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)

(Stock Code: 8049)

Annual Report 2008

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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

AUDITORS
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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Mr. Mok Sai Cheong Mark, CPA, ACCA

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

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FINANCIAL HIGHLIGHTS AND CALENDAR

FINANCIAL HIGHLIGHTS

	2008 RMB'000	2007 RMB'000
Revenue		
Turnover	**127,124**	97,284
Profitability		
Profit from operations	**25,498**	19,536
Profit attributable to equity holders	**14,989**	12,378
Net Worth		
Shareholders' fund	**233,865**	218,879
Per share		
Basic earnings per share	**RMB0.0268**	RMB0.0221
Net assets per share	**RMB0.417**	RMB0.391

FINANCIAL CALENDAR

Results for the year	Announcement on 28 April 2009
Annual report	Dispatched to shareholders in late April 2009
Annual general meeting	16 June 2009

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 2008.

During the year under review, the Group has spent significant efforts in further promoting its core products namely Hai Kun Shen Xi capsule (海昆腎喜膠囊) and Compound Huonaoshu capsule (复方活腦舒膠囊). As a result, the total turnover of the Group for the year ended 31 December 2008 was RMB127,124,000, representing a significant increase of 31% as compared with RMB97,284,000 for the previous year. Profit for the year attributable to equity holders of the Company significantly increased to RMB14,989,000 from RMB12,378,000 last year. For the year ended 31 December 2008, basic earnings per share increased to RMB2.68 cents from RMB2.21 cents last year.

The remarkable results in 2008 were the outcome of the continued effort of all levels of the management in the past year. In fact, the Board has already expressed its optimistic view for 2008's profitability in the 2007 annual report. As such, the Board would like to share with the shareholders that with the following competitive advantages, a strong foundation is laid for the Company to have a blooming growth in the coming years.

Firstly, the Board has great confidence in the academic promotion of its principal product, Hai Kun Shen Xi capsule, with significant increase in quantity of the medicine sold to hospitals in various places.

Secondly, during the year under review, the Group plans to construct a standardised plant on a previously acquired land and it is expected the construction will be done in September 2009.

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

Fourthly, the Group has obtained the production approval of the new medicine, Yi Da La Feng, issued by the Food and Drug Supervision and Administration Bureau of the State, and Tou Bao Bulk has also commenced commercial production during the year.

Fifthly, the Group established a subsidiary named Jilin Province Medicinal Plants Trading Company Limited on 24 December 2008 which acts as its plantation base in the forest of Jinchun. This company is a wholly owned subsidiary of the Company with a registered capital of RMB 5 million. The establishment of the subsidiary is favorable for the Group's expansion of cultivation, acquisition and processing of Chinese herbal medicine such as wild panax ginseng, lowering the production cost of the Group, securing the continuous supply of raw materials as well as enlarging the Group's scope of operation.

Sixthly, the technology center of the Company was recognised as an enterprise technology center at provincial level, with further enhancement in transformation ability of research and development of products and technology achievement.

Last but not least, the Group has recruited some temporary sales persons to assist the regional sales persons to expand their sales network, resulting in further expansion of the sales team.

Looking forward, the Board believes that the Group is capable of sustaining both its turnover and profit attributable to equity holders in the coming future. Besides, continuous development of the Company, such as investment in computerised production system for new medicine and the establishment of Jinlin Province Medicinal Plants Trading Company Limited, reflect that the Board has a well-organised long term plan for the expansion of the Group.

On behalf of the Board, I would like to express my heartfelt thanks to all levels of staff and the management for their efforts and contributions in 2008 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 April 2009

BUSINESS REVIEW

For the year ended 31 December 2008, the Group's turnover increased to RMB127,124,000 from RMB97,284,000 while the profit for the year attributable to equity holders of the Company increased from RMB12,378,000 to RMB14,989,000. For the year ended 31 December 2008, basic earnings per share increased to RMB2.68 cents from RMB2.21 cents last year.

For the year ended 31 December 2008, the manufacturing and sales of Hai Kun Shen Xi capsule (海昆腎喜膠囊) and Compound Huonaoshu capsule (復方活腦舒膠囊) continued to be the Group's core source of revenue. The new medicine of Hai Kun Shen Xi capsule has penetrated into the market, the sales of which rose 84% as compared with 2007. The sales of Compound Huonaoshu capsule in 2008 grew 23% as compared with 2007. The sales of Xueshuan Xinmaining capsule (血栓心脈寧) has reached RMB6,750,000 for the year ended 31 December 2008, which was the third best seller of the Group in 2008. Other products such as 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 RMB7,000,000 of sales in 2008, details of which were elaborated under the Section "Financial Review".

OPERATION REVIEW

Good Manufacturing Practice (GMP)

During the year ended 31 December 2008, the Company has been successful in renewal of a GMP standard certificate. The Company has already obtained GMP certificates 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
12. Sterile Bulk (Yan Suan Tou Bao Jia Tong) (無菌原料藥(鹽酸頭孢甲肟), Bulk (Yi Da La Feng) (原料藥)(依達拉奉) – valid until 30 December 2013

RESEARCH AND DEVELOPMENT

The Research and Development (R&D) department of is essential for the future success of a pharmaceutical 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 the first largest revenue generator and its revenue increased 84% as compared with last year. Yi Da La Feng Bulk has obtained the production approval and Tou Bao Bulk has commenced commercial production for the year ended 31 December 2008.

In addition to our internal R&D resources, the Group also embarks on joint efforts with other reputable R&D companies to develop new potential pharmaceutical products. As at 31 December 2008, the major products currently under research and development were as follows:

Medicine	Type	Form
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 2008, 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 established a subsidiary named Jilin Province Medicinal Plants Trading Company Limited which acts as its plantation base in the forest of Jinchun during the year under review. The base has been developed to cultivate different type of medicinal plants such as wild panax ginseng and our R&D department will extract the useful ingredient from those herbal medicines to carry out our medical experiments. Apart from wild panax ginseng, certain types of raw materials are also cultivated by the subsidiary.

Secondly, the Group has completed the technological upgrading of all workshops. All assembly lines in the workshop have been upgraded into a fully automatical production system.

Thirdly, the Group plans to construct a standardised plant on a previously acquired land, the requisition procedures have been completed and it is expected the construction will be done in September 2009.

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group's recorded a revenue amounted to approximately RMB127,124,000 (2007: RMB97,284,000), a growth of approximately 31% as compared with the previous year. The audited profit for the year attributable to equity holders of the Company was approximately RMB14,989,000 representing an increase of 21% as compared with RMB12,378,000 in last year. The basic earnings per share was RMB2.68 cents (2007: RMB2.21 cents), an increase of 0.47 cents over the last year.

During the year ended 31 December 2008, the Group reported a turnover of approximately RMB127,124,000, representing an increase of approximately RMB29,840,000 or 31% as compared with the same period last year. The significant increase in turnover was mainly due to the increase in the revenue of our two core revenue generators, namely Hai Kun Shen Xi capsule (海昆腎喜膠囊) and Compound Huonaoshu capsule (復方活腦舒膠囊). The new medicine of Hai Kun Shen Xi capsule has penetrated into the market, the sales of which rose 84% as compared with 2007. The sales of Compound Huonaoshu capsule in 2008 grew 23% as compared with 2007. The sales of Xueshuan Xinmaining capsule amounted to approximately RMB6,750,000 for the year ended 31 December 2008.

Other products, such as 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 RMB7,000,000 in sales in 2008.

The Board are satisfied with the financial results in 2008 and the Board believed the following reasons that led to the significantly increase of profitability. Firstly, the market has fully recognised the curing effects of our new medicine of 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 RMB70,000,000 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 held in Changchun, and attended the regional academic meeting. Participation in academic conferences does not only help promote the corporate image, but also enable the Group to 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 sales persons to assist the regional sales persons to expand their sales network, especially during the period of medicine conference. Fourthly, although the procedures for appointment of new directors were completed in February 2008, a total of four newly appointed directors have already taken up their duties since the middle of 2007. Certain sales contracts were concluded under the supervision of these newly appointed directors.

The gross profit margin for the year ended 31 December 2008 was approximately 69%, representing a 1% decrease as compared with that of 70% for the year ended 31 December 2007.

For the year ended 31 December 2008, the Group recorded other income and gains of approximately RMB937,000 as compared with RMB2,258,000 for the year ended 31 December 2007.

Distribution and selling costs increased to approximately RMB47,711,000 for the year ended 31 December 2008 from approximately RMB38,426,000 last year. These expenses accounted for 38% of turnover in 2008, which represented a 2% decrease from 40% as compared with the corresponding period last year. The increase in sales and distribution expenses of approximately RMB9,285,000 was mainly due to the growth in staff remuneration as a result of the recruitment of temporary sales persons. The Board believes that the distribution and selling costs which represented 38% of the turnover was acceptable for a pharmaceutical manufacturing company.

For the year ended 31 December 2008, administrative expenses increased to approximately RMB15,524,000 from approximately RMB11,922,000 last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during this year. As at 31 December 2008, cash and bank balances of the Group amounted to RMB48,831,000 (2007: RMB42,542,000) with long-term borrowings of RMB6,990,000 (2007: RMB6,524,000) which were interest bearing at commercial rates and unsecured. As at 31 December 2008, the Group had total assets of RMB318,045,000 (2007: RMB268,632,000) which were financed by current liabilities of RMB72,659,000 (2007: 41,382,000), long term borrowings of RMB6,990,000 (2007: 6,524,000), deferred tax liabilities of RMB4,531,000 (2007: 1,847,000) and shareholders' equity of RMB233,865,000 (2007: RMB218,879,000)

GEARING RATIO

As at 31 December 2008, the Group had a net cash and cash equivalents of RMB48,831,000. As at 31 December 2008, the ratio of the total liabilities to the total assets of the Group was 26.5% (2007: 18.5%) which was calculated by dividing the Group's total liabilities of RMB84,180,000 (2007: RMB49,753,000) by the Group's total equity and liabilities of RMB318,045,000 (2007: RMB268,632,000). The Group's gearing ratio which derived from the total borrowings to total assets was 2.2% (2007: 2.6%)

EMPLOYEES

The Group has a total of 286 full-time employees and has employed some temporary sales persons. For the year ended 31 December 2008, the total remuneration of employees, including directors' remuneration amounted to approximately RMB30,715,000 (2007: approximately RMB22,186,000).

Remuneration is determined by reference to market conditions 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 54, male, is the Chairman, general manager and secretary of the Party committee. He holds a bachelor degree and is a senior economist. His previous positions are as follows: He was a teacher and the secretary of Youth League Committee of Huinan No. 4 Middle School from September 1978 to October 1983; he worked in county and town governments from November 1983 to September 1989, during which he held the position of deputy town head; he has been the Chairman, general manager and secretary of the Party committee of Jilin Province Huinan Changlong Bio-pharmacy Company Limited since October 1989.

Liang Fu Xiang

Aged 60, male, holds a bachelor degree and is an assistant lecturer and senior economist. His previous positions are as follows: he was the director of academic affairs of Jinlin Province Hailong Normal School from August 1976 to March 1982; the Section Chief and Vice Minister of the Publicity Department and Organization Department of the Municipal Committee in Meihekou City, Jilin Province from September 1982 to December 1990; Section Chief of the Organization Department of Municipal Committee in Tonghua City, Jilin Province from January 1991 to August 1992; a Standing Committee Member and the Section Chief of the Organization Department in Huinan County from September 1992 to August 1995; the Standing Deputy Chief Executive and a Standing Committee Member of Huinan County from September 1995 to August 1997; a Standing Committee Member, Deputy Secretary and Consultant in Huinan County from September 1997 to November 2001; the district manager of Huinan Changlong Bio-pharmacy Company from December 2001 to May 2007; and commenced to perform his duties of executive director of the Company since 9 August 2007.

Zhang Xiao Guang

Aged 45, male, is an executive director and deputy general manager. He holds a bachelor degree and is a senior economist. He held the positions of the secretary of Youth League Committee of Chaoyang town engineer affairs equipment factory of Shenyang railway bureau from July 1983 to September 1989; deputy director of foreign trade bureau of Huinan County from October 1989 to November 1990; executive director and deputy general manager of the Company since December 1990.

Tian Xin Guo

Aged 52, male, is an executive director and deputy secretary of the Party committee. He holds a master degree and is a senior economist. He acted as the Secretary of the Ministry of Public Transportation and the Economics and Trading Committee in Huinan County from December 1979 to September 1984; studied in the Jilin Province Radio and Television University for associate degree from October 1984 to September 1986; from October 1986 to November 1986, has was general officer of Huinan County government office; from December 1986 to March 1990, the Chief of the Transportation Management Office in Huinan County and the Secretary of the Party Branch; from April 1990 to September 1995, the Deputy Director of the Transportation Bureau in Huinan County; from October 1995 to September 1999, the Director of the State-owned Assets Management Bureau; from October 1999 to October 2001, the Director of the Planning Bureau in Huinan County; from November 2001 to May 2007, the district manager, deputy secretary of the Party committee and secretary of discipline committee of Huinan Changlong Bio-pharmacy Company and on 9 August 2007, he commenced to perform his duties of executive director and district manager, deputy secretary of the Party committee and secretary of discipline committee of the Company.

Chen Qi Ming

Aged 51, male, is an executive director and a senior economist with a bachelor degree. From October 1978 to July 1982, he studied in Jilin Agriculture University; from August 1982 to October 1989, he worked in Economics and Trading Committee and Heavy Industries Bureau in Huinan County; from November 1989 to October 1995, he worked in Agricultural Machinery Bureau and Agricultural Bureau of the county; from November 1995 to April 2002, acted as director of Technology Bureau; from May 2002 to August 2007, worked as district manager of Huinan Changlong Bio-pharmacy Company; commenced to perform his duties of executive director and district manager of the Company on 9 August 2007.

Wu Guo Wen

Aged 44, male, is an executive director and chief engineer. He holds a master degree and is a Pharmacist-in-charge and senior engineer. From July 1984 to August 1986, he studied in Shanxi Province Herbal School; from September 1986 to August 1988, he acted as director of quality inspection department of herbal medicine company in Huinan County; from September 1988 to August 1991, he studied in Shanghai Medicine University; from September 1991 to January 1993, he acted as district manager of Changlong Bio-pharmacy Company; from February 1993 to May 1996, he pursued master degree in Jilin University; from June 1996 to August 2007, he acted as chief engineer of Huinan Changlong Bio-pharmacy Company and commenced to perform his duties of executive director and chief engineer on 9 August 2007.

Zhao Bao Gang

Aged 42, male, is an executive director and chief finance officer. He holds an associate degree and is a certified accountant, certified estimator and senior economist. From July 1987 to July 1990, he studied in Jilin Finance and Tax Training School; from August 1990 to May 1995, he acted as director of Finance Bureau of Huinan County; from August 1996 to December 2006, he held the position of director and equipment director of Jilin Province Huinan Changlong Bio-pharmacy Company Limited and was appointed as director and chief finance officer of the Company in March 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Shen Yu Xiang

Aged 58, male, is an independent non executive director. From April 1984 to October 1995, he acted as deputy director of Finance Bureau of Huinan County; from November 1995 to October 1998, he worked as dean of Finance and Trade Office of Huinan County; from November 1998 to December 2000, he acted as director of Audit Bureau of Huinan County and was appointed as independent director of the Company since 2001.

Yan Li Jin

Aged 54, male, is an independent non executive director and holds a master degree. From March 1977 and January 1980, he studied in Politics and History Department of Si Ping Normal University; from July 1994 to July 1997, he studied in History Department of Northeast Normal University; from January 1998 to March 2000, pursued master degree in Northeast Normal University; from January 1980 to July 1993, he worked as teacher and dean of students of Huinan No.1 Middle School; from August 1993 to January 1997, he acted as principal of Huinan No.1 Middle School and commenced to perform his duties of independent director of the Company on 9 August 2007.

Xue Chang Qing

Aged 47, male, is an independent non executive director with a bachelor degree and is a senior auditor, international certified internal auditor, certified accountant, certified assets estimator and certified tax agent. From September 1978 to September 1981, he studied in Changchun Machinery Industrial School majoring in machinery manufacture; from September 1981 to May 1988, he acted as accountant of Changchun Printing and Dyeing Factory; from May 1988 to January 2006, he worked as accountant, internal auditor, senior auditor and deputy dean of finance office of Changchun Institute of Applied Chemistry Chinese Academy of Sciences; since January 2006, he has acted as dean of assessment department of Jilin Jinshi Certified Public Accountants Company Limited. He commenced to perform his duties of independent director of the Company on 9 August 2007.

SUPERVISORS

Zhang Jing Zhou

Aged 60, male, he joined Changlong Bio-pharmacy in March 1995. He has acted as the Chairman of labour union and supervisory committee of the Company since 1996.

Li Bao Hai

Aged 52, male, he joined Changlong Bio-pharmacy in July 1990. He worked as an electrician and dean of electricity distribution office. He has acted as the Supervisor of the Company since 1996.

Wu Wei Men

Aged 39, male, graduated from Dandong Textile Training School with associated degree in industrial accounting in 1991. From 1991 to 2004, he worked as finance director of hardware factory of Huinan County. He joined Changlong Bio-pharmacy in 2004 and has acted as supervisor of the Company since 9 August 2007.

OTHER SENIOR MANAGEMENT

Zhang Yan Jun

Aged 43, male, holds an associate degree and is secretary of the board of directors and senior economist. From August 1885 to October 1995, he worked as director of finance department of the Second Light Industrial Bureau of Huinan County; from November 1995 to October 1996, director of production department of economy and trade committee of Huinan County; from November 1996 to July 2007, deputy secretary of the Party committee of Huinan Taitai Bio-pharmacy Company Limited and the chairman of Supervisory Committee. He has acted as dean of security department of Huinan Changlong Bio-pharmacy Company Limited since August 2007 and secretary of the board of directors since November 2008.

Yang Ze Shu

Aged 41, male, graduated from Yanbian Medical College in 1992 with a bachelor degree. He is Chief Quality Officer and chief pharmacist and senior engineer. From 1992 to 1999, he acted as dean of Pharmaceutical office of Institute for Drug Control. He has worked as chief quality officer of the Company since 2000.

The procedures for appointment of new directors were completed in February 2008, but a total of six newly appointed directors (executive directors including Mr. Liang Fuxiang, Mr. Tian Xinguo, Mr. Chen Qiming and Mr. Wu Guowen and independent non executive directors including Mr. Xue Changqing and Mr. Yan Lijin) have commenced to perform their duties in the middle of 2007.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2008.

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 ("GEM") 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 2008, turnover of the Group is generated entirely from sales in the PRC and all identifiable assets of the Group are located in the 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 2008 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 78.

The directors do not recommend the payment of a 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

	2008	2007
	RMB'000	RMB'000
Turnover	**127,124**	97,284
Profit before tax	**25,250**	19,429
Taxation	**(10,261)**	(7,051)
Profit for the year from ordinary activities attributable to equity holders	**14,989**	12,378

Assets and liabilities

	2008	2007
	RMB'000	RMB'000
Total assets	**318,045**	268,632
Total liabilities	**(84,180)**	(49,753)
Net assets	**233,865**	218,879

BEARER BIOLOGICAL ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Details of movements in bearer biological assets, property, plant and equipment, and intangible assets of the Group and the Company during the year are set out in Notes 16, 17 and 21 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 2008. As at 31 December 2008, 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 20 to the financial statements.

BORROWINGS

Particulars of borrowings of the Group and the Company are set out in Note 29 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 31 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 in Note 32 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the reserves of the Company available for cash distribution or distribution in specie was amounted to approximately RMB112,821,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold about 20% of its goods to its five largest customers (2007: 30%) and sales to the largest customer included therein accounted for 5.5% of the Group's total sales.

In the year under review, the Group's purchases from the five largest suppliers accounted for about 14% of the Group's total purchases and purchases from the largest suppliers therein accounted for 5.3% of the Group's total 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 2008 and 2007, 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 and the Company as at 31 December 2008 are set out in Note 33 to the financial statements.

CONTINGENT LIABILITIES

As at 31 December 2008 and 2007, 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. Zhao Bao Gang
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)
Ms. Li Yu Xian (resigned on 28 February 2008)
Ms Cui Shu Mei (resigned on 28 February 2008)

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

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 14 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 2008, 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 pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (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 2008, 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

Saved as disclosed under the headings "Directors' and supervisors' interests in shares" above, at no time during the year were there any 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 2008, 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 representatives in the Board of Directors.

Save as disclosed above, as at 31 December 2008, 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 contracts concerning the management and administration of the whole or any substantial part of the business of the Group and the Company were entered into or were in existence during the year.

COMPETING INTEREST

None of the Directors, the management shareholders, the significant shareholders or the substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a 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 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 2008.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out on page 79 of the annual report. This summary does not form part of the audited financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the directors' knowledge, as at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the GEM Listing Rules.

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.

AUDITORS

The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited. The Company's auditors will change their name from Shu Lun Pan Horwath Hong Kong CPA Limited to Shu Lun Pan Hong Kong CPA Limited and will merge their business with BDO McCabe Lo Limited on 1 May 2009. On the same date, BDO McCabe Lo Limited will change their name to BDO Limited. As a result of these changes, a resolution will be proposed at the 2009 annual general meeting to appoint BDO McCabe Lo Limited (to be renamed as BDO Limited on 1 May 2009) as the Company's auditors.

By order of the Board

Zhang Hong
Chairman

Jilin Province, the PRC
28 April 2009

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practice (the "Code") contained in Appendix 15 to the GEM Listing Rules throughout the financial year ended 31 December 2008 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 2008.

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. Zhao Bao Gang
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)
Ms. Li Yu Xian (resigned on 28 February 2008)
Ms Cui Shu Mei (resigned on 28 February 2008)

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 28 February 2008, (i) Mr. Liang Fu Xiang, Mr. Tian Xin Guo, Mr. Chen Qi Ming and Mr. Wu Guo Wen were appointed as Executive Directors of the Company; (ii) Mr. Xue Chang Qing and Mr. Yan Li Jin were 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)	0/0
Ms. Cui Shu Mei (resigned on 28 February 2008)	0/0
Mr. Zhao Bao Gang	4/4
Mr. Liang Fu Xiang (appointed on 28 February 2008)	4/4
Mr. Tian Xin Guo (appointed on 28 February 2008)	4/4
Mr. Chen Qi Ming (appointed on 28 February 2008)	4/4
Mr. Wu Guo Wen (appointed on 28 February 2008)	4/4
Independent Non-Executive Directors	
Mr. Nan Zheng (resigned on 28 February 2008)	0/0
Mr. Shen Yu Xiang	4/4
Mr. Xue Chang Qing (appointed on 28 February 2008)	4/4
Mr. Yan Li Jin (appointed on 28 February 2008)	4/4

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 2008, 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)	0/0
Mr. Xue Chang Qing (appointed on 28 February 2008)	2/2

For the year ended 31 December 2008, 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 three 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 2008, 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)	0/0
Mr. Xue Chang Qing (appointed on 28 February 2008)	3/3

AUDITORS' REMUNERATION

Shu Lun Pan Horwath Hong Kong CPA Limited was the auditor of the Company for the year ended 31 December 2008. Other than annual auditing services, Horwath did not provide non-auditing services to the Company or any of the Group's companies during the year.

Auditors' remuneration for the year ended 31 December 2008 is set out in Note 10 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 Attended/Held**
Mr. Shen Yu Xiang	4/4
Mr. Nan Zheng (resigned on 28 February 2008)	0/0
Mr. Xue Chang Qing (appointed on 28 February 2008)	4/4
Mr. Yan Li Jin (appointed on 28 February 2008)	4/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2008 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 have the responsibilities for the preparation of the financial statements of the Group and shall 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 2008 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 April 2009

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
20th Floor 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 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 78, which comprise the consolidated and Company balance sheets as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of the 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the 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 auditors' 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 auditors consider 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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

20th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Choi Man On
Practising Certificate number P02410

Hong Kong, 28 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

(Expressed in Renminbi)

	Notes	**2008** **RMB'000**	2007 RMB'000
Turnover	5	**127,124**	97,284
Cost of sales		**(38,819)**	(29,658)
Gross profit		**88,305**	67,626
Other income	7	**937**	1,967
Other gains and (losses)	8	**(509)**	291
Distribution and selling costs		**(47,711)**	(38,426)
Administrative expenses		**(15,524)**	(11,922)
Profit from operations		**25,498**	19,536
Finance costs	9	**(248)**	(107)
Profit before taxation	10	**25,250**	19,429
Taxation	11(a)	**(10,261)**	(7,051)
Profit for the year attributable to equity holders of the Company	13	**14,989**	12,378
Dividend	13	**–**	–
Earnings per share			
– Basic (RMB cents)	12	**2.68**	2.21

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2008

(Expressed in Renminbi)

	Notes	**2008** **RMB'000**	2007 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Bearer biological assets	16	**1,390**	1,175
Property, plant and equipment	17	**59,922**	46,777
Prepaid land lease payments	18	**2,496**	4,285
Construction in progress	19	**14,830**	7,880
Intangible assets	21	**40,829**	27,128
Deposit for acquisition of land use rights	22	**10,000**	–
		129,467	87,245
Current assets			
Inventories	23	**18,975**	20,692
Trade receivables	24	**67,458**	48,150
Other receivables, deposits and prepayments	25	**34,934**	47,599
Loans receivable	26	**3,000**	3,000
Prepaid land lease payments	18	**102**	135
Income tax recoverable		**15,278**	19,269
Cash and cash equivalents	27	**48,831**	42,542
		188,578	181,387
Current liabilities			
Trade payables	28	**12,075**	11,352
Other payables, deposits received and accruals		**46,985**	17,273
Other tax payables		**13,239**	11,895
Borrowings	29	**–**	466
Dividend payable		**360**	396
		72,659	41,382
Net current assets		**115,919**	140,005
Total assets less current liabilities		**245,386**	227,250
Non-current liabilities			
Borrowings	29	**6,990**	6,524
Deferred tax liabilities	30	**4,531**	1,847
		11,521	8,371
Net assets		**233,865**	218,879
EQUITY			
Share capital	31	**56,025**	56,025
Reserves		**177,840**	162,854
Total equity		**233,865**	218,879

These financial statements were approved and authorised for issue by the board of directors on 28 April 2009.

ZHANG HONG	**ZHANG XIAO GUANG**
Director	*Director*

The accompanying notes form part of these financial statements.

BALANCE SHEET

At 31 December 2008

(Expressed in Renminbi)

	Notes	2008 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Bearer biological assets	16	**1,390**	1,175
Property, plant and equipment	17	**59,917**	46,770
Prepaid land lease payments	18	**2,496**	4,285
Construction in progress	19	**14,830**	7,880
Interests in subsidiaries	20	**8,866**	3,866
Intangible assets	21	**40,829**	27,128
Deposit for acquisition of land use rights	22	**10,000**	–
		138,328	91,104
Current assets			
Inventories	23	**18,975**	20,692
Trade receivables	24	**81,002**	64,237
Other receivables, deposits and prepayments	25	**34,700**	47,532
Loans receivable	26	**3,000**	3,000
Prepaid land lease payments	18	**102**	135
Income tax recoverable		**15,278**	19,269
Cash and cash equivalents	27	**44,898**	35,994
		197,955	190,859
Current liabilities			
Trade payables	28	**12,075**	11,352
Other payables, deposits received and accruals		**46,967**	17,264
Amounts due to subsidiaries	20	**5,500**	500
Other tax payables		**12,732**	11,459
Borrowings	29	**–**	466
Dividend payable		**360**	396
		77,634	41,437
Net current assets		**120,321**	149,422
Total assets less current liabilities		**258,649**	240,526
Non-current liabilities			
Borrowings	29	**6,990**	6,524
Deferred tax liabilities	30	**4,531**	1,847
		11,521	8,371
Net assets		**247,128**	232,155
EQUITY			
Share capital	31	**56,025**	56,025
Reserves	32	**191,103**	176,130
Total equity		**247,128**	232,155

These financial statements were approved and authorised for issue by the board of directors on 28 April 2009.

ZHANG HONG	**ZHANG XIAO GUANG**
Director	*Director*

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008
(Expressed in Renminbi)

	Share capital RMB'000 (Note 31)	Share premium RMB'000 (Note 32(a))	Exchange reserve RMB'000 (Note 32)	Statutory surplus reserve RMB'000 (Note 32(b))	Retained profits RMB'000	Total RMB'000
At 1 January 2007	**56,025**	**51,098**	**–**	**23,285**	**75,872**	**206,280**
Exchange differences arising on translation of overseas operations and income recognised directly in equity	–	–	221	–	–	221
Profit for the year	–	–	–	–	12,378	12,378
Total recognised income for the year	–	–	221	–	12,378	12,599
Appropriation to statutory surplus reserve	–	–	–	1,670	(1,670)	–
At 31 December 2007	**56,025**	**51,098**	**221**	**24,955**	**86,580**	**218,879**
Exchange differences arising on translation of overseas operations and expense recognised directly in equity	–	–	(3)	–	–	(3)
Profit for the year	–	–	–	–	14,989	14,989
Total recognised income and expense for the year	–	–	(3)	–	14,989	14,986
Appropriation to statutory surplus reserve	–	–	–	2,229	(2,229)	–
At 31 December 2008	**56,025**	**51,098**	**218**	**27,184**	**99,340**	**233,865**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008
(Expressed in Renminbi)

	Notes	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before taxation		**25,250**	19,429
Adjustments for:			
Interest income	7	**(316)**	(506)
Interest expenses	9	**248**	97
Write off of and additional provision for obsolete and slow-moving inventories	10	**3,011**	1,743
Additional provision for impairment loss on trade and other receivables	10	**1,549**	2,263
Amortisation of intangible assets	10	**7,529**	5,279
Impairment loss on intangible assets	10	**–**	266
Amortisation of prepaid land lease payments	10	**103**	135
Depreciation of property, plant and equipment	10	**5,734**	5,380
Fair value losses/(gains) on biological assets – deers	8	**432**	(291)
Loss on disposal of property, plant and equipment	8	**77**	–
Government subsidy	7	**(200)**	–
Operating cash flows before working capital changes		**43,417**	33,795
Increase in inventories		**(1,294)**	(3,455)
Increase in trade receivables		**(20,802)**	(2,443)
Increase in other receivables, deposits and prepayments		**(3,650)**	(5,156)
Increase in loans receivable		**–**	(3,000)
Increase in trade payables		**723**	2,063
Increase/(decrease) in other payables, deposits received and accruals		**24,742**	(1,035)
Increase/(decrease) in other tax payables		**1,344**	(99)
Effect of foreign exchange rate changes		**(3)**	223
Cash generated from operations		**44,477**	20,893
Interest paid		**(248)**	(97)
PRC income tax paid		**(3,586)**	(3,700)
Net cash generated from operating activities		**40,643**	17,096

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

(Expressed in Renminbi)

	2008 RMB'000	2007 RMB'000
Investing activities		
Payments to acquire biological assets	**(647)**	(595)
Payments to acquire land use rights	**(10,000)**	(130)
Payments to acquire intangible assets	**–**	(23)
Payments to acquire property, plant and equipment	**(2,617)**	(2,502)
Payments for construction in progress	**(21,604)**	(8,156)
Proceeds from disposal of biological assets	**–**	367
Proceeds from disposal of property, plant and equipment	**34**	–
Interest received	**316**	506
Net cash used in investing activities	**(34,518)**	(10,533)
Financing activities		
New loans raised	**–**	6,990
Government subsidy	**200**	5,400
Dividend paid	**(36)**	(2,662)
Net cash generated from financing activities	**164**	9,728
Net increase in cash and cash equivalents	**6,289**	16,291
Cash and cash equivalents at beginning of year	**42,542**	26,251
Cash and cash equivalents at end of year	**48,831**	42,542
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	**48,831**	42,542

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 brand names of Changlong and Shendi. The principal activities of the subsidiaries are set out in Note 20 to the financial statements.

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

In the current year, the Group has adopted all of the new and 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 current 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 adoption of HK(IFRIC) – Int 11 "HKFRS 2 – Group and treasury share transactions", HK(IFRIC) – Int 12 "Service concession arrangements", HK(IFRIC) – Int 14 "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" and HKAS 39 & HKFRS 7 Amendments "Reclassification of financial assets" has no impact on the financial statements.

At the date of authorisation of the financial statements, the following HKFRSs were in issue but not yet effective:

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)

(Expressed in Renminbi)

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

		Effective date
HKFRS 8	Operating segments	(i)
HK(IFRIC) – Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellations	(i)
HKFRS 7 (Amendment)	Improving disclosures about financial instruments	(i)
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKAS 39 (Amendment)	Eligible hedged items	(ii)
HKFRS 1 (Revised)	First-time adoption of HKFRSs	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners	(ii)
HK(IFRIC) – Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation	(iv)
HK (IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded derivatives	(v)
HK(IFRIC) – Int 18	Transfers of assets from customers	(vi)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	–HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41	(i)
	–HKFRS 5	(ii)

Effective date

(i) Annual periods beginning on or after 1 January 2009
(ii) Annual periods beginning on or after 1 July 2009
(iii) Annual periods beginning on or after 1 July 2008
(iv) Annual periods beginning on or after 1 October 2008
(v) Annual periods ending on or after 30 June 2009
(vi) Transfers of assets from customers received on or after 1 July 2009

The Group is in the process of making an assessment of what the impact of these new or revised HKFRSs is expected to be 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, 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 (the "GEM Listing Rules").

(b) Basis of preparation of financial statements

These financial statements have been prepared under the historical cost convention, as modified for certain biological assets which are carried 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.

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

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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consists of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. Principal accounting policies (continued)

(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 fair values at the acquisition date.

Goodwill arising on acquisition is recognised in accordance with the accounting policy for goodwill in Note 3(f) below.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Subsidiaries

Subsidiaries are entities 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. In assessing control, potential voting rights that presently are exercisable are taken into account.

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) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. Principal accounting policies (continued)

(g) Biological assets

Biological assets are living animals and plants managed by the Group which is involved in the agricultural activities of the transformation of biological assets for sale or into agricultural produce.

Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value of these biological assets is determined based on active market prices in the local market with reference to comparable age, breed and genetic merit. The gain or loss arising on initial recognition and subsequent changes in fair values less estimated point-of-sale costs of biological assets is recognised in profit or loss in the period in which it arise. Biological assets that are in the stage of cultivation or do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less any impairment losses.

(h) 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 of property, plant and equipment 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 profit or loss.

(i) Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3. Principal accounting policies (continued)

(j) Construction in progress

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises all construction expenditure and other direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

(k) Intangible assets

(i) Purchased know-how and prescription

Purchased know-how and prescription are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives, which range from 5 to 12 years from the date of commercial production. The estimated useful life and amortisation method are reviewed at the end of each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis. The asset is also tested for impairment annually.

(ii) Research and development expenditure

Internal research costs are expensed as incurred. Internal development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

— the technical feasibility of completing the intangible asset so that it will be available for use or sale;

— its intention to complete and its ability to use or sell the asset;

— how the asset will generate future economic benefits;

— the availability of resources to complete the asset; and

— the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually. The Group does not currently have any such internal development expenditure.

3. Principal accounting policies (continued)

(k) Intangible assets (continued)

(iii) Purchased in-process research and development assets acquired through separate purchase

In-process research and development assets acquired through separate purchase are recognised as intangible assets at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation and impairment assessment are accounted for in a similar manner as internal development expenditure set out in (ii) above.

(l) 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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.

3. Principal accounting policies (continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value represents the estimated selling prices for inventories less all estimated costs of completion and cost necessary to make the sale.

(n) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned are initially measured at fair value plus transaction costs. These financial assets are subsequently accounted for as follows, depending on their classification:

(i) Loans and 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 of financial assets

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 asset, 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.

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.

3. Principal accounting policies (continued)

(n) Financial assets (continued)

(ii) Impairment of financial assets (continued)

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.

(iv) Derecognition of financial assets

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.

3. Principal accounting policies (continued)

(o) 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.

(iii) Financial liabilities

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

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

(iv) Effective interest method

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.

(v) Derecognition of financial liabilities

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

(p) 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.

3. Principal accounting policies (continued)

(q) 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.

(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.

3. Principal accounting policies (continued)

(q) Taxation (continued)

(ii) Deferred tax (continued)

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

(r) Provisions

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.

(s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(t) 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.

3. Principal accounting policies (continued)

(t) Foreign currencies (continued)

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 operations are expressed in RMB using exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the 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 exchange reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(u) Government subsidies

Subsidies from the PRC government are recognised at their fair values when they are received, or when there is reasonable assurance that the grant 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.

(v) 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.

3. Principal accounting policies (continued)

(v) Employees' benefits (continued)

(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. The Group has no further payment obligations once the contributions to these two schemes have been made.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

(x) Related parties

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 operation 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.

(y) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for merchandise sold in the normal course of business, net of discounts and after allowances for returns, 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 to the customer.

(ii) Interest income is recognised on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

(a) Impairment of assets (other than trade and other receivables)

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) Impairment of trade and other receivables

Provision for impairment of trade and other receivables is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed.

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

(c) Estimation of useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and purchase 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 or amortisation 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

Turnover, which is also revenue, represents the invoiced value of merchandise sold net of value-added tax and other sales related taxes, and after allowances for returns and discount and is analysed as follows:

	2008	2007
	RMB'000	RMB'000
Sales of medicine	**127,124**	97,284

6. Segment information

The Group has only one business segment which is the manufacture and distribution of biochemical medicines in the PRC. During the years ended 31 December 2008 and 2007, turnover of the Group is generated entirely from sales in the PRC and all identifiable assets of the Group are located in the PRC. Accordingly, no business and geographical segments information is presented.

7. Other income

	2008	2007
	RMB'000	RMB'000
Recovery of bad debts	**352**	–
Bank interest income	**316**	506
Government subsidy (Note)	**200**	1,350
Others	**69**	111
	937	1,967

Note: During the year ended 31 December 2008, the Group received a subsidy of RMB200,000 from the Finance Bureau of Huinan, Jilin Province, the PRC, which aimed at the general financing of the development of listed companies in that region. The amount in the previous year mainly represented subsidy received from the same Finance Bureau to finance the product development of the Group.

8. Other gains and (losses)

	2008 RMB'000	2007 RMB'000
Fair value (losses)/gains on biological assets – deers (Note 16)	**(432)**	291
Loss on disposal of property, plant and equipment	**(77)**	–
	(509)	291

9. Finance costs

	2008 RMB'000	2007 RMB'000
Interest expenses on borrowings not wholly repayable after five years	**248**	97
Others	**–**	10
	248	107

10. Profit before taxation

	Notes	2008 RMB'000	2007 RMB'000
Profit before taxation is arrived at after charging/(crediting):–			
Cost of inventories sold (excluding additional provision for, and write off of obsolete and slow-moving inventories)		**26,838**	23,426
Write off of and additional provision for obsolete and slow-moving inventories		**3,011**	1,743
Additional provision for impairment loss on trade receivables	24	**1,494**	1,509
Additional provision for impairment loss on other receivables	25	**55**	754
Auditors' remuneration:-			
Current year		**530**	450
Over provision in previous year		**(37)**	–
Amortisation of intangible assets (included in cost of sales)	21	**7,529**	5,279
Impairment loss on intangible assets	21	**–**	266
Research and development expenditure		**2,638**	–
Amortisation of prepaid land lease payments	18	**103**	135
Net exchange losses		**–**	219
Depreciation of property, plant and equipment	17	**5,734**	5,380
Employee benefits expenses (excluding directors' and supervisors' remuneration (Note 14)):–			
Salaries and allowances		**28,744**	21,525
Pension scheme contributions		**555**	507
Fair value losses/(gains) on biological assets – deers	16	**432**	(291)
Loss on dispsal of property, plant and equipment		**77**	–

11. Taxation

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

	2008 RMB'000	2007 RMB'000
PRC enterprise income tax – current year provision	**7,577**	5,204
Deferred taxation (Note 30)	**2,684**	1,847
	10,261	7,051

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate is 25% (2007: 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 income tax rate of 25% is 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 16.5% (2007: 17.5%) on the estimated assessable profits. No provision has been made for Hong Kong profits tax as the subsidiary did not earn income subject to Hong Kong profits tax during the years ended 31 December 2008 and 2007.

(b) Taxation charge for the year can be reconciled to the accounting profit as follows:

	2008 RMB'000	2007 RMB'000
Profit before taxation	**25,250**	19,429
Taxation calculated at PRC statutory income tax rate of 25% (2007: 33%)	**6,313**	6,412
Tax effect of non-taxable items	**(276)**	(446)
Tax effect of expenses not deductible for taxation purposes	**1,724**	1,856
Deferred tax on temporary differences in prior year	**3,371**	1,858
Tax relief	**(973)**	(2,567)
Others	**102**	(62)
Taxation charge for the year	**10,261**	7,051

12. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity holders of the Company for the year of RMB14,989,000 (2007: RMB12,378,000) and 560,250,000 shares in issue during the year (2007: 560,250,000 shares).

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2008 and 2007.

13. Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of RMB14,973,000 (2007: RMB12,653,000) which has been dealt with in the financial statements of the Company (Note 32).

No dividend has been proposed or paid by the Company in respect of the year ended 31 December 2008 (2007: RMBNil).

14. Directors' and senior executives' remuneration

(a) Directors' remuneration

Details of remuneration paid to the directors of the Company, which were all below HK$1,000,000 (equivalent to RMB893,000 for 2008 and RMB936,000 for 2007) and disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:-

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension fund con-tributions RMB'000	2008 Total RMB'000
Executive directors:				
Zhang Hong	–	29	2	31
Zhang Xiao Guang	–	222	2	224
Zhao Bao Gang	–	116	2	118
Tian Xin Guo (appointed on 28 February 2008)	–	274	2	276
Liang Fu Xiang (appointed on 28 February 2008)	–	264	2	266
Chen Qi Ming (appointed on 28 February 2008)	–	150	2	152
Wu Guo Wen (appointed on 28 February 2008)	–	109	2	111
Li Yu Xian (resigned on 28 February 2008)	–	2	1	3
Cui Shu Mei (resigned on 28 February 2008)	–	2	1	3
Independent non-executive directors:				
Shen Yu Xiang	97	–	–	97
Yan Li Jin (appointed on 28 February 2008)	–	–	–	–
Xue Chang Qing (appointed on 28 February 2008)	–	–	–	–
Nan Zheng (resigned on 28 February 2008)	–	–	–	–
	97	1,168	16	1,281

14. Directors' and senior executives' remuneration (continued)

(a) Directors' remuneration (continued)

	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension fund con-tributions 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
Cui Shu Mei	–	18	1	19
Zhao Bao Gang	–	13	2	15
Zhang Yuan Qiu (resigned on 5 June 2007)	–	–	–	–
Qiao Hong Kuan (resigned on 5 June 2007)	–	3	1	4
Independent non-executive directors:				
Shen Yu Xiang	18	–	–	18
Nan Zheng	–	–	–	–
	18	84	10	112

There were no arrangements under which a director waived or agreed to waive any emoluments, and no incentive payment or compensation for loss of office was paid or payable to any director during the years ended 31 December 2008 and 2007.

(b) Senior executives' remuneration

Details of remuneration paid to the supervisors of the Company which were all below HK$1,000,000 (equivalent to RMB893,000 for 2008 and RMB936,000 for 2007) are as follows:-

	Salaries, allowances and other benefits RMB'000	**Pension fund con-tributions RMB'000**	**2008 Total RMB'000**
Supervisors:			
Zhang Jing Zhou	**96**	**2**	**98**
Li Bao Hai	**14**	**2**	**16**
Wu Wei Men	**19**	**2**	**21**
	129	**6**	**135**

14. Directors' and senior executives' remuneration (continued)

(b) Senior executives' remuneration (continued)

	Salaries, allowances and other benefits RMB'000	Pension fund con-tributions 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

There were no arrangements under which a supervisor waived or agreed to waive any emoluments, and no incentive payment or compensation for loss of office was paid or payable to any supervisor during the years ended 31 December 2008 and 2007.

(c) Five highest paid individuals

The five highest paid individuals during the year included three directors (2007: three directors) whose remuneration is set out in (a) above. Details of remuneration of the remaining two (2007: one) highest paid, non-director employees whose remuneration were all below HK$1,000,000 (equivalent to RMB893,000 for 2008 and RMB936,000 for 2007) are as follows:-

	2008 RMB'000	2007 RMB'000
Salaries, allowances and other benefits	**411**	560
Pension scheme contributions	**9**	13
	420	573

During the years ended 31 December 2008 and 2007, no emoluments were paid by the Group to these highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

15. Retirement benefits schemes

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 Group 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 2008 and 2007, no forfeited contributions were available to reduce the contributions payable in future years.

15. Retirement benefits schemes (continued)

The Group's contribution to retirement benefits schemes for the year ended 31 December 2008 amounted to RMB577,000 (2007: RMB522,000).

16. Bearer biological assets

Bearer biological assets comprise:

	The Groupand the Company	
	2008	2007
	RMB'000	RMB'000
Deers – immature, at fair value	**5**	32
Deers – mature, at fair value	**143**	548
Ginseng, at cost	**827**	595
Vineyard, at cost	**415**	–
Carrying amount at 31 December	**1,390**	1,175

Reconciliation of carrying amounts of bearer biological assets:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Deers		
Carrying amount at 1 January	**580**	656
(Loss)/gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes (Notes 8 and 10)	**(15)**	38
(Loss)/gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes (Notes 8 and 10)	**(417)**	253
Decrease due to sales	**–**	(367)
Carrying amount at 31 December	**148**	580
Ginseng		
Carrying amount at 1 January	**595**	–
Additions during the year	**232**	595
Carrying amount at 31 December	**827**	595
Vineyard		
Additions during the year and carrying amount at 31 December	**415**	–
	1,390	1,175

The carrying amounts of immature and mature deers were valued at market values by reference to prices in the local market of comparable age and breed. The carrying amounts of ginseng and vineyard were valued at their original costs. These assets are in their early stage of cultivation and preparation and active market prices are not available. In addition, the directors are of the view that the original costs would approximate their fair values at this stage of their development.

17. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
The Group					
Cost:					
At 1 January 2007	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
Transfer from construction in progress (Note 19)	14,654	–	–	–	14,654
Additions	2	1,316	1,118	181	2,617
Disposals	–	–	(341)	–	(341)
Reclassified from prepaid land lease payments (Note 18)	1,900	–	–	–	1,900
Other reclassification	212	(212)	–	–	–
Exchange adjustments	–	–	–	(3)	(3)
At 31 December 2008	50,206	45,818	3,836	1,755	101,615
Accumulated depreciation:					
At 1 January 2007	6,408	21,306	1,780	1,144	30,638
Charge for the year (Note 10)	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
Reclassified from prepaid land lease payments (Note 18)	181	–	–	–	181
Other reclassification	16	(16)	–	–	–
Charge for the year (Note 10)	1,521	3,800	298	115	5,734
Written back on disposal	–	–	(230)	–	(230)
Exchange adjustments	–	–	–	(3)	(3)
At 31 December 2008	9,143	28,995	2,181	1,374	41,693
Carrying amount:					
At 31 December 2008	41,063	16,823	1,655	381	59,922
At 31 December 2007	26,013	19,503	946	315	46,777

17. Property, plant and equipment (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
The Company					
Cost:					
At 1 January 2007	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
Transfer from construction in progress (Note 19)	14,654	–	–	–	14,654
Additions	2	1,316	1,118	181	2,617
Disposals	–	–	(341)	–	(341)
Reclassified from prepaid land lease payments (Note 18)	1,900	–	–	–	1,900
Other reclassification	212	(212)	–	–	–
At 31 December 2008	50,206	45,818	3,836	1,691	101,551
Accumulated depreciation:					
At 1 January 2007	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
Reclassified from prepaid land lease payments (Note 18)	181	–	–	–	181
Other reclassification	16	(16)	–	–	–
Charge for the year	1,521	3,800	298	113	5,732
Written back on disposal	–	–	(230)	–	(230)
At 31 December 2008	9,143	28,995	2,181	1,315	41,634
Carrying amount:					
At 31 December 2008	41,063	16,823	1,655	376	59,917
At 31 December 2007	26,013	19,503	946	308	46,770

The buildings of the Group and the Company are situated on parcels of land in the PRC in which the Group and the Company held medium-term land use rights (Note 18).

18. Prepaid land lease payments

	The Group and the Company
	RMB'000
Cost:	
At 1 January 2007	5,301
Additions	130
At 31 December 2007	5,431
Reclassified to buildings (Note 17)	(1,900)
At 31 December 2008	3,531
Accumulated amortisation:	
At 1 January 2007	876
Charge for the year (Note 10)	135
At 31 December 2007	1,011
Charge for the year (Note 10)	103
Reclassified to buildings (Note 17)	(181)
At 31 December 2008	933
Carrying amount:	
At 31 December 2008	2,598
At 31 December 2007	4,420

	2008	2007
	RMB'000	RMB'000
Carrying amount at 31 December	**2,598**	4,420
Portion classified as current assets	**(102)**	(135)
Portion classified as non-current assets	**2,496**	4,285

The above medium-term land use rights are located in the PRC.

19. Construction in progress

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
At 1 January	**7,880**	5,124
Additions	**21,604**	8,156
Transfer to property, plant and equipment (Note 17)	**(14,654)**	–
Government subsidy (Note)	**–**	(5,400)
At 31 December	**14,830**	7,880

Note: During the year ended 31 December 2007, the Group received a grant of RMB5,400,000 from the Development and Restructuring Commission of Jilin Province to finance the Group's development of factory and production facilities for an advanced technology project. The government subsidy had been deducted from the related cost of construction in progress in last year.

20. Interests in subsidiaries

	The Company	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	**5,500**	500
Amount due from a subsidiary	**3,366**	3,366
	8,866	3,866

Particulars of the subsidiaries as at 31 December 2008 were 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%	Dormant
Jilin Province Huinan Changlong Pharmacy Trading Company Limited	The PRC, limited liability company	100%	Trading of biochemical medicine
Jilin Province Medicinal Plants Trading Company Limited#	The PRC, limited liability company	100%	Dormant

20. Interests in subsidiaries (continued)

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 that the carrying amount of the balance approximate its fair value.

The amounts due to subsidiaries classified as current liabilities in the Company's balance sheet are unsecured, interest-free and repayable on demand.

This subsidiary was newly incorporated on 24 December 2008 with a registered capital of RMB5,000,000.

21. Intangible assets

The Group and the Company

	Purchased know-how and prescription RMB'000	Purchased in-process research and development assets RMB'000	Total RMB'000
Cost:			
At 1 January 2007	48,882	–	48,882
Additions	23	–	23
At 31 December 2007	48,905	–	48,905
Additions	11,430	9,800	21,230
At 31 December 2008	60,335	9,800	70,135
Accumulated amortisation and impairment loss:			
At 1 January 2007	16,232	–	16,232
Amortisation charge for the year (Note 10)	5,279	–	5,279
Impairment loss recognised (Note 10)	266	–	266
At 31 December 2007	21,777	–	21,777
Amortisation charge for the year (Note 10)	7,529	–	7,529
At 31 December 2008	29,306	–	29,306
Carrying amount:			
At 31 December 2008	31,029	9,800	40,829
At 31 December 2007	27,128	–	27,128

21. Intangible assets (continued)

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

During the year, the directors reviewed the carrying amount of the purchased know-how and prescription based on the future economic benefits generated from these assets. No impairment loss was recognised for the current year. An impairment loss of RMB266,000 was recognised for the year ended 31 December 2007 as the future economic benefits generated from certain purchased know-how and prescription were estimated to be less than their carrying amount.

During the year, the Group had purchased in-process research and development assets of RMB9,800,000 from independent third parties and their payments were settled against the prepayments. Purchased in-process research and development assets represent costs incurred by third parites for the development of new products, including clinical experiments and tests conducted. Due to the inherent uncertainties associated with these in-process research and development projects, the associated expenditure incurred is particularly at risk of impairment if the successful eventual commercialisation of the projects becomes doubtful. The directors have reviewed the carrying amount of these in-process research and development assets and consider that there are no indications of impairment as at 31 December 2008.

22. Deposit for acquisition of land use rights

During the year, the Company entered into a sale and purchase agreement to purchase a parcel of land which is situated at the Economic Development Zone in Huinan, Jilin Province, the PRC, at a consideration of RMB11,372,000. As at the balance sheet date, the Company had paid a deposit of RMB10,000,000. The remaining balance of RMB1,372,000 will be settled upon the completion of the registration process to transfer the title of the land to the Company.

As disclosed in Note 33 to the financial statements, the above unpaid balance is included as a capital commitment of the Group and the Company.

23. Inventories

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Raw materials	**11,329**	10,495
Work in progress	**4,425**	2,414
Finished goods	**9,570**	23,456
	25,324	36,365
Less: Provision for obsolete and slow-moving inventories	**(6,349)**	(15,673)
	18,975	20,692

During the year, the directors had written off obsolete and slow-moving inventories of RMB12,335,000 which are determined to be worthless. Of this amount, RMB3,011,000 was written off to profit or loss and the balance of RMB9,324,000 was set against the provision for obsolete and slow-moving inventories.

24. Trade receivables

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**80,232**	59,430	**92,037**	73,500
Less: Provision for impairment	**(12,774)**	(11,280)	**(11,035)**	(9,263)
Trade receivables – net	**67,458**	48,150	**81,002**	64,237

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

(ii) The movement in the provision for impairment of trade receivables during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**11,280**	9,771	**9,263**	7,997
Additional provision (Note 10)	**1,494**	1,509	**1,772**	1,266
At end of year	**12,774**	11,280	**11,035**	9,263

Provision for doubtful debts had been made for the estimated irrecoverable amounts arising from the sale of goods. The provision was determined by the directors with reference to past default experience.

(iii) The ageing analysis of trade receivables, based on the invoice date and net of provision for impairment of trade receivables, is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current	**28,952**	22,049	**30,755**	23,883
31-60 days	**7,022**	4,578	**9,168**	6,539
61-90 days	**3,502**	4,646	**5,667**	6,332
More than 90 days	**27,982**	16,877	**35,412**	27,483
	67,458	48,150	**81,002**	64,237

24. Trade receivables (continued)

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**49,873**	38,287	**65,685**	50,227
Less than 1 month past due	**3,580**	2,303	**5,176**	3,580
1 to 3 months past due	**4,385**	2,818	**3,074**	7,852
Over 3 months past due	**3,883**	2,305	**2,836**	1,382
	61,721	45,713	**76,771**	63,041

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 RMB24,762,000 (2007: RMB25,660,000) due from a subsidiary as at 31 December 2008.

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

25. Other receivables, deposits and prepayments

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances to staff	**26,101**	22,661	**26,101**	22,661
Bills receivables	**6,227**	3,297	**6,004**	3,242
Other receivables	**2,595**	2,967	**2,595**	2,967
Deposits and prepayments	**11**	18,674	**–**	18,662
	34,934	47,599	**34,700**	47,532

25. Other receivables, deposits and prepayments (continued)

At 31 December 2008 and 2007, 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 recovered. Consequently, the following provisions for doubtful debts have been made.

	The Group and the Company Advances to staff		**The Group and the Company Other receivables**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Gross amounts	**28,428**	25,027	**3,024**	3,302
Less: Provision for impairment	**(2,327)**	(2,366)	**(429)**	(335)
Net amounts	**26,101**	22,661	**2,595**	2,967

The Group and the Company do not hold any collateral over the above balances. The movement in the provisions for impairment of advances to staff and other receivables during the year, including both specific and collective loss components, is as follows:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
At beginning of year	**2,701**	1,947
Additional provision (Note 10)	**55**	754
At end of year	**2,756**	2,701

26. Loans receivable

The Group and the Company

(i) A loan of RMB2,000,000 (2007: RMB2,000,000) due from an independent third party is unsecured, bears interest of 8% per annum and, following its renewal, shall be fully repaid by 17 July 2009; and

(ii) A loan of RMB1,000,000 (2007: RMB1,000,000) due from an independent third party is unsecured, bears interest of 8% per annum and, following its renewal, shall be fully repaid by 13 December 2009.

These amounts were neither past due nor impaired as at 31 December 2008 and 2007. The directors consider the carrying amount of these loans approximates their fair value.

27. Cash and cash equivalents

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

As at 31 December 2008, the Group's cash and bank balances denominated in RMB amounted to RMB48,793,000 (2007: RMB43,002,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28. Trade payables

The ageing analysis of trade payables, based on the invoice date, is as follows:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Current	**2,044**	4,769
31-60 days	**1,042**	1,016
61-90 days	**1,338**	101
More than 90 days	**7,651**	5,466
	12,075	11,352

The average credit period from the Group's and the Company's trade creditors is 90 to 180 days.

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

29. 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	
	2008	2007
	RMB'000	RMB'000
Within one year	**–**	466
After one year but within two years	**–**	466
After two years but within five years	**1,271**	1,398
After five years	**5,719**	4,660
	6,990	6,524
	6,990	6,990

30. Deferred taxation

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

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
At beginning of year	**1,847**	–
Charged to profit or loss (Note 11(a))	**2,684**	1,847
At end of year	**4,531**	1,847

The deferred tax liabilities recognised at the balance sheet date represented deferred tax arising from accelerated depreciation allowances.

31. Share capital

	2008		2007	
	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

32. Reserves

The Group

The Group's exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the Group's accounting policy set out in Note 3(t).

The Company

	Share premium RMB'000 (Note a)	**Statutory surplus reserve** RMB'000 (Note b)	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2007	51,098	23,285	89,094	163,477
Profit for the year	–	–	12,653	12,653
Appropriation to statutory surplus reserve		1,670	(1,670)	–
At 31 December 2007	51,098	24,955	100,077	176,130
Profit for the year	–	–	14,973	14,973
Appropriation to statutory surplus reserve		2,229	(2,229)	–
At 31 December 2008	51,098	27,184	112,821	191,103

(a) Share premium

The Company's share premium account represents the premium arising from shares issued at a price in excess of their par value per share.

(b) 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.

33. Capital commitments

At the balance sheet date, the Group and the Company had capital commitments contracted for but not provided for as follows:-

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Acquisition of intangible assets	**4,240**	5,425
Acquisition of property, plant and equipment	**1,864**	1,755
Acquisition of land use rights (Note 22)	**1,372**	–
	7,476	7,180

34. Related party transactions

Members of key management during the year comprised the executive directors only whose remuneration is set out in Note 14 to the financial statements.

35. 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 29, 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 2008 and 2007.

36. 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.

36. Financial risk management

(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 Company's board of directors 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 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 and the Company can be required to pay.

The Group

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2008						
Trade payables	12,075	12,075	12,075	–	–	–
Other payables	40,725	40,725	40,725	–	–	–
Other tax payables	13,239	13,239	13,239	–	–	–
Dividend payable	360	360	360	–	–	–
Borrowings	6,990	8,594	178	178	1,789	6,449
	73,389	74,993	66,577	178	1,789	6,449
2007						
Trade payables	11,352	11,352	11,352	–	–	–
Other payables	13,978	13,978	13,978	–	–	–
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
	44,611	46,490	38,322	685	1,962	5,521

36. Financial risk management (continued)

(b) Liquidity risk (continued)

The Company

	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
2008						
Trade payables	12,075	12,075	12,075	–	–	–
Other payables	40,710	40,710	40,710	–	–	–
Amounts due to subsidiaries	5,500	5,500	5,500	–	–	–
Other tax payables	12,732	12,732	12,732	–	–	–
Dividend payable	360	360	360	–	–	–
Borrowings	6,990	8,594	178	178	1,789	6,449
	78,367	79,971	71,555	178	1,789	6,449
2007						
Trade payables	11,352	11,352	11,352	–	–	–
Other payables	13,969	13,969	13,969	–	–	–
Amount due to a subsidiary	500	500	500	–	–	–
Other tax payables	11,459	11,459	11,459	–	–	–
Dividend payable	396	396	396	–	–	–
Borrowings	6,990	8,869	701	685	1,962	5,521
	44,666	46,545	38,377	685	1,962	5,521

36. 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			
	2008		2007	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Variable rate borrowings				
Borrowings	**2.55%**	**6,990**	3.36%	6,990

The interest rate and terms of repayment of the Group's and the Company's borrowings are disclosed in Note 29 to the financial statements.

At 31 December 2008, it was estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would decrease or increase the Group's profit after taxation and retained profits by RMB69,900 (2007: RMB29,000).

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.

(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 price 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 2008 and 2007.

37. 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 2008 and 2007 may be categorised as follows:

	2008	2007
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and bank balances)	**154,212**	141,291
Financial liabilities		
Financial liabilities measured at amortised cost	**79,649**	47,906

38. Major non-cash transactions

The amount paid for the acquisition of purchased know-how and prescription and in-process research and development assets of RMB6,460,000 and RMB9,800,000 respectively was settled against prepayments during the year. Acquisition of purchased know-how and prescription during the year included an unpaid amount of RMB4,970,000 which was included in other payables of the Group and the Company as at 31 December 2008.

39. Comparative amounts

Amortisation of intangible assets of RMB5,279,000 previously included in administrative expenses for the year ended 31 December 2007 has been reclassified to cost of sales to conform with the current year's presentation. The directors consider the inclusion of such expense in cost of sales will more appropriately reflect the operating results of the Group.

40. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 April 2009.

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Renminbi)

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and with the reclassification of expenses as explained in Note 39 to the financial statements, is set out below.

Operating Results

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**127,124**	97,284	69,522	81,889	83,986
Cost of sales	**(38,819)**	(29,658)	(27,821)	(27,280)	(22,346)
Gross profit	**88,305**	67,626	41,701	54,609	61,640
Other income and net gains or losses	**428**	2,258	1,676	7,429	4,735
Distribution and selling costs	**(47,711)**	(38,426)	(28,238)	(37,521)	(40,373)
Administrative expenses	**(15,524)**	(11,922)	(9,197)	(11,810)	(12,759)
Other operating expenses	**–**	–	(611)	(311)	(364)
Profit from operations	**25,498**	19,536	5,331	12,396	12,879
Finance costs	**(248)**	(107)	(323)	(397)	(514)
Profit before taxation	**25,250**	19,429	5,008	11,999	12,365
Taxation	**(10,261)**	(7,051)	(1,971)	(3,982)	(3,762)
Profit for the year attributable to equity holders of the Company	**14,989**	12,378	3,037	8,017	8,603

Assets and Liabilities

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bearer biological assets	**1,390**	1,175	656	464	544
Property, plant and equipment	**59,922**	46,777	49,657	51,128	52,590
Prepared lease payments	**2,496**	4,285	4,295	3,596	3,726
Construction in progress	**14,830**	7,880	5,124	3,971	4,750
Intangible assets	**40,829**	27,128	32,650	31,016	25,467
Deposit for acquisition of land use rights	**10,000**	–	–	–	–
Current assets	**188,578**	181,387	156,547	174,922	156,829
Current liabilities	**(72,659)**	(41,382)	(42,649)	(54,851)	(41,677)
Non-current liabilities	**(11,521)**	(8,371)	–	–	–
Net assets	**233,865**	218,879	206,280	210,246	202,229
Share capital	**56,025**	56,025	56,025	56,025	56,025
Reserves	**177,840**	162,854	150,255	154,221	146,204
Total equity	**233,865**	218,879	206,280	210,246	202,229

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Jilin Province Huinan Changlong Bio-pharmacy Company Limited ("the Company") for the year ended 31 December 2008 (the "AGM") will be held at 31 Beishan Street, Chaoyang Town, Huinan County, Tonghua, Jilin Province, the People's Republic of China (the "PRC") on Tuesday, 16 June 2009 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, 2008;

2. to consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2008;

3. to consider and approve the appropriation to statutory surplus reserve for the year ended 31 December 2008;

4. to consider the appointment of BDO McCable Lo Limited (to be renamed as BDO Limited on 1 May 2009) as auditors of the Company for the year ending 31 December 2009 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 2009;

As Special Resolution:

1. to consider and approve the resolution for the proposed amendments made to a certain articles of the Articles of Association of the Company pursuant to the provisions and requirements of the People's Republic of China Company Law. (Please see Annex 1 for the details of the proposed amendments).

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

   "**THAT**:

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

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

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

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

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

(f) for the purpose of this special resolution:

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

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

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

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

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

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

3. 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 April 2009

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 15 May 2009 to 16 June 2009 (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 14 May 2009 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 26 May, 2009.

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

ANNEX 1: DETAILS OF THE PROPOSED AMENDMENTS TO CERTAIN ARTICLES OF THE ARTICLES OF ASSOCIATION ARE AS FOLLOWS (NOTE)

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

(1) The entire Article 10 be deleted and replaced by the paragraph as set out below:

Amended paragraph:

The business scope of the Company shall be in accordance with the items approved by the registration authority with which the Company is registered. The business scope of the Company shall include wholesale and retail of hard capsules, tablets, granules, pills (water pills, pellets), small volume Parenteral Solution, Lyophilized powder for injection, solutions (for external use), powder for injection (cephalosporins); exporting self-produced products of the Company and its related technologies (excluding commodities of the Company limited or restricted by the State for operation or export), operation of raw material and auxiliary materials required for its own production and scientific research, importing machinery and facilities, apparatus and devices, parts and components and related technologies (excluding commodities of the Company limited or restricted by the State for operation or import); operation of processing and "three incoming and one compensation" business.

With the approvals of the general meeting and the relevant government authorities, the Company may change its business scope based on the domestic and international market demand and the Company's own development capability and business needs.

Subject to compliance with laws and administrative regulations of the PRC, the Company has financing rights, including but not limited to borrowings, issue of debentures, charging or mortgaging in part or the whole of its interest, and provision in various ways of guarantee to the debts of any third party (including but not limited to subsidiaries or associates of the Company) in any circumstances.

(2) The entire Article 15 be deleted and replaced by the paragraph as set out below:

Amended paragraph:

The Company issued 27,000,000 domestic ordinary shares of par value RMB 1 each to promoters at the time of establishment upon approval of the companies examining and approving department authorized by the State Council, of which:

Name of shareholders	Number of shares held (Ten thousand)	Percentage of total share capital
Zhang Hong	679.5466	25.2%
Huinan County State-Owned Assets Administration Bureau	661.4534	24.5%
Zhang Xiaoguang	340	12.6%
Qiao Hongkuan	266	9.9%
Fan Jiachen	148	5.5%
Sun Lijuan	146	5.4%
Liu Yanqiu	154	5.7%
Yang Xiuyan	152	5.6%
Xu Xiangfu	153	5.6%
Total	2700	100%

(3) The entire Article 16 be deleted and replaced by the paragraph as set out below:

Amended paragraph:

The Company placed 13,500,000 (10:5) domestic ordinary shares to promoters in the form of increasing share capital through profit capitalization, with the total number of ordinary shares of the Company increasing to 40,500,000 shares.

The Company was listed on the Growth Enterprise Market ("GEM") of Hong Kong on 24 May 2001. The total number of ordinary shares increased to 405,000,000 shares through a share split into shares of RMB0.1 per share. 17,250,000 H shares were issued and listed on GEM including 155,250,000 newly issued shares sold by the Company to shareholders of H shares on GEM and 17,250,000 shares in stock sold by Huinan County State Owned Assets Administration Bureau to shareholders of H shares on GEM. The total number of ordinary shares of the Company is 560,250,000 shares upon issue.

On 19 June 2007, Huinan County State Owned Assets Administration Bureau was revoked due to reform of Huinan County government authorities. By the document Hui Zheng Han (2007) No.16 issued by the county government, 81,975,000 shares held by Huinan County State Owned Assets Administration Bureau were all transferred to Huinan County Financial Investment Company Limited, a wholly state owned subsidiary of Huinan County Finance Bureau. On 26 June 2008, transfer of the above shares was approved by Jilin Province State Owned Assets Supervision and Administration Committee.

During the period from May to August 2007, some promoters sold their shares, hence, the number of domestic natural shareholders increased to 107 from 8.

During July 2008, the number of domestic natural shareholders further increased to 154 from 107 upon share transfer.

(4) The entire Article 19 be deleted and replaced by the paragraph as set out below in its place:

Amended paragraph:

The registered capital of the Company is RMB56,025,000, and corresponding adjustment of which shall be made if over allotment options are exercised or new shares are issued and filed with the companies examining and approving authority and securities administration authority authorized by the State.

(5) The entire Article 88 be deleted and replaced by the paragraph as set out below:

Amended paragraph:

The Company shall establish a board of directors which consists of 9 directors, of which one shall be the chairman and of which three shall be independent directors (those who are independent from the Company and do not assume any position within the Company).

The Company shall provide necessary information when external directors perform their duties.

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