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 2006

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

Mr. Nan Zheng
Mr. Shen Yu Xiang

SUPERVISORS

Mr. Zhang Jing Zhou
Mr. 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

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

AUDITOR

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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288 Des Voeux Road Central,
Central, Hong Kong

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
46th Floor,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

STOCK CODE

8049

WEBSITE ADDRESS

http:// www.jlchanglong.com

LEGAL ADDRESS

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

FINANCIAL HIGHLIGHTS

	2006	2005
	RMB'000	RMB'000
Revenue		
Turnover	**69,522**	81,889
Profitability		
Operating profit	**5,331**	12,396
Profit attributable to equity holders	**3,037**	8,017
Net Worth		
Shareholders' fund	**206,280**	210,246
Per share		
Basic earnings per share	**RMB0.0054**	RMB0.0143
Net assets per share	**RMB0.368**	RMB0.375

FINANCIAL CALENDAR

Results for the year	Announcement on 29 March 2007
Annual report	Dispatched to shareholders in late March 2007
Annual general meeting	30 May 2007

As the Chairman and on behalf of the Board of Directors (the "Board"), I am pleased to present the audited consolidated results of Jilin Province Huinan Changlong Bio-pharmacy Company Ltd. (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2006.

BUSINESS REVIEW

For the year ended 31 December 2006, the Group's turnover amounted to approximately RMB 69,522,000 and net profit attributable to shareholders was approximately RMB3,037,000 that represented a significant decrease from last year. The Board are of the view that the decline in turnover was mainly due to the pricing policy of the National Development and Reform Commission (NDRC) (國家發展和改革委員會) in late 2005. The NDRC has been imposing a series of policy to restrict the highest price for certain pharmaceutical products since late 2005. This decrease in selling price has an adverse effect on our Group's financial performance, resulting in a decrease in the Group's turnover and gross profit margin.

The Board also would like to draw the attention of the shareholders that the decrease in the net profit attributable to shareholders from RMB 8 million last year to RMB 3 million this year was due to the one-off RMB 7 million regional development subsidy that was only granted in 2005 but was no longer available during this year. Nevertheless, the Board was not satisfied with the results and has determination to overcome the market difficulties in the coming year.

REVIEW OF THE YEAR

Despite the Group has not generated a favourable results given the fierce competition of the pharmaceutical market, the Board would like to share with the shareholders that the Company has achieved the following accomplishments during the year 2006, which will lay a strong foundation for future earning of the Company in coming future.

Firstly, our research and development department has finalized the development of an important new medicine, namely Xue Mai Qing Tablet (血脈清片) during the year 2006. The Board believes 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. Further details of this medicine can be referred to the section "Management Discussion and Analysis".

Secondly, the Group had acquired a new piece of land in December 2006. A new workshop will commence construction on this industrial land in April 2007. In addition, the Group has completed the construction of all workshops on another industrial land that was acquired in 2003, during the year of 2006. It reflects that the Board has a well-organized long term planning for the Group to expand and the Group is on the right track toward meeting this long-term goal.

Thirdly, the number of employees increased to 406 from 360 head counts last year. The newly recruited headcounts are mostly sale persons and currently stationed in different regions in order to help boost the sales in 2007. All new staff has already completed the comprehensive training program in December 2006.

Fourthly, the Group has formed a debt recoverable team to follow up the long outstanding debts in 2006. With their efforts together with the full support from the Board, about 5 persons who refused to settle the debt on time have been sent to jail in 2006. As a result, the balances of accounts receivable and other receivables have decreased by approximately RMB 20 million and RMB 3 million respectively when compared with last year.

Last but not the least, the Group had settled all its bank borrowing and turned its gearing ratio to zero during the year 2006. In addition, the Group was in a strong leverage position with debt to asset ratio of 0.17. During 2006, the Group had declared and paid a special dividend of RMB0.0125 per share in respect of previous financial years totaling approximately RMB 7 million to shareholders after the approval at the extraordinary general meeting held on 29 September 2006.

OUTLOOK AND PROSPECTS

Looking forward, the pharmaceutical companies need to place more resources to meet the official requirement on regulatory reform in medicine and hygiene system. In addition, the implementation of regulatory price cut on medicines and the new policies for the pharmaceutical companies to conduct promotional activities in a disciplinary manner have also adversely affected the profit generated from the medicine industry. As a result, it is expected that some small and medium size pharmaceutical manufacturers and distributors may be forced to exit from the market.

Changlong, with good corporate image and development of innovative products, is expected to stand firmly in the pharmaceutical industry. The Group believes that expansion is inevitable in order to maintain a competitive edge in this industry. Thus, the Group had acquired another new piece of land and commenced the construction of new workshops. Furthermore, the continuous development of innovative products is important. As the Group has recorded operational profit for many years, the Group is in a strong financial position to sustain the growth and expansion. Thus, the Group will continue to put extensive effort on developing innovative product to maintain corporate image awareness.

With the commencement of new workshops and the launch of new medicines, the Board believes the Group can create sustainable growth in both turnover and net profit attributable to shareholders in the coming future.

DIVIDENDS

The Directors do not recommend the payment of the final 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 2007

BUSINESS REVIEW

For the year ended 31 December 2006, the Group's turnover decreased by 15% from RMB81.89 million to RMB69.52 million while that of profit attributable to shareholders decreased by 62% from RMB8 million to RMB3 million. For the year ended 31 December 2006, basic earning per share decreased to RMB0.0054 from RMB0.0143 last year.

For the year ended 31 December 2006, the manufacturing and selling of Compound Huonaoshu capsule (復方活腦舒膠囊) continued to be the Group's core revenue generator. The revenue of the Compound Huonaoshu capsule (復方活腦舒膠囊) reached approximately RMB22 million, which represented approximately 32% of the total turnover. In addition, the new medicine of Kai Kun Shen Xi capsule (海昆腎喜膠囊) has been penetrated into the market and has recorded a total revenue of approximately RMB18.7 million for the year ended 31 December 2006. The sales of Xueshuan Xinmaining capsule(血栓心脈寧) has reached 6.1 million for the year ended 31 December 2006, which represented the third top best seller of the Group in the year 2006. Other products such as Yi Li Xin Tou Bao Pi An for injection (意利信(注射用頭孢匹胺)), Hai Li Xin Tou Bao Pi An for injection (海麗(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), and Chang Long Li Di (長龍力迪) also contributed more than one million sales in 2006. This was further elaborated under the Section "Financial Review".

OPERATION REVIEW

Good Manufacturing Practice (GMP)

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

During the year ended 31 December 2006, the Company has been successful in obtaining two GMP standard certifications. As a result, all the existing production lines of the Company's major products have already obtained and renewed its GMP standard certifications.

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

10. Lyophilized powder for injection (凍乾粉針劑) – valid until 6 March 2011

11. Small volume Parenteral Solution (小容量注射劑) – valid until 6 March 2011

RESEARCH AND DEVELOPMENT

The process for developing a new pharmaceutical product was lengthy and full of challenge. Firstly, it is difficult to predict the time for experimental process. Secondly, we need to be ahead of our competitors to be the first company to launch new medicines with similar curing effects and yet with a technical break-through that delivers a remarkably fast curing effect, or lesser side effects, or relatively safer or at a lower cost. The Research and Development (R&D) department of a pharmaceutical company has an important contribution to the future successful of the company. In the past, our R&D department had successfully developed the medicine of Compound Huonaoshu capsule (復方活腦舒膠囊), which had generated huge profit to the company and finally led to the listing in Hong Kong. In the year of 2003, our R&D department completed the development of Hai Kun Shen Xi capsule(海昆腎喜膠囊), which now became our second core revenue generator and its revenue reached approximately RMB18.7 million for the year ended 31 December 2006.

During the year 2006, our R&D department has finalized the development of an important new medicine, namely Xue Mai Qing Tablet (血脈清片). The Group has invested more than RMB6 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.

This new medicine, Xue Mai Qing Tablet (血脈清片), is a natural organic medicine which is the only medicine in the world to extract 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.

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 2006, 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
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

PRODUCTION FACILITIES

In mid 2002, the Group had acquired a piece of land of approximately 14,000 sq. m. Three workshops which were designed to produce the medicines of Hai Kun Shen Xi capsule(海昆腎喜膠囊), Yan Suan Tou Bao Jia Wo(鹽酸頭孢甲肟) and setup a "Chinese medicine extracts" workshop (中葯前處理車間) respectively, have been constructed on this industrial land. All these three workshops had been completed in mid 2006.

The Group acquired another piece of land in front of the office building in December 2006. This piece of land, which was approximately 1,230 sq. m., was designed to construct a new workshop for the new medicine of Xue Mai Qing Tablet (血脈清片). The construction work is expected to complete before the end of 2007. Thereafter, there will be purchases of machineries and installation for the assembly lines. The final completion of the workshop will be scheduled in late 2008 and the commencement of the production lines is expected in early 2009.

In addition, the Group has reconstructed a new workshop for the production of the Compound Bifonazole solution (復方聯苯苄唑溶液) in the original complex and this project has been completed in the third quarter of 2006.

FINANCIAL REVIEW

During the year ended 31 December 2006, the Group reported a turnover of approximately RMB69.5 million, representing a decrease of approximately RMB12.3 million or 15% as compared with the same period last year. The decrease on turnover was mainly due to the pricing policy of the National Development and Reform Commission (NDRC) (國家發展和改革委員會) in late 2005. The NDRC has been imposing a series of policy to reduce the highest retail price for certain pharmaceutical products since late 2005. According to some reports from the media, the largest reduction in the highest retail price has been approximately 70% while the average reduction has been 40%. This pricing policy has an adverse effect on our Group's financial performance, resulting in a decrease in the Group's turnover and gross profit margin.

The sales of the Compound Huonaoshu capsule (復方活腦舒膠囊) were approximately RMB22 million in 2006. This represented a significant decrease from approximately RMB36.9 million in 2005. The sales for Xueshuan Xinmaining capsule (血栓心脈寧膠囊) amounted to approximately RMB6 million for the year ended 31 December 2006 while it had recorded approximately RMB7.2 million in revenue same period last year. Nevertheless, the new medicine of Hai Kun Shen Xi capsule (海昆腎喜膠囊) has been penetrated into the market and has reached RMB18.7 million in 2006. This represented a 32% increment from approximately RMB14.2 million in 2005.

Other products, such as Hai Li Xin Tou Bao Pi An for injection (海麗(注射用頭孢匹胺)) 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 2006. Qianlie Guihuang tablet (前列桂黃片), Nao Dan Bai Shui Jie Wu (腦蛋白水解物), Dang Gui Long Hui tablet (當歸龍薈丸), and Chang Long Li Di(長龍力迪) also contributed more than one million sales in 2006.

Other than the effect of the regulatory price cut on medicines, there were a few reasons that had resulted in the decrease of profitability. Firstly, the severe price competition together with the low selling price directly eroded the profits of the Company. Secondly, the growing consciousness of customers, especially those from hospital and clinic, over price competition had resulted in a change in customers' purchasing pattern and inventory management practices. The customers have reduced their inventory level sharply in order to cut down the carrying cost. In addition, the customers could take advantage of the further price reduction anticipated under this severe price competitive market and government's policy by placing each order in smaller quantities on a more regular basis. Thus, this had contributed to the sharp drop in the Group's sales volume, especially our core products of Compound Huonaoshu capsule.

The gross profit margin for the year ended 31 December 2006 was approximately 66.9%, representing a 4.6% decrease as compared to that of 71.5% for the year ended 31 December 2005. The gross profit margin has decreased 4.6% mainly due to the pricing policy. Besides, some new products namely Hai Li Tou Bao Pi An for injection(海麗(注射用頭孢匹胺)) Long Zhu Ping Kan tablets (龍珠平亢丸) and Chang Long Li Di(長龍力迪) has a relatively low gross profit margin. The gross profit margin in 2006 for these products was -2.2%, 28% and 9% respectively. The reason for the 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.

Other income dropped to RMB1.67 million for the year ended 31 December 2006. The decrease is because the Group did not receive any government subsidy during 2006 while there was approximately RMB7 million from regional development subsidy in 2005.

Selling and distribution expenses decreased to approximately RMB28.2 million for the year ended 31 December 2006 from approximately RMB37.5 million last year. The selling expense as a percentage of turnover was 41% in 2006. This represented a 5% decrease from 46% when compared to the same period last year. The decrease in selling and distribution expenses by approximately RMB9.3 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 decreased during the year ended 31 December 2006 to approximately RMB14 million from approximately RMB15.7 million last year. In fact, there was an increase of approximately RMB910,000 in amortization expenses for the year ended 31 December 2006 due to the increase of purchased know-how and prescription from approximately RMB42.4 million in 2005 to approximately RMB48.8 million in 2006. However, this increase was offset by the written back on the over provision of approximately RMB540,000 (2005: provision for approximately RMB3.1 million) made for long outstanding trade receivables, resulting in a net decrease in the general and administrative expenses. During 2006, the Group has assigned some regional managers to form a debt recoverable team and to follow up the long outstanding debts. The team traveled regions by regions to recover the debts and their efforts have resulted in the decrease in accounts receivable and others receivable by approximately RMB20 million and RMB3 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this year. As at 31 December 2006, the Group had cash and bank balances amounted to RMB26 million (2005: RMB21 million) and settled all bank borrowings (2005: short term bank borrowing of RMB8.9 million). As at 31 December 2006, the Group had total assets of RMB248,929,000 (2005: RMB265,097,000) which were financed by current liabilities of RMB42,649,000 (2005: 54,851,000) and shareholders' equity of RMB206,280,000 (2005: RMB210,246,000)

GEARING RATIO

During this financial year, the Group had settled all its bank borrowing and turned its gearing ratio to zero. 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 406 employees, representing an increase of 46 headcount from the previous year. The new recruits were mostly sale-persons. For the year ended 31 December 2006, the total remuneration to employees, including director's emoluments amounted to approximately RMB6.4 million (2005: approximately RMB6.8 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.

EXECUTIVE DIRECTORS

Zhang Hong, aged 51, 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 17 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 42, 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 15 years of experiences in the business of pharmaceutics. He joined the predecessor of the Company in August 1990.

Li Yu Xian, aged 54, 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 60, 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 55, 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 45, 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 39, 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 64, 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 56, is the independent non-executive Director. He has over 20 years' experience in accounting, auditing, taxation and management consulting. Currently, he plays an advisory and management role in an accounting firm in Huinan County. From April 1984 to May 1993, Mr. Shen worked as Deputy Commissioner of Huinan County Auditing Bureau. He worked as the Deputy Commissioner of Huinan County Ministry of Finance from June 1993 to October 1995. From November 1995 to October 1998, Mr. Shen worked as the Officer of Office of Finance and Trade of Huinan County and from November 1998 to December 2001, Mr. Shen served as the Commissioner of Huinan County Auditing Bureau.

SUPERVISORS

Zhang Jing Zhou, aged 57, 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 12 years since March 1995.

Jia Zhi, aged 53, 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 49, 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 42, 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 47, 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 44, 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 36, 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 57, 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 38, 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.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2006.

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

The Group has only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. In 2006, 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 business or geographical segmental analysis is prepared for the year.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 33 to 66.

The directors do not recommend the payment of the final 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

	2006 **RMB'000**	2005 RMB'000
Turnover	**69,522**	81,889
Profit before tax	**5,008**	11,999
Taxation	**(1,971)**	(3,982)
Net profit from ordinary activities attributable to equity holders	**3,037**	8,017

Assets and liabilities

	2006 **RMB'000**	2005 RMB'000
Total assets	**248,929**	265,097
Total liabilities	**(42,649)**	(54,851)
Net assets	**206,280**	210,246

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 15, 16 and 20 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 2006. As at 31 December 2006, 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 19 to the financial statements.

BANK LOANS

Particulars of bank loans of the Company are set out in note 24 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 26 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 27 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the reserves of the Group available for cash distribution or distribution in specie was amounted to approximately RMB75,872,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group sold less than 30% of its goods to its five largest customers (2005: less than 30%) and sales to the largest customer included therein amounted to 9.8%.

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 2006 and 2005, 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 2006 are set out in note 28 to the financial statement.

CONTINGENT LIABILITIES

As at 31 December 2006 and 31 December 2005, the Group had no material contingent liabilities.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year 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 (resigned on 18 April 2006)

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 13 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' AND SUPERVISORS' 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' AND SUPERVISORS' INTERESTS IN SHARES

At 31 December 2006, the interests and short positions of the Directors, supervisors 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 to 5.67 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	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 2006, none of the Directors, supervisors 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 to 5.67 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' and Supervisors' 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, supervisor 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, supervisors and chief executives to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following persons (other than the Directors, supervisors 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

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 2006, the Directors were not aware of any other person (other than the Directors, supervisors 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 14 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.

At 18 April, 2006, Mr. Wong Kin Fai, Kenny has resigned as an independent non-executive director ("INED") of the Company and ceased to be a member of the Committee. Pursuant to the rules 5.28 of the GEM Listing Rules, the Committee must comprise a minimum of three members and the Committee is now composed of only two INEDs, namely Mr. Nan Zheng and Mr. Shen Yu Xiang.

The Company requires additional time than expected to identify suitable candidates as new INED and Committee's member. The Group has identified suitable candidates, but there are formalities and procedures which the Group cannot finalize at that moment. In the meantime, the Company has only two INEDs and Committee members and thus is temporarily unable to strictly comply with Rules 5.05 and 5.28 of the GEM Listing Rules requiring the Company to retain at all times three INEDs and a minimum of three members to comprise the Committee. Also, the Company has breached the requirements of Listing Rules of 5.06 and 5.33 which require the Company to fill up the outstanding position within three months from the date of failing to meet these requirements.

The Board expects that the new appointment could be finalized as soon as possible and that the Company would be able to fully comply with Rules 5.05 and 5.28 of the GEM Listing Rules as soon as possible.

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 2006.

AUDITOR

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 29 of the annual report.

By order of the Board

Zhang Hong
Chairman

Jilin Province, the PRC
29 March 2007

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 2006 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 2006.

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 13 to 15. 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 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, Mr. Shen Yu Xiang and Mr. Wong Kin Fai, kenny are the independent non-executive Directors.

At 18 April, 2006, Mr. Wong Kin Fai, Kenny has resigned as an independent non-executive director of the Company and ceased to be a member of Audit Committee. The Company requires additional time than expected to identify suitable candidates as new independent non-executive director and Audit Committee's member. In the meantime, the Company has only two independent non-executive directors and Audit Committee members. As at 31 December 2006, the Company did not fulfill the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the requirement of having one independent non-executive director qualified as a professional or having the professional accounting and financial management expertise. Also, the Company has breached the requirements which require the number of independent non-executive directors being at least one-third of the members of the board of directors.

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.

The second session of the board of directors of the Company is currently comprised of nine directors and their term of office will end upon the conclusion of the annual general meeting for the year ended 31 December 2006. In accordance with article 89 of the company's articles of association, all directors are appointed for a specific term of three year, would retire and are subject to re-election at the forthcoming annual general meeting.

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. The Board is principally responsible for formulating and reviewing the overall strategies and the fundamental systems of the Group, and approving major transactions and other material operational and financial matters, as well as annual budget and quarterly and annual results.

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	3/4
Ms. Cui Shu Mei	4/4
Mr. Zhang Yuan Qiu	1/4
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 and resigned on 18 April 2006)*	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.

For the financial year ended 31 December 2006, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

Members	**Meetings attended/Held**
Mr. Shen Yu Xiang *(Chairman)*	1/1
Mr. Nan Zheng	1/1
Mr. Zhang Hong	1/1

For the year ended 31 December 2006, the Remuneration Committee reviewed matters relating to remuneration for the Directors and members of senior management, and discussed the remuneration policy of the Group.

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.

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.

Nomination procedures include identification and acknowledgement of qualified individuals by the Nomination Committee, and review and approval of such nominations by the Board. The Nomination Committee will evaluate potential candidates considering factors such as professional expertise, relevant experience, personal ethics and integrity.

For the financial year ended 31 December 2006, the Nomination Committee held two meetings. During the meetings, the Nomination Committee has reviewed and discussed the framework, number of members and composition of the Board. Also, the Nomination Committee has identified and made proposals in respect of the outstanding appointment of independent non executive director. The individual attendance records of each member are as follows:

Members	**Meetings attended/Held**
Mr. Shen Yu Xiang(Chairman)	2/2
Mr. Nan Zheng	2/2
Mr. Zhang Xiao Guang	2/2

AUDITOR'S REMUNERATION

Horwath Hong Kong CPA Limited (Horwath) was the auditor of the Company for the year ended 31 December 2006. 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.

Auditor's remuneration for year ended 31 December 2006 is set out in note 7 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.

At 18 April 2006, Mr. Wong Kin Fai, Kenny has resigned as an independent non-executive director ("INED") of the Company and ceased to be a member of Audit Committee. Pursuant to the rules 5.28 of the GEM Listing Rules, the Committee must comprise a minimum of three members and the Committee is now composed of only two INEDs, namely Mr. Nan Zheng and Mr. Shen Yu Xiang.

The Company requires additional time than expected to identify suitable candidates as new INED and Committee's member. The Group has identified suitable candidates, but there are formalities and procedures which the Group cannot finalize at that moment. In the meantime, the Company has only two INEDs and Committee members and thus is temporarily unable to strictly comply with Rules 5.05 and 5.28 of the GEM Listing Rules requiring the Company to retain at all times three INEDs and a minimum of three members to comprise the Committee. Also, the Company has breached the requirements of Listing Rules of 5.06 and 5.33 which require the Company to fill up the outstanding position within three months from the date of failing to meet these requirements.

The Board expects that the new appointment could be finalized as soon as possible and that the Company would be able to fully comply with Rules 5.05 and 5.28 of the GEM Listing Rules as soon as possible.

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 attended/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 2006 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 auditor of the Company, Horwath Hong Kong CPA Limited, about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 31 and 32 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 endeavors 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.

REPORT OF THE SUPERVISORY COMMITTEE

TO THE SHAREHOLDERS OF
JILIN PROVINCE HUINAN CHANGLONG BIO-PHARMACY COMPANY LIMITED
(吉 林 省 輝 南 長 龍 生 化 藥 業 股 份 有 限 公 司)
(a joint stock limited company incorporated in the People's Republic of China)

The Supervisory Committee of the Company, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and articles of association of the Company (the "relevant rules and regulations"), exercised conscientiously its authority, safeguarded the interests of the shareholders of the Company and the Company, during the year ended 31 December 2006 followed the principle of honesty and trustworthiness and worked cautiously and diligently.

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

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

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

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

Jilin Province, the PRC

29 March, 2007

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants
A member of Horwath International
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18 Harbour Road
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 consolidated financial statements of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the "Company") set out on pages 33 to 66, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Chan Kam Wing, Clement
Practising Certificate number P02038

Hong Kong, 29 March 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

(Expressed in Renminbi)

	Note	**2006** **RMB'000**	2005 RMB'000
Turnover	5	**69,522**	81,889
Cost of sales		**(22,985)**	(23,357)
Gross profit		**46,537**	58,532
Other revenue	5	**1,676**	7,429
Distribution and selling costs		**(28,238)**	(37,521)
Administrative expenses		**(14,033)**	(15,733)
Other operating expenses		**(611)**	(311)
Profit from operations	7	**5,331**	12,396
Finance costs	8	**(323)**	(397)
Profit before taxation		**5,008**	11,999
Taxation	9(a)	**(1,971)**	(3,982)
Profit attributable to equity holders of the Company	12	**3,037**	8,017
Earnings per share			
– Basic	10	**RMB0.0054**	RMB0.0143
– Diluted	10	**N/A**	N/A
Special dividends	11	**7,003**	–

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets	15	**656**	464
Property, plant and equipment	16	**49,657**	51,128
Prepaid lease payments	17	**4,295**	3,596
Construction in progress	18	**5,124**	3,971
Purchased know-how and prescription	20	**32,650**	31,016
		92,382	90,175
Current assets			
Inventories	21	**18,980**	22,040
Trade receivables	22	**47,216**	66,800
Other receivables, deposits and prepayments		**43,197**	46,394
Prepaid lease payments	17	**130**	130
Cash and cash equivalents	23	**26,251**	21,705
Income tax recoverable		**20,773**	17,853
		156,547	174,922
Current liabilities			
Bank loans (secured)	24	**–**	8,900
Trade payables	25	**9,289**	11,990
Other payables, deposits received and accruals		**18,308**	20,930
Other tax payables		**11,994**	13,031
Dividend payable	11	**3,058**	–
		42,649	54,851
Net current assets		**113,898**	120,071
Net assets		**206,280**	210,246
Equity			
Share capital	26	**56,025**	56,025
Reserves		**150,255**	154,221
Total equity		**206,280**	210,246

ZHANG HONG
Director

ZHANG XIAO GUANG
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

At 31 December 2006

(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets	15	**656**	464
Property, plant and equipment	16	**49,648**	51,115
Prepaid lease payments	17	**4,295**	3,596
Construction in progress	18	**5,124**	3,971
Interests in subsidiaries	19	**3,859**	3,864
Purchased know-how and prescription	20	**32,650**	31,016
		96,232	94,026
Current assets			
Inventories	21	**18,980**	22,040
Trade receivables	22	**58,464**	77,818
Other receivables, deposits and prepayments		**43,185**	46,382
Prepaid lease payments	17	**130**	130
Cash and cash equivalents	23	**23,901**	19,308
Income tax recoverable		**20,773**	17,853
		165,433	183,531
Current liabilities			
Bank loans (secured)	24	**–**	8,900
Trade payables	25	**9,289**	11,990
Other payables, deposits received and accruals		**18,278**	20,768
Other tax payables		**11,538**	12,418
Dividend payable	11	**3,058**	–
		42,163	54,076
Net current assets		**123,270**	129,455
Net assets		**219,502**	223,481
Equity			
Share capital	26	**56,025**	56,025
Reserves	27	**163,477**	167,456
Total equity		**219,502**	223,481

ZHANG HONG
Director

ZHANG XIAO GUANG
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006
(Expressed in Renminbi)

			PRC statutory funds			
	Share capital RMB'000 (Note 26)	**Share premium RMB'000**	**Statutory surplus reserve RMB'000** (Note 27(a))	**Staff public welfare fund RMB'000** (Note 27(b))	**Retained profits RMB'000**	**Total RMB'000**
At 1 January 2005	56,025	51,098	14,639	7,319	73,148	202,229
Profit for the year	–	–	–	–	8,017	8,017
Appropriation to statutory reserves	–	–	617	308	(925)	–
At 31 December 2005	56,025	51,098	15,256	7,627	80,240	210,246
Profit for the year	–	–	–	–	3,037	3,037
Dividends declared	–	–	–	–	(7,003)	(7,003)
Transfer to statutory surplus reserve	–	–	7,627	(7,627)	–	–
Appropriation to statutory surplus reserve	–	–	402	–	(402)	–
At 31 December 2006	**56,025**	**51,098**	**23,285**	**–**	**75,872**	**206,280**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006
(Expressed in Renminbi)

	2006 RMB'000	2005 RMB'000
Operating activities		
Profit before taxation	**5,008**	11,999
Adjustment for:		
Interest income	**(262)**	(276)
Interest expense	**293**	387
Provision for obsolete inventories	**684**	1,310
(Reversal of)/provision for bad and doubtful debts	**(142)**	3,586
Amortisation of purchased know-how and prescription	**4,836**	3,923
Amortisation of prepaid lease payments	**131**	130
Depreciation	**5,246**	5,218
(Gain)/loss arising from change in fair value of biological assets	**(192)**	80
Operating profit before working capital changes	**15,602**	26,357
Decrease/(increase) in inventories	**2,376**	(394)
Decrease in trade receivables	**18,878**	2,051
Decrease/(increase) in other receivables, deposits and prepayments	**4,045**	(2,229)
Decrease in trade payables	**(2,701)**	(229)
(Decrease)/increase in other payables, deposits received and accruals	**(2,622)**	1,472
Decrease in other tax payables	**(1,037)**	(300)
Cash generated from operations	**34,541**	26,728
Interest paid	**(293)**	(387)
PRC income tax paid	**(4,891)**	(8,500)
Net cash generated from operating activities	**29,357**	17,841
Investing activities		
Payments to acquire land use right	**(830)**	–
Payments to acquire know-how and prescription	**(6,470)**	(11,342)
Payments to acquire property, plant and equipment	**(1,775)**	(2,513)
Payments for construction in progress	**(3,153)**	(464)
Interest received	**262**	276
Net cash used in investing activities	**(11,966)**	(14,043)
Financing activities		
New bank loans raised	**–**	8,900
Repayment of bank loans	**(8,900)**	(10,000)
Dividend paid	**(3,945)**	–
Net cash used in financing activities	**(12,845)**	(1,100)
Net increase in cash and cash equivalents	**4,546**	2,698
Cash and cash equivalents at beginning of year	**21,705**	19,007
Cash and cash equivalents at end of year	**26,251**	21,705
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	**26,251**	21,705

The accompanying notes form part 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 ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 19 to the financial statements.

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

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HK(IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease

(a) HKAS 21 "The Effect of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding the net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 and 2005.

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

(b) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be re-measured at the higher of the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements as the Group did not have any guarantee given during the year or on balance sheet date.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The adoption of this amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

The amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transaction, the amendment has had no effect on these financial statements.

(Expressed in Renminbi)

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

(c) HK(IFRIC) – Int 4 "Determining Whether an Arrangement Contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

The Group has not early adopted the following new HKFRSs, that have been issued but are not yet effective to these financial statements.

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"	1 March 2006
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, while the adoption of HKAS 1 Amendment and HKFRS 7 will result in new and amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

(b) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments which have been measured at fair value.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas were assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

(c) Basis of consolidation

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

3. Principal accounting policies (continued)

(c) Basis of consolidation (continued)

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any attributable amount of goodwill.

(d) Business combinations

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 date 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 assumed in a business combination 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.

(e) 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

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.

(f) 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)

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

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:

Buildings	10 to 30 years
Plant and machinery	10 years
Transportation equipment	8 years
Furniture, fixtures and equipment	5 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(h) 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.

(i) 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.

(j) 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)

(k) 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.

(l) 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)

(m) Financial instruments

Financial assets and financial liabilities are recognised on the Group's or Company's balance sheet when a group company or the Company 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 least 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)

(n) Provisions and contingent liabilities

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

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

(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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. Principal accounting policies (continued)

(o) Taxation (continued)

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 financial 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.

(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.

3. Principal accounting policies (continued)

(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 and the Mandatory Provident Fund scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance 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.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and exclude value added tax or other sales related taxes.

(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.

3. Principal accounting policies (continued)

(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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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.

4. Critical accounting judgements and key sources of estimation uncertainty

In preparing the consolidated financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

(a) Impairment of assets

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.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. 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.

	2006	2005
	RMB'000	RMB'000
Turnover		
Sales of medicine	**69,522**	81,889
Other revenue		
Regional development subsidy receivable and others	**1,354**	7,093
Bank interest income	**262**	276
Rental income	**60**	60
	1,676	7,429
Total revenue for the year	**71,198**	89,318

6. Segment information

The Group has only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. In 2006, 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 business or geographical segmental analysis is prepared for the year.

7. Profit from operations

	2006 RMB'000	2005 RMB'000
Profit from operations is arrived at after charging:		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	**21,496**	21,167
Provision for obsolete and slow-moving inventories	**684**	1,310
Auditor's remuneration:		
Current year provision	**500**	520
(Over)/under provision in previous years	**(51)**	10
Amortisation of purchased know-how and prescription	**4,836**	3,923
Amortisation of prepaid lease payments	**131**	130
Depreciation	**5,246**	5,218
(Reversal of)/provision for bad and doubtful debts	**(542)**	3,126
Staff costs (excluding directors' and supervisors' emoluments):		
Salaries, bonus and allowances	**5,017**	5,166
Retirement benefit scheme contributions	**436**	497

8. Finance costs

	2006 RMB'000	2005 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	**293**	387
Bank charges	**30**	10
	323	397

9. Taxation

(a) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
PRC income tax	**1,971**	3,982

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.

9. Taxation (continued)

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

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**5,008**	11,999
Taxation calculated at PRC statutory income tax of 33%	**1,653**	3,960
Tax effect of non-taxable item	**(6)**	(2,234)
Tax effect of expenses not deductible for taxation purposes	**311**	2,052
Deferred tax benefits arising from tax losses of subsidiaries not recognised	**13**	204
Taxation for the year	**1,971**	3,982

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

10. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2006 is based on the consolidated profit attributable to equity holders of the Company of approximately RMB3,037,000 (2005: RMB8,017,000) and the weighted average of 560,250,000 shares (2005: 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 2006 and 2005.

11. Dividends

	2006 **RMB'000**	2005 RMB'000
Special dividends declared of RMB0.0125 per share	**7,003**	–

On 29 September 2006, a dividend of RMB0.0125 per share was declared to shareholders.

12. Profit attributable to equity holders of the Company

During the year ended 31 December 2006, the Group's profit attributable to equity holders of the Company included a profit of RMB3,024,000 (2005: profit of RMB9,446,000) which has been dealt with in the financial statements of the Company.

13. 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	2006 Total RMB'000
Executive directors:					
Zhang Hong	–	21	206	1	228
Zhang Xiao Guang	–	21	103	1	125
Li Yu Xian	–	16	103	1	120
Qiao Hong Kuan	–	16	103	1	120
Cui Shu Mei	–	18	103	1	122
Zhang Yuan Qiu	–	–	–	–	–
Zhao Bao Gang	–	12	–	1	13
Independent non-executive directors:					
Nan Zheng	–	–	–	–	–
Shen Yu Xiang	17	–	–	–	17
Wong Kin Fai, Kenny	10	–	–	–	10
	27	104	618	6	755

13. 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	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
	35	91	795	7	928

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**	**2006 Total RMB'000**
Supervisors:				
Zhang Jing Zhou	18	103	1	122
Li Bao Hai	12	3	1	16
Jia Zhi	9	–	1	10
	39	106	3	148

13. 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	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

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 the emoluments paid to the five highest paid individuals during the year included three directors (2005: three directors) and one supervisor (2005: one supervisor) whose emoluments are set out above. Details of remuneration of the remaining one (2005: one) highest paid employee of the Company during the year are as follows:

	2006 RMB'000	2005 RMB'000
Salaries, allowances and other benefits	**393**	239
Bonus	**–**	–
Retirement benefit scheme contributions	**13**	13
	406	252

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.

14. 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 2006, 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 2006 amounted to approximately RMB445,000 (2005: RMB507,000).

15. Bearer biological assets

Bearer biological assets comprise:

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Deer – immature	**29**	29
Deer – mature	**432**	435
Antler	**195**	–
Carrying amount at 31 December	**656**	464

Reconciliation of carrying amounts of bearer biological assets:

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Carrying amount at 1 January	**464**	544
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs attributable to physical changes	**246**	(77)
Loss arising from changes in fair value less estimated point-of-sale costs attributable to price changes	**(54)**	(3)
Carrying amount at 31 December	**656**	464

16. Property, plant and equipment

	Buildings	Plant and machinery	Trans-portation equipment	Furniture, fixtures and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group					
Cost:					
At 1 January 2005	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
Additions	12	1,627	–	136	1,775
Transferred from construction in progress	2,000	–	–	–	2,000
At 31 December 2006	31,198	44,533	3,039	1,525	80,295
Accumulated depreciation:					
At 1 January 2005	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
Charge for the year	914	3,822	332	178	5,246
At 31 December 2006	6,408	21,306	1,780	1,144	30,638
Net book value:					
At 31 December 2006	24,790	23,227	1,259	381	49,657
At 31 December 2005	23,692	25,422	1,591	423	51,128

The Group's buildings are located in the PRC. It includes a workshop with a net book value of RMB563,000 (2005: RMB585,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

16. Property, plant and equipment (continued)

	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 2005	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
Additions	12	1,627	–	136	1,775
Transferred from construction in progress	2,000	–	–	–	2,000
At 31 December 2006	31,198	44,533	3,039	1,449	80,219
Accumulated depreciation:					
At 1 January 2005	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
Charge for the year	914	3,822	332	174	5,242
At 31 December 2006	6,408	21,306	1,780	1,077	30,571
Net book value:					
At 31 December 2006	24,790	23,227	1,259	372	49,648
At 31 December 2005	23,692	25,422	1,591	410	51,115

The Company's buildings are located in the PRC. It includes a workshop with a net book value of RMB563,000 (2005: RMB585,000) which is leased under an operating lease for a term of ten years commencing on 1 January 2000.

17. Prepaid lease payments

	The Group and the Company RMB'000
Cost:	
At 1 January 2005 and 31 December 2005	4,471
Additions	830
At 31 December 2006	5,301
Accumulated amortisation:	
At 1 January 2005	615
Charge for the year	130
At 31 December 2005	745
Charge for the year	131
At 31 December 2006	876
Net book value:	
At 31 December 2006	4,425
At 31 December 2005	3,726

	2006 RMB'000	2005 RMB'000
Net book value at 31 December	**4,425**	3,726
Portion classified as current assets	**(130)**	(130)
Non-current assets	**4,295**	3,596

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

18. Construction in progress

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
At 1 January	**3,971**	4,750
Additions	**3,153**	464
Transferred to property, plant and equipment	**(2,000)**	(1,243)
At 31 December	**5,124**	3,971

19. Interests in subsidiaries

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**500**	500
Amount due from a subsidiary	**3,359**	3,364
	3,859	3,864

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

The amount due from a subsidiary is unsecured, interest free and in substance represents the Company's investment in the subsidiary in the form of quasi-equity loan.

20. Purchased know-how and prescription

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Cost:		
At 1 January	**42,412**	32,940
Additions	**6,470**	9,472
At 31 December	**48,882**	42,412
Accumulated amortisation:		
At 1 January	**11,396**	7,473
Amortisation for the year	**4,836**	3,923
At 31 December	**16,232**	11,396
Net book value:		
At 31 December	**32,650**	31,016

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

21. Inventories

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Inventories comprise:		
At cost:		
Raw materials	**8,195**	12,740
Work in progress	**4,056**	4,015
Finished goods	**20,659**	18,532
	32,910	35,287
Less: Provision for obsolete and slow-moving inventories	**(13,930)**	(13,247)
	18,980	22,040

As at 31 December 2006, no inventories were carried at net realisable value.

22. 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 30(a)(ii).

The following is an aged analysis of trade receivables, net of provison for impairment for trade receivables, at the balance sheet dates:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current	**22,639**	39,897	**24,310**	41,204
31–60 days	**2,718**	3,135	**4,301**	5,266
61–90 days	**3,074**	2,225	**4,919**	3,363
More than 90 days	**18,785**	21,543	**24,934**	27,985
	47,216	66,800	**58,464**	77,818

Included in trade receivables of the Company was a balance of RMB19,092,000 (2005: RMB23,309,000) due from a subsidiary as at 31 December 2006.

The directors consider the carrying amount of trade receivables approximates their fair value.

23. Cash and cash equivalents

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

24. Bank loans

Bank loans of the Group and the Company were interest bearing at commercial rates and fully settled during the year.

25. Trade payables

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

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Current	**2,730**	3,189
31–60 days	**218**	2,427
61–90 days	**255**	172
More than 90 days	**6,086**	6,202
	9,289	11,990

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

26. Share capital

	2006		2005	
	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

27. Reserves

	Share premium RMB'000	PRC statutory funds: Statutory surplus reserve RMB'000 (Note a)	PRC statutory funds: Staff public welfare fund RMB'000 (Note b)	Retained profits RMB'000	Total RMB'000
The Company					
At 1 January 2005	51,098	14,639	7,319	84,954	158,010
Profit for the year	–	–	–	9,446	9,446
Appropriation to statutory reserves	–	617	308	(925)	–
At 31 December 2005	51,098	15,256	7,627	93,475	167,456
Profit for the year	–	–	–	3,024	3,024
Dividends declared	–	–	–	(7,003)	(7,003)
Transfer to statutory surplus reserve	–	7,627	(7,627)	–	–
Appropriation to statutory surplus reserve	–	402	–	(402)	–
At 31 December 2006	**51,098**	**23,285**	**–**	**89,094**	**163,477**

(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.

27. Reserves (continued)

(b) Statutory public welfare fund

Prior to 1 January 2006, according to the relevant financial regulations of the PRC and the Company's articles of association, the Company was 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 could not be used to pay for staff welfare expenses. Titles of these capital items remained with the Company.

With the amendment of the PRC Companies Law which was effective from 1 January 2006, enterprises in the PRC are no longer required to transfer any profit to the public welfare fund. Any balance of public welfare fund brought forward from 31 December 2005 should be transferred to the statutory surplus reserve. The statutory surplus reserve is non-distributable. In accordance with the revised Companies Law, the public welfare fund of RMB7,627,000 brought forward from 1 January 2006 was transferred to statutory surplus reserve.

28. Capital commitments

At the balance sheet date, the Group had capital commitments contracted for but not provided for in respect of the following:

	2006	2005
	RMB'000	RMB'000
Acquisition of purchased know-how and prescription	**3,495**	5,380
Acquisition of property, plant and equipment	**1,775**	810
	5,270	6,190

29. 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 2006 and 2005.

29. Related party transactions (continued)

Members of key management during the year comprised the seven executive directors only whose remuneration is set out in note 13(a) to the financial statements.

30. Financial risk management

(a) Financial risk factors

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign exchange risk and liquidity risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates.

(ii) Credit risk

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

(iii) 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.

(iv) Liquidity risk

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

(b) Fair values estimation

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair value.

31. Comparative figures

Tax recoverable of the Group and the Company at 31 December 2005 included the balances of value-added tax and other tax payables amounting RMB13,031,000 and RMB12,418,000 respectively which have been reclassified as other tax payables.

32. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2007.

FINANCIAL SUMMARY

(Expressed in Renminbi)

Operating Results

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**69,522**	81,889	83,986	91,592	80,730
Cost of sales	**(22,985)**	(23,357)	(20,056)	(23,376)	(20,215)
Gross profit	**46,537**	58,532	63,930	68,216	60,515
Other revenue	**1,676**	7,429	4,735	1,675	1,367
Distribution and selling costs	**(28,238)**	(37,521)	(40,373)	(44,885)	(33,186)
Administrative expenses	**(14,033)**	(15,733)	(15,049)	(14,530)	(12,017)
Other operating expenses	**(611)**	(311)	(364)	(92)	(32)
Profit from operations	**5,331**	12,396	12,879	10,384	16,647
Finance costs	**(323)**	(397)	(514)	(833)	(312)
Profit before taxation	**5,008**	11,999	12,365	9,551	16,335
Taxation	**(1,971)**	(3,982)	(3,762)	(844)	(5,748)
Profit attributable to equity holders of the Company	**3,037**	8,017	8,603	8,707	10,587

Assets and Liabilities

	As at 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bearer biological assets	**656**	464	544	488	–
Property, plant and equipment	**49,657**	51,128	52,590	53,432	40,803
Prepaid lease payments	**4,295**	3,596	3,726	3,856	3,986
Construction in progress	**5,124**	3,971	4,750	3,305	4,668
Purchased know-how and prescription	**32,650**	31,016	25,467	16,766	3,275
Current assets	**156,547**	174,922	156,829	157,437	171,450
Current liabilities	**(42,649)**	(54,851)	(41,677)	(41,658)	(39,263)
Net assets	**206,280**	210,246	202,229	193,626	184,919
Share capital	**56,025**	56,025	56,025	56,025	56,025
Reserves	**150,255**	154,221	146,204	137,601	128,894
Total equity	**206,280**	210,246	202,229	193,626	184,919

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 2006 (the "AGM") will be held at 31 Beishan Street, Chaoyang Town, Huinan County, Tonghua, Jilin Province, the People's Republic of China (the "PRC") on Wednesday, 30 May 2007 at 10:00 a.m. for the following purposes:

As ordinary resolution:

1. to receive and consider the audited consolidated financial statements of the Company and the reports of the Directors of the Company and the independent auditor's report of the Company for the year ended 31 December 2006;

2. to consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2006;

3. to consider and approve the appropriation to statutory surplus reserve for the year ended 31 December 2006;

4. to consider and approve the transfer of the balance of the statutory public welfare fund as at 31 December 2006 to statutory surplus reserve (Note 7);

5. to consider the reappointment of Horwath Hong Kong CPA Limited as auditors of the Company for the year ending 31 December 2007 and authorize the Directors to fix their remuneration;

6. to consider and approve the re-election and re-appointment of the Directors to be the third Board for a term of three years commencing from 30 May 2007 and expiring on 29 May 2010 and to authorize the Board to determine their remuneration (Please see Annex I for the details of candidates for the Directors);

7. to consider and approve the re-election and re-appointment of the Supervisors to be the third Board for a term of three years commencing from 30 May 2007 and expiring on 29 May 2010 and to authorise the Board to determine their remuneration (Please see Annex I for the details of candidates for the Supervisors);

8. to transact any other business.

As special resolution:

1. to consider and approve the resolution for the proposed amendments made to certain articles of the Articles of Association of the Company pursuant to the provisions and requirements of the Ministry of Finance of the PRC (Please see Annex 2 for details of the proposed amendments).

2. to consider and if the right fit, pass with or without modifications, the following resolution as a special resolution:

"**THAT**:

(a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company (the "Board") during the Relevant Period (as defined in paragraph (f) below) of all the powers of the Company separately or concurrently to allot, issue and deal with domestic shares of nominal value of RMB0.10 each in the share capital of the Company (the "Domestic Shares") and/or overseas – listed foreign shares of nominal value of RMB0.10 each in the share capital of the Company (the "H Shares") be and is hereby approved;

(b) the approval in paragraph (a) above shall authorise the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares to be allotted and issued either during or after the end of the Relevant Period;

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

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

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

(f) for the purpose of this special resolution:

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

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

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

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

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

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

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

Tonghua, Jilin Province, the PRC
29 March 2007

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 28 April 2007 to 30 May 2007 (both days inclusive), during which no transfer of shares will be registered. As regards holders of H Shares and in order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's Share Registrar not later than 27 April 2007 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 8 May 2007.

7. The purpose of having ordinary resolution number 4 is to transfer the statutory public welfare fund pursuant to the provisions and requirements of the Ministry of Finance of the PRC.

8. The purpose of having special resolution number 2 it to grant a general power to the board of directors to allot and issue new shares subject to applicable laws, regulations and rules.

9. The AGM is expected to last for half a day. Shareholders and their proxies attending the AGM are responsible for their own transportation and accommodation expenses.

10. 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(435) 8212738

Annex 1: Information of Candidates for Directors and Supervisors

Please refer to the section headed "Directors, Senior Management and Staff" of the 2006 annual report of the Company for biographies of the candidates for the Directors and Supervisors respectively. All candidates of the re-elected Directors are currently the Director for the second session of the Board of Directors. All candidates of the re-elected Supervisors are currently the Supervisors for the second session of the supervisory committee of the Company.

The remunerations payable to the Directors and Supervisors are determined by the Remuneration Committee, with reference to their contribution of time, effort and expertise on the Company's matters and are as follows:

(a) Mr. Shen Yu Xiang, the candidate for re-elected independent non executive director, will be entitled to an annual salary (on the basis of 12 calendar months per year) of RMB24,000 for 2007, subject to adjustment of not more than 10% per annum for each of the subsequent calendar years;

(b) Other than disclosed in (a) above, all re-elected Directors and Supervisors will not be entitled any Director's or Supervisor's fee but are entitled to remuneration in respect of their respective office with the Company which shall not, in any event, exceed RMB30,000 per annum;

(c) Apart from and in addition to the above salary, each Director and each Supervisor is entitled to an incentive bonus each year, which is determined by the Remuneration Committee with reference to the profitability of the Group and the market conditions.

Upon the approval of the aforesaid ordinary resolution no.6, all re-elected directors will enter into a director service contract with the Company for a term of three years from 30 May 2007 to 29 May 2010.

Upon the approval of the aforesaid ordinary resolution no.7, all re-elected supervisors will enter into a service contract with the Company for a term of three years from 30 May 2007 to 29 May 2010.

Please refer to the paragraph headed "Directors' and Supervisors' interests in shares" in the Report of the Directors contained in the 2006 annual report of the Company for the interests in the shares of Company of the candidates for the Directors and Supervisors within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO").

The Directors believe that there is no other matter relating to the election of the third session of the Directors and Supervisors apart from the above that need to be brought to the attention of the shareholders of the Company. There is no information apart from the above which is discloseable pursuant to any of the requirements set out in Rule 17.50 (2) of the GEM Listing Rules (particularly in relation to sub-paragraphs (g) to (v) of the rule).

Annex 2: Details of the proposed amendments to certain articles of the Articles of Association are as follows (Note)

Subject to all the necessary approval and/or consents from the relevant PRC authorities and bodies being obtained and/or the procedures as required under the laws, regulations and/or administrative orders of Hong Kong and the PRC being completed, the Articles of Association of the Company be and they are altered in the following manner:

(1) Article 143 be amended by deleting the entirety thereof and inserting the paragraph as set out below in its place:

Amended paragraph:

The profit after taxation of the Company are utilised in the following sequence:

(1) making good the loss;

(2) making contributions to statutory surplus reserve;

(3) paying dividend of preference shares (if any);

(4) making contributions to discretionary common reserve;

(5) paying dividend of ordinary shares.

Items (3) to (5) shall be appropriated in certain specific proportions in a year, which shall be formulated by the board of directors subject to the operating conditions and development needs of the Company, and subject to the approval by the general meeting.

(2) Article 146 be amended by deleting the entirety thereof and inserting the paragraph as set out below in its place:

Amended paragraph:

When allocating the profit after tax for the year, the Company shall contribute ten per cent of the profits to the statutory surplus reserve. No further contribution to the statutory surplus reserve is required when its accumulative amount reaches more than fifty per cent of the registered capital of the Company.

When the statutory surplus reserve is insufficient to make good the loss of the Company in prior years, the profit for the year shall be used to make good the loss before making contributions to statutory surplus reserve in accordance with the above provision.

Contribution to discretionary common reserve can only be made after making contribution to statutory surplus reserve and subject to resolutions adopted at a general meeting.

The remaining profit after making good the loss and contributions to reserve(s) will be distributed to shareholders pro rata to their shareholdings.

Any profit distributed to shareholders by general meetings or the board of directors before making good the loss and contribution to the statutory surplus reserve, which jeopardises the above provision, must be returned to the Company.

Note: Since the original text of Articles are in Chinese language, so far as the proposed amendments of Articles are concerned, the Chinese text of the amended Articles as shown in the Chinese version of this notice shall prevail over the English text in case of inconsistency.