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 2007

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

TABLE OF CONTENTS

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Hong *(Chairman)*
Mr. Zhang Xiao Guang
Mr. Liang Fu Xiang
Mr. Tian Xin Guo
Mr. Chen Qi Ming
Mr. Wu Guo Wen
Mr. Zhao Bao Gang

Independent non-executive Directors

Mr. Shen Yu Xiang
Mr. Xue Chang Qing
Mr. Yan Li Jin

SUPERVISORS

Mr. Zhang Jing Zhou
Mr. Wu Wei Men
Mr. Li Bao Hai

COMPLIANCE OFFICER

Mr. Zhang Hong

AUTHORIZED REPRESENTATIVES

Mr. Zhang Hong
Mr. Zhao Bao Gang

AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited
Certified Public Accountants
Hong Kong

AUDIT COMMITTEE

Mr. Shen Yu Xiang *(Chairman)*
Mr. Xue Chang Qing
Mr. Yan Li Jin

REMUNERATION COMMITTEE

Mr. Shen Yu Xiang *(Chairman)*
Mr. Xue Chang Qing
Mr. Zhang Hong

NOMINATION COMMITTEE

Mr. Shen Yu Xiang *(Chairman)*
Mr. Xue Chang Qing
Mr. Zhang Xiao Guang

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

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

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

STOCK CODE

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LEGAL ADDRESS

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Chaoyang Town
Huinan County
Tonghua
Jilin Province
the PRC

WEBSITE ADDRESS

http://www.jlchanglong.com

FINANCIAL HIGHLIGHTS AND CALENDAR

FINANCIAL HIGHLIGHTS

	2007 RMB'000	2006 RMB'000
Revenue		
Turnover	**97,284**	69,522
Profitability		
Operating profit	**19,536**	5,331
Profit attributable to equity holders	**12,378**	3,037
Net Worth		
Shareholders' fund	**218,879**	206,280
Per share		
Basic earnings per share	**RMB0.0221**	RMB0.0054
Net assets per share	**RMB0.391**	RMB0.368

FINANCIAL CALENDAR

Results for the year	Announcement on 28 March 2008
Annual report	Dispatched to shareholders in late March 2008
Annual general meeting	26 June 2008

As the Chairman and on behalf of the Board of Directors (the "Board"), I am pleased to report the activities of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

During the year under review, the Group has spent significant efforts in further promoting its core products namely Compound Huonaoshu capsule (复方活腦舒膠囊) and Hai Kun Shen Xi capsule (海昆腎喜膠囊). As a result, the total turnover of the Group for the year ended 31 December 2007 was RMB97,284,000, representing a significant increase of 40% as compared with RMB69,522,000 for the previous year. Net profit attributable to shareholders was approximately RMB12,378,000 that represented a significant increase by 4 times from RMB3.0 million last year. For the year ended 31 December 2007, basic earning per share increased to RMB2.2 cents from RMB0.54 cents last year.

The remarkable result in 2007 was the outcome of the continued effort of all level of the management in previous year. In fact, the board has already expressed its optimistic view in 2007's profitability in the 2006's annual report. As such, the board would like to share with the shareholders that the Company has the following competitive advantages, which will lay a strong foundation for the Company to have a blooming growth in the coming years.

Firstly, the board has great confident on the Company's new medicine of Xue Mai Qing Tablet (血脈清片). The Board believes that this medicine has the potential to be as successful as Hai Kun Shen Xi capsule. The revenue generated from Hai Kun Shen Xi capsule was increased from RMB18.7 million in 2006 to RMB34.2 million in 2007.

Secondly, during the year under review, the Group is in the progress of the constructing a "modernized warehouse" in an industrial land. This modernized warehouse shows that the Group has undergone the process of modernization and technological improvement.

Thirdly, the Group has completed the technological upgrading process in all workshops. This upgrade, in fact, is a transformation into the computerized production system. As a result of this computerization of the production process, the products' quality and the production's time management has significantly improved.

Fourthly, the Group has established an agricultural base in the forest of Jinchun. Certain types of raw material such as the wild panax ginseng were supplied by the base. This supply will help to lower the Group's cost of production as well as to ensure a constant supply of raw material.

Last but not the least, the Group has approved the recruitment of the temporary or short term sale persons to assist the regional sale persons to expand their sales network, especially during the period of medicine conference. During the year under review, the Group has engaged more than 2000 headcounts for these temporary or short term sale persons.

Looking forward, with the launch of new medicines of Xue Mai Qing Tablet in 2008, the Board believes the Group is capable of sustaining both the turnover and net profit attributable to shareholders in the coming future. Besides, the establishment of the "modernized warehouse", the computerized production system, the agricultural base for constant supply of raw material, all reflect that the Board has a well-organized long term planning for the Group for expansion.

On behalf of the board of Directors, I would like to express my heartfelt thanks to all levels of the staff and the Management for their efforts and contributions in 2007 and my deep gratitude to our clients, business partners and shareholders for their utmost support.

By order of the Board
Zhang Hong
Chairman

Jilin Province, the PRC
28 March 2008

BUSINESS REVIEW

For the year ended 31 December 2007, the Group's turnover increased by 40% from RMB69.52 million to RMB97.28 million while that of profit attributable to shareholders increased by 4 times from RMB3.0 million to RMB12.4 million. For the year ended 31 December 2007, basic earning per share increased to RMB2.2 cents from RMB0.54 cents last year.

For the year ended 31 December 2007, the manufacturing and selling of Compound Huonaoshu capsule and Hai Kun Shen Xi capsule continued to be the Group's core revenue generators. The revenue of the Compound Huonaoshu capsule reached approximately RMB38.2 million, which represented approximately 39.3% of the total turnover. In addition, the new medicine of Hai Kun Shen Xi capsule has been penetrated into the market and has recorded a total revenue of approximately RMB34.2 million for the year ended 31 December 2007. The sales of Xueshuan Xinmaining capsule(血栓心脈寧) has reached RMB4.7million for the year ended 31 December 2007, which represented the third top best seller of the Group in the year 2007. 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), Chang Long Li of Tou Bao Pi An (長龍利(頭孢匹胺)) and Chang Long Hai of tou Bao Pi An (長龍海(頭孢匹胺)) also contributed more than one million of sales in 2007. This was further elaborated under the Section "Financial Review".

OPERATION REVIEW

Good Manufacturing Practice (GMP)

During the year ended 31 December 2007, the Company has been successful in renewal of one 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 23 August 2012
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 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, which had generated huge profit to the company and finally led to the listing of the company in Hong Kong. In the year of 2003, our R&D department completed the development of Hai Kun Shen Xi capsule, which now became our second top revenue generator and its revenue reached approximately RMB34.2 millions for the year ended 31 December 2007. This year, a new medicine named as Xue Mai Qing Tablet has been launched into the market. The revenue of Xue Mai Qing Tablet was only RMB504,000 during the year 2007. However, 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 generators.

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 2007, 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

During the year 2007, the Board has reviewed all production facilities and has redesigned the assembly lines and reallocated the plant and machinery so as to improve the effectiveness and efficiency of the production lines. In addition, the Group has made the following important process improvements on the production facilities which will lay a strong foundation for the Group to expand in the coming future.

Firstly, the Group has established an agricultural base in the forest area of Jinchun during the year under review. The base is intended to cultivate wild panax ginseng so as to ensure constant supply of ginseng for the Company. Currently, the base has been developing to cultivate different type of agricultural products and our R& D department will extract the useful ingredient from those agricultural products to carry out the experimental process. Apart from wild panax ginseng, certain type of raw material can also be cultivated in this agricultural base.

Secondly, the Group has completed the technological upgrading of all workshops. All assembly lines in the workshop has upgraded into a fully automatically production system. In addition, the Group has completed the final tuning of the "Xue Mai Qing "workshop and "Chinese medicine extracts" workshop during the year of 2007. These two workshops are expected to be ready to handle mass production if required in the near future.

Thirdly, the Group is in the progress of the constructing of a "modernized warehouse" in an industrial land. This modernized warehouse shows that the Group has undergone the process of modernization and technological improvement.

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group's recorded a revenue amounted to approximately RMB97.3 million (2006: RMB69.5 million), a growth of approximately 40% as compared to the previous year. The audited profit attributable to shareholders was approximately RMB12.4 million represents an increase of 308% as compared to RMB3 million of last year. The basic earnings per share was RMB2.21 cents (2006: RMB0.54 cents) an increase of 1.67 cents over the last year.

During the year ended 31 December 2007, the Group reported a turnover of approximately RMB97.3 million, representing an increase of approximately RMB27.8 million or 40% as compared with the same period last year. The significantly increase in turnover mostly due to the increase in the revenue of our two core revenue generators, namely Compound Huonaoshu capsule and Hai Kun Shen Xi capsule. The sales of the Compound Huonaoshu capsule were approximately RMB38.2 million in 2007. This represented a significant increase from approximately RMB22 million in 2006. The new medicine of Hai Kun Shen Xi capsule has been penetrated into the market and has reached RMB34.2 million in 2007. This represented a 83% increment from approximately RMB18.7 million in 2006. The sales for Xueshuan Xinmaining capsule amounted to approximately RMB4.7 million for the year ended 31 December 2007 while it had recorded approximately RMB6 million in revenue same period last year.

Other products, such as Hai Li Xin Tou Bao Pi An for injection and Yi Li Xin Tou Bao Pi An for injection, has recorded more than two million sales in 2007. Qianlie Guihuang tablet, Dang Gui Long Hui tablet, Chang Long Li of Tou Bao Pi An and Chang Long Hai of tou Bao Pi An also contributed more than one million sales in 2007.

The Board are satisfied with the financial results in 2007 and the board believed the following reasons that led to the significantly increase of profitability. Firstly, the market has fully recognized the curing effects of our new medicine Hai Kun Shen Xi capsule and the board believed that the revenue generated from Hai Kun Shen Xi capsule is expected to maintain at a level more than RMB30 millions from this year onwards. Secondly, the Group has held a number of seminars and academic conferences in different regions in the PRC. For instance, the Group has participated in the Society of Nephrology Annual Meeting in Zhengzhou Province, and attended the regional academic meeting in Guangzhou and Chongqing. In addition, the Group has participated in the Military Medical Nephrology academic conferences. Participation in academic conferences can not only promoting the corporate image, but the Group can also explore business opportunities and expand business networks. A number of new customers from clinic and hospitals in different regions were originated from these conferences. Thirdly, the Group has approved the recruitment program of the temporary or short term sale persons to assist the regional sale persons to expand their sales network, especially during the period of medicine conference. During the year under review, the Group has engaged more than 2000 headcounts for these temporary or short term sale persons. Fourthly, the composition of the Board has a significant change during the year 2007. Despite the formality of the appointment of new directors has been completed in February 2008, the total number of six newly appointed directors has already been devoted into their duties in early 2007. Numbers of sales contracts were concluded under the supervision of those newly appointed directors.

The gross profit margin for the year ended 31 December 2007 was approximately 75%, representing a 8% increase as compared to that of 67% for the year ended 31 December 2006. The gross profit margin has increased 8% mainly due to an increase in the sale of high profit margin products namely Compound Huonaoshu capsule and Hai Kun Shen Xi capsule. In fact, this increase in sale volume will directly led to the increase in gross profit margin due to the effect of mass production.

Other income is similar to the previous year. For the year ended 31 December 2007, the Group recorded other income at approximately RMB2.26 millions as compared to RMB1.68 million for the year ended 31 December 2006.

Selling and distribution expenses increase to approximately RMB38.4 million for the year ended 31 December 2007 from approximately RMB28.2 million last year. The selling expense as a percentage of turnover was 40% in 2007. This represented a 1% decrease from 41% when compared to the same period last year. The increase in selling and distribution expenses by approximately RMB10.2 million was mainly due to the increase of staff remuneration as a result of the recruitment of temporary and short term sales persons. The Board believes that the selling expense of 40% over the turnover was acceptable for a pharmaceutical manufacturing company.

General and administrative expenses increased during the year ended 31 December 2007 to approximately RMB17 million from approximately RMB14 million last year. The increase mainly due to the increase of approximately RMB443,000 in amortization expenses and the provisions of approximately RMB4 million made for long outstanding trade and other receivables and obsolete inventories.(2006: net provision of approximately RMB542,000) for the year ended 31 December 2007.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this year. As at 31 December 2007, the Group had cash and bank balances amounted to RMB42.5million (2006: RMB26.2 million) and long-term borrowings of RMB6.5 million (2006: RMB: Nil). These borrowings were interest bearing at commercial rates and unsecured. As at 31 December 2007, the Group had total assets of RMB268,632,000 (2006: RMB248,929,000) which were financed by current liabilities of RMB41,382,000 (2006: 42,649,000), long term borrowings of RMB6,524,000 (2006: Nil), deferred tax liabilities of RMB1,847,000 (2006: Nil) and shareholders' equity of RMB218,879,000 (2006: RMB206,280,000)

GEARING RATIO

As at 31 December 2007, the Group had a net cash and cash equivalents of approximately RMB42,542,000. As at 31 December 2007, the ratio of the total liabilities to the total assets of the Group was approximately 18.5% (2006: approximately 17.1%) which is calculated by dividing the Group's total liabilities of approximately RMB49,753,000 (2006: RMB42,649,000) by the Group's total equity and liabilities of approximately RMB268,632,000 (2006: RMB248,929,000). The Group's gearing ratio, which was derived from the total borrowings to total assets was approximately 2.6% (2006: zero)

EMPLOYEES

The Group has a total of 442 employees, representing an increase of 36 headcount from the previous year. The new recruits were mostly sale-persons. For the year ended 31 December 2007, the total remuneration to employees, including director's emoluments amounted to approximately RMB22.3 million (2006: approximately RMB6.4 million).

Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Zhang Hong, aged 52, 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 18 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 43, 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 16 years of experiences in the business of pharmaceutics. He joined the predecessor of the Company in August 1990.

Mr. Liang Fu Xiang, aged 60, is the district manager of the Company since December 2001. He is responsible for Sales and Marketing strategy in Western region of PRC. He has contributed significantly in the setting up and development of the Company's sales network, especially in Western region of PRC. He is also the legal representative of Jilin Province Huinan Changlong Pharmacy Trading Company Limited, a wholly owed subsidiary of the Company, since 2002. Before joining the Company in 2001, he worked in the government body of PRC for more than 20 years as the Chief Officer of the Navy of the People's Liberation Army, the Section Chief and Vice Minister of the Publicity Department and Organization Department of the Municipal Committee in Meihekou City, Jilin Province, the Section Chief of the Organization Department of Municipal Committee in Tonghua City, Jilin Province, a Standing Committee Member and the Section Chief of the Organization Department in Huinan County, Jilin Province, the Standing Deputy Chief Executive and a Standing Committee Member of the People's Government in Huinan County, Jilin Province, a Standing Committee Member, Deputy Secretary and Consultant in Huinan County, Jilin Province.

Mr. Tian Xin Guo, aged 50, is the district manager of the Company since October 2001. He is responsible for Sales and Marketing strategy in Northern region of PRC. He has contributed significantly in the setting up and development of the Company's sales network, especially in Northern region of PRC. Before joining the Company in 2001, he worked as the Secretary of the Ministry of Public Transportation and the Economics and Trading Committee in the CPC Huinan County, the Chief of the Transportation Management Office in Huinan County and the Secretary of the Party Branch, the Deputy Director of the Transportation Bureau in Huinan County, the Director of the State-owned Assets Management Bureau and the Director of the Planning Bureau in Huinan County.

Mr. Chen Qi Ming, aged 50, is the district manager and in charge of the product development activities, since April, 2002. He is responsible for negotiation and cooperation with other reputable research and development companies to develop new potential pharmaceutical products. His duties include concluding the technology transfer contracts with other research and development companies, and apply the production approval from the State Drugs Administration of the People's Republic of China, as well as the application of new medicine certificates. Before joining the Company, Mr. Chen worked in the Economics Committee, the Heavy Industry Bureau, the Agriculture Bureau and the Technology Bureau in Huinan County.

Mr. 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.

Zhao Bao Gang, aged 40, 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

Shen Yu Xiang, aged 57, 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.

Mr. Xue Chang Qing, aged 45, is a Certified Public Accountant in PRC. He is also a Certified Internal Auditor, a Registered Tax Agent and a Certified Public Valuer awarded by the China Institute of Internal Auditors, Ministry of Personnel & the State Administration of Taxation, and Ministry of Finance respectively.

Mr. Xue Chang Qing has over 20 years of experience in the audit and accounting services. Furthermore, he has been actively participating in the assets valuation and taxation consultancy services in PRC. He is currently the supervisor in charge of the Valuation department of the Jilin Jindan Certified Public Accountants Co., Ltd. (吉林金石會計師事務有限公司) in PRC. Before that, he worked for Changchun Institute of Applied Chemistry under the Chinese Academy of Sciences and has assumed the posts of Assistant Accountant, Accountant, Senior Internal Auditor, Vice President of Finance Department from May 1988 to Jan 2006. In 2004, he has been awarded as an Advanced Individual in Supervision and Audit by the Chinese Academy of Sciences.

Mr. Yan Li Jin, aged 52, is the Principal of the Huinan County No.1 High School. He has more than 25 years experience in the administration and management of educational affair. He can contribute to the Company by enhancing the research and development and financial management.

SUPERVISORS

Zhang Jing Zhou, aged 58, 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 13 years since March 1995.

Mr. Wu Wei Men, aged 36, has been the financial management consultant of the Company since 2005. He is responsible for cost accounting and credit control, as well as the preparation of Group's cashflow forecast. In April 2007, he has been awarded "Best Employee's Performance Award".

Li Bao Hai, aged 50, 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

Yang Xiu uan, aged 48, 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 45, 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.

Au Ya Qin, aged 58, 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 39, is the head of quality control department of the Company. He graduated from Yan Bian Medical School. He has joined the Company in January 2001.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2007.

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 2007, 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 2007 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 75.

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

	2007	2006
	RMB'000	RMB'000
Turnover	**97,284**	69,522
Profit before tax	**19,429**	5,008
Taxation	**(7,051)**	(1,971)
Net profit from ordinary activities attributable to equity holders	**12,378**	3,037

Assets and liabilities

	2007	2006
	RMB'000	RMB'000
Total assets	**268,632**	248,929
Total liabilities	**(49,753)**	(42,649)
Net assets	**218,879**	206,280

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 2007. As at 31 December 2007, 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.

BORROWINGS

Particulars of borrowings of the Company are set out in note 27 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 29 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 30 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the reserves of the Group available for cash distribution or distribution in specie was amounted to approximately RMB86,580,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group sold less than 30% of its goods to its five largest customers (2006: less than 30%) and sales to the largest customer included therein amounted to 6%.

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

None of the directors of the Company or any shareholders who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and five largest suppliers noted above.

FOREIGN EXCHANGE RISK

For the years ended 31 December 2007 and 2006, 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 2007 are set out in note 31 to the financial statement.

CONTINGENT LIABILITIES

As at 31 December 2007 and 31 December 2006, the Group had no material contingent liabilities.

DIRECTORS AND SUPERVISORS

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

Executive directors

Mr. Zhang Hong *(Chairman)*
Mr. Zhang Xiao Guang
Mr. Liang Fu Xiang (appointed on 28 February 2008)
Mr. Tian Xin Guo (appointed on 28 February 2008)
Mr. Chen Qi Ming (appointed on 28 February 2008)
Mr. Wu Guo Wen (appointed on 28 February 2008)
Mr. Zhao Bao Gang
Ms. Li Yu Xian (resigned on 28 February 2008)
Mr. Qiao Hong Kuan (resigned on 5 June 2007)
Ms Cui Shu Mei (resigned on 28 February 2008)
Mr. Zhang Yuan Qiu (resigned on 5 June 2007)

Independent non-executive directors

Mr. Shen Yu Xiang
Mr. Xue Chang Qing (appointed on 28 February 2008)
Mr. Yan Li Jin (appointed on 28 February 2008)
Mr. Nan Zheng (resigned on 28 February 2008)

Supervisors

Mr. Zhang Jing Zhou
Mr. Li Bao Hai
Mr. Wu Wei Men (appointed on 9 August 2007)
Mr. Jia Zhi (resigned on 9 August 2007)

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 2007, 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	Percentage of total registered Share Capital
Zhang Hong	Personal	Beneficial owner	101,937,000	26.28	18.19
Zhang Xiao Guang	Personal	Beneficial owner	42,315,000	10.91	7.55
Wu Guo Wen	Personal	Beneficial owner	900,000	0.232	0.161
Chen Qi Ming	Personal	Beneficial owner	300,000	0.077	0.054

Save as disclosed above, as at 31 December 2007, 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 2007, 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 2007, 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 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 Audit 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 Audit Committee. The Company required additional time than expected to identify suitable candidates as new INED and Audit Committee's member. At 28 February 2008, Mr. Xue Chang Qing and Mr. Yan Li Jin have been appointed as INEDs and members of Audit Committee, and Mr. Nan Zheng has resigned as an INED and ceased to be a member of Audit Committee of the Company. During the period from 18 April, 2006 to 28 February 2008, the Company had only two INEDs and Audit Committee members and thus was 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 Audit Committee. Also, the Company had 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 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 2007.

AUDITOR

On 9 October 2007, Horwath Hong Kong CPA Limited changed its name to Shu Lun Pan Horwath Hong Kong CPA Limited. The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited who retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to re-appoint the retiring auditor, Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 23 to 29 of the annual report.

By order of the Board

Zhang Hong
Chairman

Jilin Province, the PRC
28 March 2008

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 2007 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 2007.

BOARD OF DIRECTORS AND BOARD MEETING

The Directors of the Company during the year and up to the date of this report were:

Executive Directors
Mr. Zhang Hong *(Chairman)*
Mr. Zhang Xiao Guang
Mr. Liang Fu Xiang (appointed on 28 February 2008)
Mr. Tian Xin Guo (appointed on 28 February 2008)
Mr. Chen Qi Ming (appointed on 28 February 2008)
Mr. Wu Guo Wen (appointed on 28 February 2008)
Mr. Zhao Bao Gang
Ms. Li Yu Xian (resigned on 28 February 2008)
Mr. Qiao Hong Kuan (resigned on 5 June 2007)
Ms Cui Shu Mei (resigned on 28 February 2008)
Mr. Zhang Yuan Qiu (resigned on 5 June 2007)

Independent Non-Executive Directors
Mr. Shen Yu Xiang
Mr. Xue Chang Qing (appointed on 28 February 2008)
Mr. Yan Li Jin (appointed on 28 February 2008)
Mr. Nan Zheng (resigned on 28 February 2008)

On 5 June 2007, Mr. Qiao Hong Kuan and Mr Zhang Yuan Qiu resigned as the Executive Director of the Company.

On 28 February 2008, (i) Mr. Liang Fu Xiang, Mr. Tian Xin Guo, Mr. Chen Qi Ming and Mr. Wu Guo Wen was appointed as Executive Directors of the Company; (ii) Mr. Xue Chang Qing and Mr. Yan Li Jin was appointed as Independent Non-Executive Directors ("INEDs") of the Company; (iii) Ms. Li Yu Xian and Ms Cui Shu Mei resigned as Executive Directors of the Company; and (iv) Mr. Nan Zheng resigned as an INED of the Company.

As at the date of this report, the Board comprised ten Directors, seven of whom are Executive Directors, three of whom are INEDs of the Company. Details of backgrounds and qualifications of each Director are set out on the section headed "Directors, Senior Management and Staff" of this annual report.

The Board 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. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The INEDs serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group through their contributions in board meeting.

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.

The Board considers that each INED of the Company is independent in character and judgement. The Company has received from each INED a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's business development, operation and financial performance. Board papers are circulated not less than 7 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the board meetings. Minutes of board meetings are kept be the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board.

Board meetings

During the year, four regular board meetings were held. Details of the attendance of the Directors are as follows:-

Directors	**Meetings attended/Held**
Executive Directors	
Mr. Zhang Hong *(Chairman)*	4/4
Mr. Zhang Xiao Guang	4/4
Ms. Li Yu Xian (resigned on 28 February 2008)	4/4
Mr. Qiao Hong Kuan (resigned on 5 June 2007)	2/2
Ms. Cui Shu Mei (resigned on 28 February 2008)	4/4
Mr. Zhang Yuan Qiu (resigned on 5 June 2007)	1/2
Mr. Zhao Bao Gang	4/4
Mr. Liang Fu Xiang (appointed on 28 February 2008)	0/0
Mr. Tian Xin Guo (appointed on 28 February 2008)	0/0
Mr. Chen Qi Ming (appointed on 28 February 2008)	0/0
Mr. Wu Guo Wen (appointed on 28 February 2008)	0/0
Independent Non-Executive Directors	
Mr. Nan Zheng (resigned on 28 February 2008)	3/4
Mr. Shen Yu Xiang	4/4
Mr. Xue Chang Qing (appointed on 28 February 2008)	0/0
Mr. Yan Li Jin (appointed on 28 February 2008)	0/0

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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company appointed INEDs who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Shen Yu Xiang, Mr. Xue Chang Qing and Mr. Yan Li Jin are the INEDs.

All INEDs are subject to retirement by rotation in accordance with the articles of association of the Company. All the existing INEDs are appointed for an initial term of three years and the term of office shall continue after the expiration of the initial term until at least 1 month's prior written notice is given by either party or the Company to terminate the same.

REMUNERATION COMMITTEE

According to the Code, the Company has set up a Remuneration Committee on 29 September 2005. As at the date of this report, the chairman of the committee is Mr. Shen Yu Xiang, an INED, and other members include Mr. Xue Chang Qing, and Mr. Zhang Hong, the majority being INEDs. 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 2007, the Remuneration Committee held two meeting. The individual attendance records of each member are as follows:

Members	**Meetings attended/Held**
Mr. Shen Yu Xiang *(Chairman)*	2/2
Mr. Zhang Hong	2/2
Mr. Nan Zheng (resigned on 28 February 2008)	2/2
Mr. Xue Chang Qing (appointed on 28 February 2008)	0/0

For the year ended 31 December 2007, 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 INEDs. The Remuneration Committee of the Company considers that the existing terms of employment contracts of the Executive Directors and appointment letters of the INEDs 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.

As at the date of this report, the Nomination Committee comprises of one Executive Director, Mr. Zhang Xiao Guang and two INEDs, Mr. Xue Chang Qing and Mr. Shen Yu Xiang, which is in compliance with the requirement of the GEM Listing Rules that INEDs should form the majority of the Nomination Committee. Mr. Shen Yu Xiang is the chairman of the Nomination 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 2007, the Nomination Committee held three meetings. During the meeting, 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 Executive Directors and INEDs. The individual attendance records of each member are as follows:

Members	**Meetings attended/Held**
Mr. Shen Yu Xiang *(Chairman)*	3/3
Mr. Zhang Xiao Guang	3/3
Mr. Nan Zheng (resigned on 28 February 2008)	3/3
Mr. Xue Chang Qing (appointed on 28 February 2008)	0/0

AUDITOR'S REMUNERATION

Shu Lun Pan Horwath Hong Kong CPA Limited was the auditor of the Company for the year ended 31 December 2007. 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 2007 is set out in note 7 to the financial statements.

AUDIT COMMITTEE

The Audit Committee was established in 2001 and currently comprises three members, Mr. Shen Yu Xiang, Mr. Xue Chang Qing and Mr. Yan Li Jin. All of them are INEDs. The chairman of the Audit Committee is Mr. Shen Yu Xiang. The Board considers that each Audit Committee has broad commercial experience and there is a suitable mix of expertise in business, legal, accounting and financial management in the Audit Committee.

None of the members of the Audit 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 Audit 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 Audit 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.

At 18 April, 2006, Mr. Wong Kin Fai, Kenny has resigned as an INED of the Company and ceased to be a member of Audit Committee. The Company required additional time than expected to identify suitable candidates as new INED and Audit Committee's member. At 28 February 2008, Mr. Xue Chang Qing and Mr. Yan Li Jin have been appointed as INEDs and members of Audit Committee, and Mr. Nan Zheng has resigned as an INED and ceased to be a member of Audit Committee of the Company. During the period from 18 April, 2006 to 28 February 2008, the Company had only two INEDs and Audit Committee members and thus was 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 Audit Committee. Also, the Company had 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 Audit Committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Meetings Attend/Held**
Mr. Shen Yu Xiang	4/4
Mr. Nan Zheng (resigned on 28 February 2008)	4/4
Mr. Xue Chang Qing (appointed on 28 February 2008)	0/0
Mr. Yan Li Jin (appointed on 28 February 2008)	0/0

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December2007 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The statements of the external auditors of the Company, Shu Lun Pan 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 pages 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 2007 followed the principle of honesty and trustworthiness and worked cautiously and diligently.

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

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

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

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

Jilin Province, the PRC

28 March 2008

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
香港立信浩華會計師事務所有限公司
2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
horwath@horwath.com.hk
www.horwath.com.hk

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

We have audited the consolidated financial statements of Jilin Province Huinan Changlong Bio-pharmacy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 75, which comprise the consolidated and Company balance sheets as at 31 December 2007, the consolidated income statement, 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 2007 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.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Choi Man On
Practising Certificate number P02410

Hong Kong, 28 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	5	**97,284**	69,522
Cost of sales		**(24,379)**	(22,985)
Gross profit		**72,905**	46,537
Other revenue and gains	5	**2,258**	1,676
Distribution and selling costs		**(38,426)**	(28,238)
Administrative expenses		**(17,012)**	(14,033)
Other operating expenses		**(189)**	(611)
Profit from operations	7	**19,536**	5,331
Finance costs	8	**(107)**	(323)
Profit before taxation		**19,429**	5,008
Taxation	9(a)	**(7,051)**	(1,971)
Profit attributable to equity holders of the Company	12	**12,378**	3,037
Earnings per share – Basic (RMB) cents	10	**2.21**	0.54
Special dividend	11	**–**	7,003

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets	15	**1,175**	656
Property, plant and equipment	16	**46,777**	49,657
Prepaid lease payments	17	**4,285**	4,295
Construction in progress	18	**7,880**	5,124
Purchased know-how and prescription	20	**27,128**	32,650
		87,245	92,382
Current assets			
Inventories	21	**20,692**	18,980
Trade receivables	22	**48,150**	47,216
Other receivables, deposits and prepayments	23	**47,599**	43,197
Loans	24	**3,000**	–
Prepaid lease payments	17	**135**	130
Income tax recoverable		**19,269**	20,773
Cash and cash equivalents	25	**42,542**	26,251
		181,387	156,547
Current liabilities			
Trade payables	26	**11,352**	9,289
Other payables, deposits received and accruals		**17,273**	18,308
Other tax payables		**11,895**	11,994
Borrowings	27	**466**	–
Dividend payable		**396**	3,058
		41,382	42,649
Net current assets		**140,005**	113,898
Total assets less current liabilities		**227,250**	206,280
Non-current liabilities			
Borrowings	27	**6,524**	–
Deferred tax liabilities	28	**1,847**	–
		(8,371)	–
Net assets		**218,879**	206,280
Equity			
Share capital	29	**56,025**	56,025
Reserves		**162,854**	150,255
Total equity		**218,879**	206,280

ZHANG HONG
Director

ZHANG XIAO GUANG
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

At 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Assets and liabilities			
Non-current assets			
Bearer biological assets	15	**1,175**	656
Property, plant and equipment	16	**46,770**	49,648
Prepaid lease payments	17	**4,285**	4,295
Construction in progress	18	**7,880**	5,124
Interests in subsidiaries	19	**3,366**	3,859
Purchased know-how and prescription	20	**27,128**	32,650
		90,604	96,232
Current assets			
Inventories	21	**20,692**	18,980
Trade receivables	22	**64,237**	58,464
Other receivables, deposits and prepayments	23	**47,532**	43,185
Loans	24	**3,000**	-
Prepaid lease payments	17	**135**	130
Income tax recoverable		**19,269**	20,773
Cash and cash equivalents	25	**35,994**	23,901
		190,859	165,433
Current liabilities			
Trade payables	26	**11,352**	9,289
Other payables, deposits received and accruals		**17,264**	18,278
Other tax payables		**11,459**	11,538
Borrowings	27	**466**	–
Dividend payable		**396**	3,058
		40,937	42,163
Net current assets		**149,922**	123,270
Total assets less current liabilities		**240,526**	219,502
Non-current liabilities			
Borrowings	27	**6,524**	–
Deferred tax liabilities	28	**1,847**	–
		(8,371)	–
Net assets		**232,155**	219,502
Equity			
Share capital	29	**56,025**	56,025
Reserves	30	**176,130**	163,477
Total equity		**232,155**	219,502

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 2007
(Expressed in Renminbi)

	Share capital RMB'000 (Note 29)	Share premium RMB'000	Exchange reserve RMB'000	PRC statutory funds: Statutory surplus reserve RMB'000 (Note 30(a))	PRC statutory funds: Staff public welfare fund RMB'000 (Note 30(b))	Retained profits RMB'000	Total RMB'000
At 1 January 2006	**56,025**	**51,098**	**-**	**15,256**	**7,627**	**80,240**	**210,246**
Profit for the year	–	–	–	–	–	3,037	3,037
Special dividend declared	–	–	–	–	–	(7,003)	(7,003)
Transfer to statutory reserve	–	–	–	7,627	(7,627)	–	–
Appropriation to statutory reserve	–	–	–	402	–	(402)	–
At 31 December 2006	**56,025**	**51,098**	**-**	**23,285**	**-**	**75,872**	**206,280**
Exchange differences arising on translation or overseas operations recognised directly in equity	–	–	221	–	–	–	221
Profit for the year	–	–	–	–	–	12,378	12,378
Total recognised income and expense for the year	–	–	221	–	–	12,378	12,599
Appropriation to statutory reserve	–	–	–	1,670	–	(1,670)	–
At 31 December 2007	**56,025**	**51,098**	**221**	**24,955**	**-**	**86,580**	**218,879**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

(Expressed in Renminbi)

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before taxation	**19,429**	5,008
Adjustment for:		
Interest income	**(506)**	(262)
Interest expense	**97**	293
Provision for obsolete inventories	**1,743**	684
Impairment loss on trade and other receivables recognised/(reversed)	**2,263**	(142)
Amortisation of purchased know-how and prescription	**5,279**	4,836
Impairment loss on purchased know-how and prescription	**266**	–
Amortisation of prepaid lease payments	**135**	131
Depreciation of property, plant and equipment	**5,380**	5,246
Net realised and unrealised gain on biological assets	**(291)**	(192)
Operating cash flows before working capital changes	**33,795**	15,602
(Increase)/decrease in inventories	**(3,455)**	2,376
(Increase)/decrease in trade receivables	**(2,443)**	18,878
(Increase)/decrease in other receivables, deposits and prepayments	**(5,156)**	4,045
Increase in loans	**(3,000)**	–
Increase/(decrease) in trade payables	**2,063**	(2,701)
Decrease in other payables, deposits received and accruals	**(1,035)**	(2,622)
Decrease in other tax payables	**(99)**	(1,037)
Effect of foreign exchange rate changes	**223**	–
Cash generated from operations	**20,893**	34,541
Interest paid	**(97)**	(293)
PRC income tax paid	**(3,700)**	(4,891)
Net cash generated from operating activities	**17,096**	29,357

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

(Expressed in Renminbi)

	2007 **RMB'000**	2006 RMB'000
Investing activities		
Payments to acquire biological assets	**(595)**	–
Proceeds from disposal of biological assets	**367**	–
Payments to acquire prepaid lease payments	**(130)**	(830)
Payments to acquire purchased know-how and prescription	**(23)**	(6,470)
Payments to acquire property, plant and equipment	**(2,502)**	(1,775)
Payments for construction in progress	**(8,156)**	(3,153)
Government subsidy received	**5,400**	–
Interest received	**506**	262
Net cash used in investing activities	**(5,133)**	(11,966)
Financing activities		
New loans raised	**6,990**	–
Repayment of bank loans	**–**	(8,900)
Dividend paid	**(2,662)**	(3,945)
Net cash generated from/(used in) financing activities	**4,328**	(12,845)
Net increase in cash and cash equivalents	**16,291**	4,546
Cash and cash equivalents at beginning of year	**26,251**	21,705
Cash and cash equivalents at end of year	**42,542**	26,251
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	**42,542**	26,251

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 in 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")

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment: Capital Disclosures has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) – Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

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

The directors of the Company anticipate that the application of the above standards or interpretations will have no material impact on the financial statements of the Group in the period of their initial application.

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 biological assets which are measured at fair value.

(c) Basis of consolidation

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

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.

3. Principal accounting policies (continued)

(c) Basis of consolidation (continued)

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 charged so as to write off the cost over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates 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. Costs 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 assets

(i) Loans and other receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3. Principal accounting policies (continued)

(m) Financial assets (continued)

(ii) Impairment (continued)

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

3. Principal accounting policies (continued)

(m) Financial assets (continued)

(iv) Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows form the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(n) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3. Principal accounting policies (continued)

(n) Financial liabilities and equity instrument issued by the Group (continued)

(iii) Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(iv) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(p) Taxation

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

(i) Current 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.

3. Principal accounting policies (continued)

(p) Taxation (continued)

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. 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) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is on 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 assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

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.

3. Principal accounting policies (continued)

(q) 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.

(r) 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.

3. Principal accounting policies (continued)

(s) 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.

(t) Employees' benefits

(i) Short term benefits

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) Pension obligations

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 profit or loss in the year in which they fall due.

(u) Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

3. Principal accounting policies (continued)

(v) Research expenditure

Research expenditure is written off to profit or loss when incurred.

(w) 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.

(x) 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 and corporate and financing expenses.

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.

(b) Useful lives of property, plant and equipment and purchased know-how and prescription

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and purchased know-how and prescription. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and purchased know-how and prescription 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, other revenue and gains

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

	2007	2006
	RMB'000	RMB'000
Turnover		
Sales of medicine	**97,284**	69,522
Other revenue and gains		
Regional development subsidy received	**1,350**	320
Bank interest income	**506**	262
Net realised and unrealised gain on biological assets	**291**	192
Others	**111**	902
	2,258	1,676

6. Segment information

The Group has only one business segment which is in the manufacture and distribution of biochemical medicines in the PRC. In 2007, 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

	2007 RMB'000	2006 RMB'000
Profit from operations is arrived at after charging/(crediting):-		
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	**23,426**	21,496
Provision for obsolete and slow-moving inventories	**1,743**	684
Impairment loss on trade and other receivables recognised/(reversed)	**2,263**	(142)
Auditor's remuneration:-		
Current year provision	**450**	500
Over-provision in previous year	**–**	(51)
Amortisation of purchased know-how and prescription (included in administrative expenses)	**5,279**	4,836
Impairment loss on purchased know-how and prescription	**266**	–
Amortisation of prepaid lease payments	**135**	131
Exchange losses/(gains), net	**219**	(17)
Depreciation of property, plant and equipment	**5,380**	5,246
Staff costs (excluding directors' and supervisors' emoluments):-		
Salaries, bonus and allowances	**21,525**	5,017
Retirement benefit scheme contributions	**507**	436

8. Finance costs

	2007 RMB'000	2006 RMB'000
Interest expenses on bank borrowings wholly repayable within five years	**–**	293
Interest expenses on borrowings not wholly repayable within five years	**97**	–
Bank charges	**10**	30
	107	323

9. Taxation

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

	2007 RMB'000	2006 RMB'000
PRC income tax	**5,204**	1,971
Deferred taxation (note 28)	**1,847**	–
	7,051	1,971

9. Taxation (continued)

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

On 16 March 2007, the National People's Congress approved the PRC Enterprise Income Tax Law, which became effective from 1 January 2008. In accordance with the new law, a unified enterprise incomes tax rate of 25% will be applied to both domestic-invested enterprises and foreign-invested enterprises.

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 has no assessable profits for the year.

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

	2007 **RMB'000**	2006 RMB'000
Profit before taxation	**19,429**	5,008
Taxation calculated at PRC statutory income tax of 33%	**6,412**	1,653
Tax effect of non-taxable items	**(446)**	(6)
Tax effect of expenses not deductible for taxation purposes	**1,856**	311
Under-provision in prior year	**1,858**	–
Tax relief	**(2,567)**	–
Others	**(62)**	13
Taxation charge for the year	**7,051**	1,971

10. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2007 is based on the consolidated profit attributable to equity holders of the Company of approximately RMB12,378,000 (2006: RMB3,037,000) and the weighted average of 560,250,000 shares (2006: 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 2007 and 2006.

11. Special dividend

	2007 **RMB'000**	2006 RMB'000
Special dividend declared on 29 September 2006: RMB Nil (2006: RMB0.0125 per share)	**–**	7,003

12. Profit attributable to equity holders of the Company

During the year ended 31 December 2007, the Group's profit attributable to equity holders of the Company included a profit of RMB12,378,000 (2006: profit of RMB3,037,000) 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 which were all below HK$1,000,000 (equivalent to RMB936,000 for 2007 and RMB1,003,000 for 2006) are as follows:-

	Directors' fees RMB'000	**Salaries, allowances and other benefits RMB'000**	**Pension fund contributions RMB'000**	**2007 Total RMB'000**
Executive directors:				
Zhang Hong	–	20	3	23
Zhang Xiao Guang	–	16	2	18
Li Yu Xian	–	14	1	15
Qiao Hong Kuan	–	3	1	4
Cui Shu Mei	–	18	1	19
Zhang Yuan Qiu	–	–	–	–
Zhao Bao Gang	–	13	2	15
Independent non-executive directors:				
Nan Zheng	–	–	–	–
Shen Yu Xiang	18	–	–	18
	18	84	10	112

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

(a) Details of emoluments paid by the Group to the directors of the Company which were all below HK$1,000,000 (equivalent to RMB936,000 for 2007 and RMB1,003,000 for 2006) are 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

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 years.

(b) Details of the emoluments paid by the Group to the supervisors of the Company which were all below HK$1,000,000 (equivalent to RMB936,000 for 2007 and RMB1,003,000 for 2006) are as follows:-

	Salaries, allowances and other benefits RMB'000	**Bonus RMB'000**	**Pension fund contributions RMB'000**	**2007 Total RMB'000**
Supervisors:				
Zhang Jing Zhou	**18**	**–**	**2**	**20**
Li Bao Hai	**12**	**–**	**2**	**14**
Jia Zhi	**7**	**–**	**1**	**8**
	37	**–**	**5**	**42**

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

(b) Details of the emoluments paid by the Group to the supervisors of the Company which were all below HK$1,000,000 (equivalent to RMB936,000 for 2007 and RMB1,003,000 for 2006) are as follows (continued):-

	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

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 years.

(c) Details of the emoluments paid to the five highest paid individuals during the year included three directors (2006: three directors) and one supervisor (2006: one supervisor) whose emoluments are set out above. Details of remuneration of the remaining one (2006: one) highest paid employee of the Company are as follows:-

	2007 RMB'000	2006 RMB'000
Salaries, allowances and other benefits	**560**	393
Retirement benefit scheme contributions	**13**	13
	573	406

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

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 2007, 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 2007 amounted to approximately RMB522,000 (2006:RMB445,000).

15. Bearer biological assets

Bearer biological assets comprise:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Deer – immature	**32**	29
Deer – mature	**548**	432
Ginseng	**595**	–
Antler	**–**	195
Carrying amount at 31 December	**1,175**	656

Reconciliation of carrying amounts of bearer biological assets:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Deer		
Carrying amount at 1 January	**656**	464
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes	**38**	246
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs attributable to price changes	**253**	(54)
Decreases due to sales	**(367)**	–
Carrying amount at 31 December	**580**	656
Ginseng		
Addition during the year and carrying amount at 31 December	**595**	–
	1,175	656

16. Property, plant and equipment

	Buildings	Plant and machinery	Transportation equipment	Furniture, fixtures and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group					
Cost:					
At 1 January 2006	29,186	42,906	3,039	1,389	76,520
Additions	12	1,627	–	136	1,775
Transfer from construction in progress	2,000	–	–	–	2,000
At 31 December 2006	31,198	44,533	3,039	1,525	80,295
Additions	2,240	181	20	61	2,502
Exchange adjustments	–	–	–	(9)	(9)
At 31 December 2007	33,438	44,714	3,059	1,577	82,788
Accumulated depreciation:					
At 1 January 2006	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
Charge for the year	1,017	3,905	333	125	5,380
Exchange adjustments	–	–	–	(7)	(7)
At 31 December 2007	7,425	25,211	2,113	1,262	36,011
Net book value:					
At 31 December 2007	26,013	19,503	946	315	46,777
At 31 December 2006	24,790	23,227	1,259	381	49,657

The Group's buildings are situated on medium team leasehold land in the PRC.

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 2006	29,186	42,906	3,039	1,313	76,444
Additions	12	1,627	–	136	1,775
Transfer from construction in progress	2,000	–	–	–	2,000
At 31 December 2006	31,198	44,533	3,039	1,449	80,219
Additions	2,240	181	20	61	2,502
At 31 December 2007	33,438	44,714	3,059	1,510	82,721
Accumulated depreciation:					
At 1 January 2006	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
Charge for the year	1,017	3,905	333	125	5,380
At 31 December 2007	7,425	25,211	2,113	1,202	35,951
Net book value:					
At 31 December 2007	26,013	19,503	946	308	46,770
At 31 December 2006	24,790	23,227	1,259	372	49,648

The Company's buildings are situated on medium team leasehold land in the PRC.

17. Prepaid lease payments

	The Group and the Company
	RMB'000
Cost:	
At 1 January 2006	4,471
Additions	830
At 31 December 2006	5,301
Additions	130
At 31 December 2007	5,431
Accumulated amortisation:	
At 1 January 2006	745
Charge for the year	131
At 31 December 2006	876
Charge for the year	135
At 31 December 2007	1,011
Net book value:	
At 31 December 2007	4,420
At 31 December 2006	4,425

	2007	2006
	RMB'000	RMB'000
Net book value at 31 December	**4,420**	4,425
Portion classified as current assets	**(135)**	(130)
Non-current assets	**4,285**	4,295

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	
	2007	2006
	RMB'000	RMB'000
At 1 January	**5,124**	3,971
Additions	**8,156**	3,153
Transfer to property, plant and equipment	**–**	(2,000)
Government subsidy received	**(5,400)**	–
At 31 December	**7,880**	5,124

19. Interests in subsidiaries

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**500**	500
Amount due from a subsidiary	**2,866**	3,359
	3,366	3,859

Particulars of the subsidiaries as at 31 December 2007 are as follows:-

Name of companies	Country of incorporation and operation and legal entity status	Percentage of ordinary shares held directly	Principal activity
Changlong Bio-Pharmacy (Hong Kong) Company Limited	Hong Kong, limited liability company	100%	Acting as a sales office
Jilin Province Huinan Changlong Pharmacy Trading Company Limited	PRC, limited liability company	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. The directors consider the carrying amount of this amount approximates its fair value.

20. Purchased know-how and prescription

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Cost:		
At 1 January	**48,882**	42,412
Additions	**23**	6,470
At 31 December	**48,905**	48,882
Accumulated amortisation and impairment loss:		
At 1 January	**16,232**	11,396
Amortisation for the year	**5,279**	4,836
Impairment loss recognised	**266**	–
At 31 December	**21,777**	16,232
Carrying amount:		
At 31 December	**27,128**	32,650

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

During the year, the directors reviewed the carrying value of the purchased know-how and prescription and identified that the future economic benefits generated from certain purchased know-how and prescription to be less than its carrying value. Accordingly, an impairment loss of RMB266,000 (2006: Nil) was recognised for the year ended 31 December 2007.

21. Inventories

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Raw materials	**10,495**	8,195
Work in progress	**2,414**	4,056
Finished goods	**23,456**	20,659
	36,365	32,910
Less: Provision for obsolete and slow-moving inventories	**(15,673)**	(13,930)
	20,692	18,980

22. Trade receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**59,430**	56,987	**73,500**	66,461
Less: Allowance for doubtful debts	**(11,280)**	(9,771)	**(9,263)**	(7,997)
Trade receivables – net	**48,150**	47,216	**64,237**	58,464

(i) The Group's policy is to allow an average credit period of 180 days to its trade customers.

(ii) The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**9,771**	9,065	**7,997**	7,372
Impairment loss recognised	**1,509**	706	**1,266**	625
At end of year	**11,280**	9,771	**9,263**	7,997

The allowance for doubtful debts has been made for the estimated irrecoverable amounts from the sale of goods. This allowance has been determined by the directors with reference to past default experience.

(iii) The ageing analysis of trade receivables, net is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current	**22,049**	22,639	**23,883**	24,310
31-60 days	**4,578**	2,718	**6,539**	4,301
61-90 days	**4,646**	3,074	**6,332**	4,919
More than 90 days	**16,877**	18,785	**27,483**	24,934
	48,150	47,216	**64,237**	58,464

22. Trade receivables (continued)

(iv) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**38,287**	33,765	**50,227**	44,275
Less than 1 month past due	**2,303**	1,402	**3,580**	3,404
1 to 3 months past due	**2,818**	2,587	**7,852**	2,313
Over than 3 months past due	**2,305**	1,785	**1,382**	2,245
	45,713	39,539	**63,041**	52,237

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(v) Included in trade receivables of the Company was a balance of RMB25,660,000 (2006: RMB19,092,000) due from a subsidiary as at 31 December 2007. No impairment has been made to these trade receivables.

(vi) The directors consider the carrying amount of trade receivables approximates its fair value.

23. Other receivables, deposits and prepayments

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances to staff	**22,661**	17,144	**22,661**	17,144
Bills receivables	**3,297**	–	**3,242**	–
Subsidy receivables	**–**	2,414	**–**	2,414
Other receivables	**2,967**	5,040	**2,967**	5,040
Deposits and prepayments	**18,674**	18,599	**18,662**	18,587
	47,599	43,197	**47,532**	43,185

23. Other receivables, deposits and prepayments (continued)

At 31 December 2007 and 2006, certain of the Group's and the Company's advances to staff and other receivables were determined to be impaired. The impaired receivables related to staff and debtors that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recoverable. Consequently, an allowance for doubtful debts was made. The Group and the Company do not hold any collateral over these balances.

	The Group and the Company Advances to staff		The Group and the Company Other receivables	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Gross amounts	25,027	18,391	3,302	5,740
Less: Allowance for doubtful debts	(2,366)	(1,247)	(335)	(700)
Net amounts	22,661	17,144	2,967	5,040

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
At beginning of year	1,947	2,795
Impairment loss recognised/(reversed)	754	(848)
At end of year	2,701	1,947

24. Loans

The Group and the Company

(i) A loan of RMB2,000,000 (2006: Nil) due from an independent third party is unsecured, interest bearing of 8% per annum and shall be repaid by 17 July 2008; and

(ii) A loan of RMB1,000,000 (2006: Nil) due from an independent third party is unsecured, interest bearing of 8% per annum and shall be repaid by 13 December 2008.

These amounts were neither impaired nor past due as at 31 December 2007. The directors consider the carrying amount of these amounts approximates its fair value.

25. 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 its fair value.

26. Trade payables

The following is an aged analysis of trade payables:-

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Current	**4,769**	2,730
31-60 days	**1,016**	218
61-90 days	**101**	255
More than 90 days	**5,466**	6,086
	11,352	9,289

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

27. Borrowings

Loans were obtained from Huinan County Finance Bureau for the purpose of research and development activities of the Company. The loans are unsecured and bear interest at one year term saving interest rate promulgated by The People's Bank of China plus 0.3% per annum. The loans are repayable by instalments until July 2022 as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Within 1 year	**466**	–
After 1 year but within 2 years	**466**	–
After 2 years but within 5 years	**1,398**	–
After 5 years	**4,660**	–
	6,524	–
	6,990	–

28. Deferred taxation

The movements during the year in the net deferred tax liabilities are as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Charged to profit or loss (note 9) and at end of year	**1,847**	–

The net deferred tax liabilities recognised on the balance sheets are in respect of deferred tax arising from accelerated depreciation allowances.

29. Share capital

	2007		2006	
	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

30. Reserves

	Share premium RMB'000	PRC statutory funds Statutory surplus reserve RMB'000 (Note a)	Staff public welfare fund RMB'000 (Note b)	Retained profits RMB'000	Total RMB'000
The Company					
At 1 January 2006	51,098	15,256	7,627	93,475	167,456
Profit for the year	–	–	–	3,024	3,024
Special dividend declared	–	–	–	(7,003)	(7,003)
Transfer to statutory reserve	–	7,627	(7,627)	–	–
Appropriation to statutory reserve	–	402	–	(402)	–
At 31 December 2006	51,098	23,285	–	89,094	163,477
Profit for the year	–	–	–	12,653	12,653
Appropriation to statutory reserve	–	1,670	–	(1,670)	–
At 31 December 2007	51,098	24,955	–	100,077	176,130

(a) Statutory surplus reserve

In accordance with the Company Law of the PRC and the Company's articles of association, the Company and its PRC subsidiaries 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 these entities' 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.

30. 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 and its PRC subsidiaries were 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 these entities' 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 were no longer required to transfer any profit to the public welfare fund. Any balance of public welfare fund brought forward from 31 December 2006 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.

31. Capital commitments

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

	2007	2006
	RMB'000	RMB'000
Acquisition of purchased know-how and prescription	**5,425**	3,495
Acquisition of property, plant and equipment	**1,755**	1,775
	7,180	5,270

32. Related party transactions

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. 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.

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

There were no other significant transactions with related parties during the years ended 31 December 2007 and 2006.

33. Capital risk management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The capital structure of the Group consists of borrowings which are disclosed in note 27, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital and reserves. The Group was not in a net debt position as at 31 December 2007 and 2006.

34. Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The main risks arising from the Groups' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate and currency risk.

The Group does not consider it necessary to use derivative financial instruments to hedge these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group's principal financial assets are cash and bank balances, trade and other receivables and loans. The Group's credit risk is primarily attributable to its trade receivables. The Group allows an average credit period of 180 days to its trade customers. The amounts presented in the balance sheets are net of allowance for doubtful receivables. An allowance 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 does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade and other receivables, loans and cash and bank balances included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

34. Financial risk management (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
2007						
Trade payables	11,352	11,352	11,352	–	–	–
Other payables, deposits received and accruals	17,273	17,273	17,273	–	–	–
Other tax payables	11,895	11,895	11,895	–	–	–
Dividend payable	396	396	396			
Borrowings	6,990	8,869	701	685	1,962	5,521
	47,906	49,785	41,617	685	1,962	5,521
2006						
Trade payables	9,289	9,289	9,289	–	–	–
Other payables, deposits received and accruals	18,308	18,308	18,308	–	–	–
Other tax payables	11,994	11,994	11,994	–	–	–
Dividend payable	3,058	3,058	3,058	–	–	–
	42,649	42,649	42,649	–	–	–

34. Financial risk management (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from its borrowings from Huinan County Finance Bureau. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below:

	The Group and the Company			
	2007		2006	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Variable rate borrowings				
Borrowings	**3.36%**	**6,990**	N/A	–

The interest rate and terms of repayment of the Group's and the Company's borrowings are disclosed in note 27 to the financial statements.

At 31 December 2007, it was estimated that a general increase or decrease of 100 basis point in interest rates, with all other variables held constant, would decrease or increase the Group's profit after taxation and retained profits by approximately RMB29,000 (2006: Nil).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

34. Financial risk management (continued)

(d) Currency risk

The Group mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(e) Price risk

The Group is not exposed to any equity securities risk or commodity price risk.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

35. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007	2006
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and bank balances)	**160,560**	137,437
Financial liabilities		
Financial liabilities measured at amortised cost	**47,906**	42,649

36. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2008.

FINANCIAL SUMMARY

(Expressed in Renminbi)

Operating Results

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**97,284**	69,522	81,889	83,986	91,592
Cost of sales	**(24,379)**	(22,985)	(23,357)	(20,056)	(23,376)
Gross profit	**72,905**	46,537	58,532	63,930	68,216
Other revenue and gains	**2,258**	1,676	7,429	4,735	1,675
Distribution and selling costs	**(38,426)**	(28,238)	(37,521)	(40,373)	(44,885)
Administrative expenses	**(17,012)**	(14,033)	(15,733)	(15,049)	(14,530)
Other operating expenses	**(189)**	(611)	(311)	(364)	(92)
Profit from operations	**19,536**	5,331	12,396	12,879	10,384
Finance costs	**(107)**	(323)	(397)	(514)	(833)
Profit before taxation	**19,429**	5,008	11,999	12,365	9,551
Taxation	**(7,051)**	(1,971)	(3,982)	(3,762)	(844)
Profit attributable to equity holders of the Company	**12,378**	3,037	8,017	8,603	8,707

Assets and Liabilities

	As at 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bearer biological assets	**1,175**	656	464	544	488
Property, plant and equipment	**46,777**	49,657	51,128	52,590	53,432
Prepared lease payments	**4,285**	4,295	3,596	3,726	3,856
Construction in progress	**7,880**	5,124	3,971	4,750	3,305
Purchased know-how and prescription	**27,128**	32,650	31,016	25,467	16,766
Current assets	**181,387**	156,547	174,922	156,829	157,437
Current liabilities	**(41,382)**	(42,649)	(54,851)	(41,677)	(41,658)
Long term liabilities	**(6,524)**	–	–	–	–
Deferred tax liabilities	**(1,847)**	–	–	–	–
Net assets	**218,879**	206,280	210,246	202,229	193,626
Share capital	**56,025**	56,025	56,025	56,025	56,025
Reserves	**162,854**	150,255	154,221	146,204	137,601
Total equity	**218,879**	206,280	210,246	202,229	193,626

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 2007 (the "AGM") will be held at 31 Beishan Street, Chaoyang Town, Huinan County, Tonghua, Jilin Province, the People's Republic of China (the "PRC") on Thursday, 26 June 2008 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 2007;

2. to consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2007;

3. to consider and approve the appropriation to statutory surplus reserve for the year ended 31 December 2007;

4. to consider the reappointment of Shu Lun Pan Horwath Hong Kong CPA Limited as auditors of the Company for the year ending 31 December 2008 and authorize the Directors to fix their remuneration;

5. to consider and approve the remuneration proposals for Directors and supervisors of the Company for the year ending 31 December 2008;

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

   "THAT:

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

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

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

(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";

7. to transact any other business.

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

Tonghua, Jilin Province,
the PRC, 28 March 2008

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 26 May 2008 to 26 June 2008 (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 23 May 2008 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 4 June, 2008.

7. The purpose of having resolution number 6 it to grant a general power to the board of directors to allot and issue new shares subject to applicable laws, regulations and rules.

8. 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.

9. 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