Apart from the above regular board meetings of the years, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

REMUNERATION COMMITTEE

According to the Code, the Company has set up a remuneration committee on 29 September 2005. The chairman of the committee is Mr. Shen Yu Xiang , an independent non-executive Director, and other members include Mr. Nan Zheng, and Mr. Zhang Hong, the majority being independent non-executive Directors. The remuneration committee schedules meet at least once a year and the quorum necessary for the transaction of business is two.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

Prior to the establishment of the remuneration committee, the chairman of the Board of Directors of the Company is responsible for reviewing remuneration of the executive Directors, independent non-executive Directors and supervisors of the Company and submitted recommendation to the Board for approval at Board meetings with the presence of the independent non-executive Directors.

NOMINATION COMMITTEE

The Company has established the Nomination Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibilities include reviewing and supervising the framework, number of members and composition of the Board and making proposals to the Board in respect of any changes and identifying and nominating suitable persons for appointment of Director.

The Nomination Committee comprises of one executive Director, Mr. Zhang Xiao Guang and two independent Non-executive Directors, Mr. Nan Zheng and Mr. Shen Yu Xiang, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive Directors should form the majority of the nomination committee. Mr. Shen Yu Xiang is the chairman of the committee.

During the period under review, a meeting of the nomination committee was held on 29 September 2005. During the meeting, the nomination committee has reviewed and discussed the framework, number of members and composition of the Board, and identified and made proposals in respect of the appointment of Directors.

AUDITORS' REMUNERATION

Horwath Hong Kong CPA Limited (Horwath) was the auditors of the Company for the year ended 31 December 2005. Other than annual auditing services, Horwath did not provide non-auditing services to the Company or any of the Group's companies during the year.

Auditors' remuneration for year ended 31 December 2005 is set out in note 6 to the financial statements.

AUDIT COMMITTEE

The Group had established an audit committee on 24 May 2001 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The Audit Committee consists of the three independent non-executive directors, namely Mr. Nan Zheng, Mr. Shen Yu Xiang and Mr. Wong Kin Fai, Kenny. Mr. Wong Kin Fai, Kenny possesses the appropriate professional qualifications and financial experience.

None of the members of the Committee has any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the business. The Audit Committee oversees the financial reporting process and the adequacy and effectiveness of the Company's system of internal control. During the year, the Committee carried out their own independent review of the interim and annual financial statements and financial reports and statements included in circulars of the company published during the year. And with the assistance of the internal audit department, which reports directly to the committee, the Committee completed its review of the adequacy and effectiveness of the Company's systems of internal control and reported its findings and recommendations to the Board.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Meetings Attend/Held**
Mr. Shen Yu Xiang	4/4
Mr. Nan Zheng	4/4
Mr. Wong Kin Fai, Kenny	0/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors knowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statements of the external auditors of the Company, Horwath Hong Kong CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Report of Auditors on page 30 of this annual report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control. The Directors are of the view that the existing system of internal control is effective and adequate to the Group.

INVESTOR RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. Extensive information about the company's activities is provided in the Annual Report and the Interim Report which are sent to shareholders. There is regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the company are welcomed and are dealt with in an informative and timely manner.

All shareholders have 45 days' notice of the Annual General Meeting at which all directors and Committee chairs are available for questions. All shareholders are encouraged to attend the Annual General Meeting.

LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

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 2005 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 end 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

29 March, 2006

REPORT OF THE AUDITORS

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants
A member of Horwath International
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Wanchai Hong Kong

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TO THE SHAREHOLDERS OF
JILIN PROVINCE HUINAN CHANGLONG BIO-PHARMACY COMPANY LIMITED
(吉林省輝南長龍生化藥業股份有限公司)
(a joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements on pages 31 to 64 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 2005, and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosures requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

Hong Kong, 29 March 2006
Chan Kam Wing, Clement
Practising Certificate number P02038

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

(Expressed in Renminbi)

	Note	**2005** **RMB'000**	2004 RMB'000
Turnover	4	**81,889**	83,986
Cost of sales		**(23,357)**	(20,056)
Gross profit		**58,532**	63,930
Other revenue	4	**7,429**	4,735
Distribution and selling costs		**(37,521)**	(40,373)
Administrative expenses		**(15,733)**	(15,049)
Other operating expenses		**(311)**	(364)
Profit from operations	6	**12,396**	12,879
Finance costs	7	**(397)**	(514)
Profit before taxation		**11,999**	12,365
Taxation	8	**(3,982)**	(3,762)
Profit attributable to shareholders		**8,017**	8,603
Earnings per share – Basic (RMB)	9	**1.4 cents**	1.5 cents

The notes on pages 36 to 64 form parts of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2005
(Expressed in Renminbi)

	Note	**2005**	2004
		RMB'000	RMB'000
			(Restated)
Assets and liabilities			
Non-current assets			
Bearer biological assets	13	**464**	544
Property, plant and equipment	14	**51,128**	52,590
Prepaid lease payments	15	**3,596**	3,726
Construction in progress	16	**3,971**	4,750
Purchased know-how and prescription	18	**31,016**	25,467
		90,175	87,077
Current assets			
Inventories	19	**22,040**	22,956
Trade receivables	20	**66,800**	73,035
Other receivables, deposits and prepayments		**46,394**	41,697
Prepaid lease payments	15	**130**	130
Cash and cash equivalents	21	**21,705**	19,007
Tax recoverable		**4,822**	4
		161,891	156,829
Current liabilities			
Bank loans (secured)	22	**8,900**	10,000
Trade payables	23	**11,990**	12,219
Other payables, deposits received and accruals		**20,930**	19,458
		41,820	41,677
Net current assets		**120,071**	115,152
Net assets		**210,246**	202,229
Capital and reserves			
Share capital	24	**56,025**	56,025
Reserves		**154,221**	146,204
Total equity		**210,246**	202,229

ZHANG HONG
Director

ZHANG XIAO GUANG
Director

The notes on pages 36 to 64 form parts of these financial statements.

BALANCE SHEET

At 31 December 2005

(Expressed in Renminbi)

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Assets and liabilities			
Non-current assets			
Bearer biological assets	13	**464**	544
Property, plant and equipment	14	**51,115**	52,563
Prepaid lease payments	15	**3,596**	3,726
Construction in progress	16	**3,971**	4,750
Interest in subsidiaries	17	**3,864**	3,612
Purchased know-how and prescription	18	**31,016**	25,467
		94,026	90,662
Current assets			
Inventories	19	**22,040**	22,956
Trade receivables	20	**77,818**	85,291
Other receivables, deposits and prepayments		**46,382**	41,684
Prepaid lease payments	15	**130**	130
Cash and cash equivalents	21	**19,308**	14,168
Tax recoverable		**5,435**	577
		171,113	164,806
Current liabilities			
Bank loans (secured)	22	**8,900**	10,000
Trade payables	23	**11,990**	12,219
Other payables, deposits received and accruals		**20,768**	19,214
		41,658	41,433
Net current assets		**129,455**	123,373
Net assets		**223,481**	214,035
Capital and reserves			
Share capital	24	**56,025**	56,025
Reserves	25	**167,456**	158,010
Total equity		**223,481**	214,035

ZHANG HONG
Director

ZHANG XIAO GUANG
Director

The notes on pages 36 to 64 form parts of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005
(Expressed in Renminbi)

			PRC statutory funds			
	Share capital RMB'000 (Note 24)	Share premium RMB'000	Statutory surplus reserve RMB'000 (Note 25(a))	Staff public welfare fund RMB'000 (Note 25(b))	Retained profits RMB'000	Total RMB'000
At 1 January 2004	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)	–
At 31 December 2004	56,025	51,098	14,639	7,319	73,148	202,229
Profit for the year	–	–	–	–	8,017	8,017
Transfer to statutory funds	–	–	617	308	(925)	–
At 31 December 2005	**56,025**	**51,098**	**15,256**	**7,627**	**80,240**	**210,246**

The notes on pages 36 to 64 form parts of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005
(Expressed in Renminbi)

	2005 RMB'000	2004 RMB'000
Operating activities		
Profit before taxation	**11,999**	12,365
Adjustment for:		
Interest income	**(276)**	(169)
Interest expense	**387**	507
Provision for obsolete inventories	**1,310**	3,262
Provision for bad and doubtful debts	**3,586**	2,495
Amortisation of purchased know-how and prescription	**3,923**	2,290
Amortisation of prepaid lease payments	**130**	130
Depreciation	**5,218**	4,607
Loss arising from change in fair value of biological assets	**80**	–
Loss on disposal of property, plant and equipment	**–**	97
Operating profit before working capital changes	**26,357**	25,584
Increase in inventories	**(394)**	(68)
Decrease/(increase) in trade receivables	**2,051**	(2,235)
Increase in other receivables, deposits and prepayments	**(2,229)**	(6,155)
(Decrease)/increase in trade payables	**(229)**	1,198
Increase in other payables, deposits received and accruals	**1,472**	2,513
Decrease in other tax payables	**(300)**	(1,558)
Cash generated from operations	**26,728**	19,279
Interest paid	**(387)**	(507)
PRC income tax paid	**(8,500)**	(5,900)
Net cash generated from operating activities	**17,841**	12,872
Investing activities		
Payments to acquire biological assets	**–**	(56)
Payments to acquire know-how and prescription	**(11,342)**	(11,056)
Payments to acquire property, plant and equipment	**(2,513)**	(3,975)
Payments for construction in progress	**(464)**	(1,445)
Proceeds from disposal of property, plant and equipment	**–**	113
Interest received	**276**	169
Net cash used in investing activities	**(14,043)**	(16,250)
Financing activities		
New bank loans raised	**8,900**	10,000
Repayment of bank loans	**(10,000)**	(10,000)
Net cash used in financing activities	**(1,100)**	–
Net increase/(decrease) in cash and cash equivalents	**2,698**	(3,378)
Cash and cash equivalents at beginning of year	**19,007**	22,385
Cash and cash equivalents at end of year	**21,705**	19,007
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	**21,705**	19,007

The notes on pages 36 to 64 form parts of these 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 17 to the financial statements.

2. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all of the new and review Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The applicable HKFRSs are set out below and the 2004 comparatives have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenues
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible assets

(Expressed in Renminbi)

2. Adoption of new and revised Hong Kong Financial Reporting Standards (continued)

HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 41	Agriculture
HKFRS 3	Business Combinations
HKAS-Int 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

The adoption of new or revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 33, 36, 37, 38, 41 and HKAS-Int 27 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 and 41 has affected the identification, presentation and disclosures of biological assets as well as some other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 27, 33, 36, 37 and HKAS-Int 27 had no material effect on the Group's policies.

– HKAS 24 has affected the identification of related parties and some other related party disclosures as detailed in note 12 to the financial statements.

– HKAS 38 had no material effect on the Group's policy. The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The major effects on adoption of the other HKFRSs are summarized as follows:

(a) Leasehold land and buildings held for own use (HKAS 17 – Lease)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With adoption of HKAS 17 as from 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. In case the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and accumulated impairment losses.

As a result of adopting this new policy, the premium for land use rights of RMB3,726,000 as at 31 December 2005 (2004: RMB3,856,000) have been reclassified from property, plant and equipment as lease prepayment.

2. Adoption of new and revised Hong Kong Financial Reporting Standards (continued)

(b) Financial instruments (HKAS 32 – Financial Instruments: Disclosure and Presentation and HKAS39 – Financial Instruments: Recognition and Measurement)

In prior year, receivables are recognised initially at cost and subsequently provision is made to the extent the receivables are considered to be doubtful.

In accordance with HKAS 32 and HKAS 39, receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate and is recognised in the income statement. The change in accounting policy has no impact on the results of the Group for the year ended 31st December 2005.

The Group has not early adopted the following new standards or interpretations that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1st January 2007
HKFRS 7	Financial Instruments: Disclosures	1st January 2007
HK (IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease	1st January 2006

The Group is in the process of making on assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of initial application.

3. Principal accounting policies

(a) Basis of preparation of financial statements

These financial statements have been prepared under the historical cost convention as modified by changes in fair value of biological assets, and in accordance with HKFRSs, 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 of the Stock Exchange (the "GEM Listing Rules").

3. Principal accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

(d) Subsidiaries

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) 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.

3. Principal accounting policies (continued)

(f) 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 income statement.

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment to their estimated residual value over their estimated useful lives. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The estimated useful lives are as follows:

Leasehold land and buildings	Over the unexpired lease term
Plant and machinery	10 years
Transportation equipment	8 years
Furniture, fixtures and equipment	5 years

(g) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided using the straight line basis over the period of the lease term of land use rights.

(h) 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.

(i) Purchased know-how and prescription

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

3. Principal accounting policies (continued)

(j) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Inventories

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

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

3. Principal accounting policies (continued)

(l) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate provision for impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The provision recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iii) Borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (note 3(s)).

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at lease 12 months after the balance sheet date.

(iv) Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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 operating leases are charged to the income statement on a straight line basis over the lease term.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company 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.

(o) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities 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 and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) or other assets and liabilities in a transactions that affects neither the taxable profit nor the accounting profit. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Principal accounting policies (continued)

(o) Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(p) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are expressed in Renminbi ("RMB") which is the functional currency of the Company, and the presentation currency for the consolidated statements.

Foreign currency transactions are translated into RMB, being the functional currency at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in RMB using exchange rates prevailing on the balance sheet date. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. Principal accounting policies (continued)

(q) 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.

(r) Employees' benefits

(i) Employee leave entitlements

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

(ii) Retirement benefit scheme contributions

Contributions payable by the Group to its state-managed retirement benefits scheme in the PRC are charged to the income statement in the year in which they fall due.

(s) Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

(t) Research expenditure

Research expenditure is written off to the income statement when incurred.

3. Principal accounting policies (continued)

(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 Group.

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

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

(iii) Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

(iv) Government subsidies of a revenue nature are recognised as other income in the income statement in the year when they become receivable with reasonable assurance.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(w) Use of estimates

The preparation of these financial statements in conformity with HKFRSs requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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.

	2005 RMB'000	2004 RMB'000
Turnover		
Sales of medicine	**81,889**	83,986
Other revenue		
Regional development subsidy receivable and others	**7,093**	4,506
Bank interest income	**276**	169
Rental income	**60**	60
	7,429	4,735
Total revenue for the year	**89,318**	88,721

5. Segment information

The Group has one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. In 2005, turnover of the Group is generated entirely from sales in the PRC and all identifiable assets of the Group are located in PRC. Accordingly, no segmental analysis is prepared for the year.

6. Profit from operations

	2005 RMB'000	2004 RMB'000
Profit from operations is arrived at after charging:		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	**21,167**	15,945
Provision for obsolete and slow-moving inventories	**1,310**	3,263
Auditors' remuneration:		
Current year provision	**520**	500
Underprovision in previous years	**10**	–
Amortisation of purchased know-how and prescription	**3,923**	2,290
Amortisation of prepaid lease payments	**130**	130
Depreciation	**5,218**	4,607
Loss on disposal of property, plant and equipment	**–**	97
Provision for bad and doubtful debts	**3,126**	2,495
Staff costs (excluding directors' and supervisors' emoluments):		
Salaries, bonus and allowances	**5,166**	5,734
Retirement benefit scheme contributions	**497**	324

7. Finance costs

	2005 RMB'000	2004 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	**387**	507
Bank charges	**10**	7
	397	514

8. Taxation

(a) Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
PRC income tax	**3,982**	3,762

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

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

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	**11,999**	12,365
Taxation calculated at PRC statutory income tax of 33%	**3,960**	4,080
Tax effect of non-taxable item	**(2,234)**	(1,457)
Tax effect of expenses not deductible for taxation purposes	**2,052**	1,609
Tax effect on additional tax allowance in respect of PRC manufactured machinery acquired	**–**	(878)
Deferred tax benefits arising from tax losses of subsidiaries not recognised	**204**	408
Taxation for the year	**3,982**	3,762

8. Taxation (continued)

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

9. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2005 is based on the consolidated profit attributable to shareholders of approximately RMB8,017,000 (2004: RMB8,603,000) and the weighted average of 560,250,000 shares (2004: 560,250,000 shares).

Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the years ended 31 December 2005 and 2004.

10. Directors' and senior executives' emoluments

(a) Details of emoluments paid by the Group to the directors of the Company were all below RMB1,000,000 and as follows:

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonus RMB'000	Pension fund contributions RMB'000	2005 Total RMB'000
Executive directors:					
Zhang Hong	–	18	265	2	285
Zhang Xiao Guang	–	15	132	1	148
Li Yu Xian	–	15	132	1	148
Qiao Hong Kuan	–	14	133	1	148
Cui Shu Mei	–	17	133	1	151
Zhang Yuan Qiu	–	–	–	–	–
Zhao Bao Gang	–	12	–	1	13
Independent non-executive directors:					
Nan Zheng	–	–	–	–	–
Shen Yu Xiang	–	4	–	–	4
Wong Kin Fai, Kenny	31	–	–	–	31
	31	95	795	7	928

10. Directors' and senior executives' emoluments (continued)

(a) Details of emoluments paid by the Group to the directors of the Company were all below RMB1,000,000 and as follows (continued):

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Bonus RMB'000	Pension fund contributions RMB'000	2004 Total RMB'000
Executive directors:					
Zhang Hong	–	13	273	1	287
Zhang Xiao Guang	–	11	136	1	148
Li Yu Xian	–	10	137	1	148
Qiao Hong Kuan	–	10	137	1	148
Cui Shu Mei	–	13	136	1	150
Zhang Yuan Qiu	–	–	–	–	–
Zhao Bao Gang	–	3	–	–	3
Independent non-executive directors:					
Nan Zheng	–	–	–	–	–
Shen Yu Xiang	–	–	–	–	–
Wong Kin Fai, Kenny	21	–	–	–	21
	21	60	819	5	905

There were no arrangements under which a director waived or agreed to waive any emoluments, and no incentive payment nor compensation for loss of office was paid or payable to any director during the year.

(b) Details of the emoluments paid by the Group to the supervisors of the Company were all below RMB1,000,000 and as follows:

	Salaries, allowances and other benefits RMB'000	**Bonus RMB'000**	**Pension fund contributions RMB'000**	**2005 Total RMB'000**
Supervisors:				
Zhang Jing Zhou	**17**	**133**	**1**	**151**
Li Bao Hai	**11**	**4**	**1**	**16**
Jia Zhi	**5**	**4**	**1**	**10**
	33	**141**	**3**	**177**

10. Directors' and senior executives' emoluments (continued)

(b) Details of the emoluments paid by the Group to the supervisors of the Company were all below RMB1,000,000 and as follows: (continued)

	Salaries, allowances and other benefits RMB'000	Bonus RMB'000	Pension fund contributions RMB'000	2004 Total RMB'000
Supervisors:				
Zhang Jing Zhou	12	137	1	150
Li Bao Hai	9	–	1	10
Jia Zhi	4	–	–	4
Kang Tai You	4	–	–	4
	29	137	2	168

There were no arrangements under which a supervisor waived or agreed to waive any emoluments, and no incentive payment nor compensation for loss of office was paid or payable to any supervisor during the year.

(c) Details of emoluments paid to the five highest paid individuals during the year included three directors (2004: three directors) and one supervisor (2004: one supervisor) whose emoluments are set out above. Details of remuneration of the remaining one (2004: one) highest paid employee of the Company during the year are as follows:

	2005 RMB'000	2004 RMB'000
Salaries, allowances and other benefits	**239**	319
Bonus	**–**	27
Retirement benefit scheme contributions	**13**	13
	252	359

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.

11. 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 2005, 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 2005 amounted to approximately RMB507,000 (2004: RMB331,000).

12. Related party transactions

Parties are considered to be related to the Group if the Group 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, or vice versa, or where the Group and the other party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

There were no significant transactions with related parties during the years ended 31 December 2005 and 2004.

Members of key management during the year comprised only of the seven executive directors whose remuneration is set out in note 10(a) to the financial statements.

13. Bearer biological assets

Bearer biological assets comprise:

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Deer – immature	**29**	56
Deer – mature	**435**	488
Carrying amount at 31 December	**464**	544

Reconciliation of carrying amounts of bearer biological assets:

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Carrying amount at 1 January	544	488
Increase due to purchases of deer	–	56
Loss arising from changes in fair value less estimated point-of-sale costs attributable to physical changes	(77)	–
Loss arising from changes in fair value less estimated point-of-sale costs attributable to price changes	(3)	–
Carrying amount at 31 December	464	544

14. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Trans-portation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
The Group					
Cost:					
At 1 January 2004					
– As previously reported	32,093	37,304	2,852	1,221	73,470
– Reclassified to prepaid lease payments	(4,471)	–	–	–	(4,471)
As restated	27,622	37,304	2,852	1,221	68,999
Additions	15	3,880	4	76	3,975
Disposals	–	(210)	–	–	(210)
At 31 December 2004	27,637	40,974	2,856	1,297	72,764
Additions	306	1,932	183	92	2,513
Transferred from construction in progress	1,243	–	–	–	1,243
At 31 December 2005	29,186	42,906	3,039	1,389	76,520
Accumulated depreciation:					
At 1 January 2004					
– As previously reported	4,266	10,456	778	552	16,052
– Reclassified to prepaid lease payments	(485)	–	–	–	(485)
As restated	3,781	10,456	778	552	15,567
Charge for the year	758	3,315	329	205	4,607
At 31 December 2004	4,539	13,771	1,107	757	20,174
Charge for the year	955	3,713	341	209	5,218
At 31 December 2005	5,494	17,484	1,448	966	25,392
Net book value:					
At 31 December 2005	23,692	25,422	1,591	423	51,128
At 31 December 2004	23,098	27,203	1,749	540	52,590

14. Property, plant and equipment (continued)

The balances in respect of leasehold buildings as at 1 January 2004 and 31 December 2004 as previously reported included the land use rights of the leasehold properties, which is now disclosed separately as "prepaid lease payments" under note 15.

The Group's buildings are located in the PRC. It includes a workshop with a net book value of RMB585,000 (2004: RMB592,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

	Buildings	**Plant and machinery**	**Trans-portation equipment**	**Furniture, fixtures and equipment**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Company					
Cost:					
At 1 January 2004					
– As previously reported	32,093	37,304	2,852	1,155	73,404
– Reclassified to prepaid lease payments	(4,471)	–	–	–	(4,471)
As restated	27,622	37,304	2,852	1,155	68,933
Additions	15	3,880	4	66	3,965
Disposals	–	(210)	–	–	(210)
At 31 December 2004	27,637	40,974	2,856	1,221	72,688
Additions	306	1,932	183	92	2,513
Transferred from construction in progress	1,243	–	–	–	1,243
At 31 December 2005	29,186	42,906	3,039	1,313	76,444
Accumulated depreciation:					
At 1 January 2004					
– As previously reported	4,266	10,456	778	517	16,017
– Reclassified to prepaid lease payments	(485)	–	–	–	(485)
As restated	3,781	10,456	778	517	15,532
Charge for the year	758	3,315	329	191	4,593
At 31 December 2004	4,539	13,771	1,107	708	20,125
Charge for the year	955	3,713	341	195	5,204
At 31 December 2005	5,494	17,484	1,448	903	25,329
Net book value:					
At 31 December 2005	23,692	25,422	1,591	410	51,115
At 31 December 2004	23,098	27,203	1,749	513	52,563

14. Property, plant and equipment (continued)

The balances in respect of leasehold buildings as at 1 January 2004 and 31 December 2004 as previously reported included the land use rights of the leasehold properties, which is now disclosed separately as "prepaid lease payments" under note 15.

The Company's buildings are located in the PRC. It includes a workshop with a net book value of RMB585,000 (2004: RMB592,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

15. Prepaid lease payments

	The Group and the Company
	RMB'000
Cost:	
At 1 January 2004	
– As previously reported	–
– Reclassified from property, plant and equipment	4,471
As restated, and at 31 December 2004 and 2005	4,471
Accumulated amortization:	
At 1 January 2004	
– As previously reported	–
– Reclassified from property, plant and equipment	485
As restated	485
Charge for the year	130
At 31 December 2004	615
Charge for the year	130
At 31 December 2005	745
Net book value:	
At 31 December 2005	3,726
At 31 December 2004	3,856

	2005	2004
	RMB'000	RMB'000
Net book value at 31 December	**3,726**	3,856
Portion classified as current assets	**(130)**	(130)
Non-current assets	**3,596**	3,726

The Group's and Company's medium-term land use rights are located in the PRC.

16. Construction in progress

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
At 1 January	**4,750**	3,305
Additions	**464**	1,445
Transferred to property, plant and equipment	**(1,243)**	–
At 31 December	**3,971**	4,750

17. Interest in subsidiaries

	The Company	
	2005	2004
	RMB'000	RMB'000
Unlisted shares, at cost	**500**	500
Amount due from a subsidiary	**3,364**	3,112
	3,864	3,612

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	Hong Kong	100%	Acting as a sales office
Jilin Province Huinan Changlong Pharmacy Trading Company Limited	PRC	100%	Trading of biochemical medicines

18. Purchased know-how and prescription

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Cost:		
At 1 January	32,940	21,949
Additions	9,472	10,991
At 31 December	42,412	32,940
Accumulated amortisation:		
At 1 January	7,473	5,183
Amortisation for the year	3,923	2,290
At 31 December	11,396	7,473
Net book value:		
At 31 December	31,016	25,467

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

19. Inventories

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Inventories comprise:		
At cost:		
Raw materials	**12,740**	9,397
Work in progress	**4,015**	4,955
Finished goods	**18,532**	20,541
	35,287	34,893
Less: Provision for obsolete and slow-moving inventories	**(13,247)**	(11,937)
	22,040	22,956

As at 31 December 2005, inventories amounting to approximately RMB18,025,000 (2004: RMB8,604,000) were carried at net realisable value.

20. Trade receivables

Trade receivables are stated at cost less provision for doubtful debts. 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 Group's credit policy is set out in note 28 (a).

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

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current	**39,897**	48,756	**41,204**	51,727
31–60 days	**3,135**	6,608	**5,266**	8,339
61–90 days	**2,225**	2,954	**3,363**	5,055
More than 90 days	**21,543**	14,717	**27,985**	20,170
	66,800	73,035	**77,818**	85,291

The carrying amount of trade receivables approximates their fair value.

21. Cash balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets of approximates their fair value.

22. Bank loans

Bank loans of the Group and the Company were interest bearing at commercial rates and shall be repaid by 10 July 2006 and 13 July 2006. The carrying amount of bank loans approximates their fair value.

At 31 December 2005, certain plant and machinery and furniture, fixtures, and equipment of the Group and the Company with a book value of RMB4,497,000 (2004: Nil) were pledged to a bank to secure bank loans granted to the Group and the Company respectively.

23. Trade payables

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

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Current	**3,189**	3,006
31–60 days	**2,427**	364
61–90 days	**172**	168
More than 90 days	**6,202**	8,681
	11,990	12,219

Trade payables principally comprise amounts outstanding for trade purchases. The directors consider that the carrying amount of trade payables approximates their fair value.

24. Share capital

	2005		2004	
	Number of shares	**Amount**	Number of shares	Amount
		RMB'000		RMB'000
Domestic shares of RMB0.10 each	**387,750,000**	**38,775**	387,750,000	38,775
H shares of RMB0.10 each	**172,500,000**	**17,250**	172,500,000	17,250
	560,250,000	**56,025**	560,250,000	56,025

25. Reserves

	Share premium RMB'000	PRC statutory funds Statutory surplus reserve RMB'000 (Note a)	Staff public welfare fund RMB'000 (Note b)	Retained profits RMB'000	Total RMB'000
The Company					
At 1 January 2004	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)	–
At 31 December 2004	51,098	14,639	7,319	84,954	158,010
Profit for the year	–	–	–	9,446	9,446
Transfer to statutory funds	–	617	308	(925)	–
At 31 December 2005	**51,098**	**15,256**	**7,627**	**93,475**	**167,456**

(a) Statutory surplus reserve

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

(b) Statutory public welfare fund

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

26. Operating lease arrangements

	The Group	
	2005	2004
	RMB'000	RMB'000
Minimum lease payments paid under operating leases	**–**	70

At 31 December 2005, the Group had outstanding minimum commitments under non-cancellable operating lease, which falls due as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	**–**	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.

27. Capital commitments

As at 31 December 2005, the Group had capital commitments contracted for but not provided for in respect of the following:

	2005	2004
	RMB'000	RMB'000
Acquisition of purchased know-how and prescription	**5,380**	6,500
Acquisition of property, plant and equipment	**810**	984
	6,190	7,484

28. Financial risk management

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risks and currency risk. These risks are limited by the Group's financial management policies and practices described below. Generally, the Group introduces conservative strategies on its risk management. The Group has not used any derivatives and other instruments for hedging purposes nor does it hold or issue derivative financial instruments for trading purposes.

(a) Credit risk

The Group's principal financial assets are bank balances and cash and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The Group and the Company allow an average credit period of 30 to 360 days to their trade customers. The amounts presented in the balance sheet are net of provisions for doubtful receivables. A provision for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

(b) Liquidity risk

The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

(c) Fair value and cash flow interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk through its bank loans disclosed in note 22.

(d) Foreign exchange risk

The Group's main operations are in the PRC and its income and expenses are transacted in RMB. Accordingly, it has no significant exposure to foreign exchange risk.

(e) Fair values estimation

The directors consider all financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005.

29. Critical accounting judgements and key sources of estimation uncertainty

Judgements

In the process of applying the Group's accounting policies, management has made the judgements in relation to impairment of assets apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are in respect of impairment test of assets.

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

30. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2006.

FINANCIAL SUMMARY

(Expressed in Renminbi)

Operating Results

	Year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**81,889**	83,986	91,592	80,730	100,127
Cost of sales	**(23,357)**	(20,056)	(23,376)	(20,215)	(27,062)
Gross profit	**58,532**	63,930	68,216	60,515	73,065
Other revenue	**7,429**	4,735	1,675	1,367	1,011
Distribution and selling costs	**(37,521)**	(40,373)	(44,885)	(33,186)	(30,116)
Administrative expenses	**(15,733)**	(15,049)	(14,530)	(12,017)	(4,299)
Other operating expenses	**(311)**	(364)	(92)	(32)	(284)
Profit from operations	**12,396**	12,879	10,384	16,647	39,377
Finance costs	**(397)**	(514)	(833)	(312)	(658)
Profit before Taxation	**11,999**	12,365	9,551	16,335	38,719
Taxation	**(3,982)**	(3,762)	(844)	(5,748)	(11,337)
Profit attributable to shareholders	**8,017**	8,603	8,707	10,587	27,382

Assets and Liabilities

	As at 31 December				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)	(restated)	(restated)
Bearer biological assets	**464**	544	488	–	–
Property, plant and equipment	**51,128**	52,590	53,432	40,803	42,244
Prepaid lease payments	**3,596**	3,726	3,856	3,986	1,406
Construction in progress	**3,971**	4,750	3,305	4,668	–
Purchased know-how and prescription	**31,016**	25,467	16,766	3,275	1,395
Current assets	**161,891**	156,829	157,437	171,410	184,900
Current liabilities	**(41,820)**	(41,677)	(41,658)	(39,263)	(55,613)
Net assets	**210,246**	202,229	193,626	184,919	174,332
Share capital	**56,025**	56,025	56,025	56,025	56,025
Reserves	**154,221**	146,204	137,601	128,894	118,307
Total equity	**210,246**	202,229	193,626	184,919	174,332

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 2005 (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, 30 May 2006 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 2005;

2. to consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2005;

3. to consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year ended 31 December 2005;

4. to consider the reappointment of Horwath Hong Kong CPA Limited as auditors of the Company for the year ending 31 December 2006 and authorize the Directors to fix their remuneration;

5. A. to re-elect Mr. Wong Kin Fai, Kenny as independent non-executive director;

   B. to consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2006;

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 per cent. of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;

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

(e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory Commission being obtained by the Company;

(f) for the purpose of this special resolution:

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

(i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;

(ii) the expiration of a period of 12 months following the passing of this special resolution; or

(iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

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

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

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, 29 March 2006

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.

2. In order to be valid, a proxy form of holder of H shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Hong Kong Registrars Limited on 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 29 April 2006 to 30 May 2006 (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 28 April 2006 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 9 May 2006.

7. The biography of the re-elected Director set out in this notice is disclosed in the annual report of the Company for the year ended 31 December 2005 in compliance with Rules 17.50(2) of the GEM Listing Rules.

8. 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