



**長春達興藥業股份有限公司**

**Changchun Da Xing Pharmaceutical Company Limited\***

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



**Interim Report 2002**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

## HIGHLIGHTS

- For the six months ended 30th June, 2002, turnover increased by approximately 30.7% as compared with that for the corresponding period in 2001.
- For the six months ended 30th June, 2002, profit attributable to shareholders increased by approximately 106.4% as compared with that for the corresponding period in 2001.
- For the six months ended 30th June, 2002, earnings per share was RMB 5.0 cents.
- The Directors do not recommend the payment of any dividend in respect of the six months ended 30th June, 2002.

The unaudited results of the Company for the three and six months ended 30th June, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 are as follows:

### CONDENSED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	<i>Notes</i>	<b>Six months ended 30th June,</b>		<b>Three months ended 30th June,</b>	
		<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
		<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
Turnover	3	38,493	29,452	18,340	17,610
Cost of Sales		(8,788)	(9,061)	(4,497)	(5,137)
Gross Profit		29,705	20,391	13,843	12,473
Other revenue/(expenses)	4	1,839	(71)	1,831	11
Distribution and selling expenses		(4,735)	(1,954)	(2,246)	(1,648)
Administrative expenses		(3,308)	(5,782)	(1,083)	(4,578)
Profit from operations		23,501	12,584	12,345	6,258
Finance costs		(223)	(540)	(96)	(290)
Profit before taxation	5	23,278	12,044	12,249	5,968
Taxation	6	(3,203)	(2,318)	(1,634)	(1,597)
Profit attributable to shareholders		20,075	9,726	10,615	4,371
Dividend	7	–	–	–	–
Retained profit		<u>20,075</u>	<u>9,726</u>	<u>10,615</u>	<u>4,371</u>
Earnings per share	8				
– Basic		<u>5.0 cent</u>	<u>2.4 cents</u>	<u>2.6 cents</u>	<u>1.1 cents</u>
– Diluted		<u>5.0 cent</u>	<u>N/A</u>	<u>2.6 cents</u>	<u>N/A</u>

## CONDENSED BALANCE SHEET

		<b>As at</b>	<b>As at</b>
		<b>30th June,</b>	<b>31st December,</b>
		<b>2002</b>	<b>2001</b>
	<i>Notes</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
		(Unaudited)	(Audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	29,302	30,158
Purchased knowhow and prescription	10	9,560	9,540
		<hr/>	<hr/>
		38,862	39,698
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	11	16,485	19,234
Trade debtors, net	12	34,799	30,843
Other receivables		563	1,022
Deposit paid		–	2,602
Deferred expenses		1,774	1,774
Bank balances and cash		92,995	18,034
Amount due from shareholders	13	1,187	3,637
Tax recoverable		–	138
		<hr/>	<hr/>
		147,803	77,284
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade creditors	14	8,127	10,489
Other payables and accruals		7,123	4,888
Deposit received		1,359	2,337
Dividend payable	15	925	925
Short-term bank loans	16	5,500	5,500
Provision for taxation		1,700	3,335
		<hr/>	<hr/>
		24,734	27,474
		<hr/>	<hr/>
<b>Net current assets</b>		123,069	49,810
		<hr/>	<hr/>
		161,931	89,508
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Share capital	17	54,000	40,000
Reserves	18	107,931	49,508
		<hr/>	<hr/>
		161,931	89,508
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CASH FLOW STATEMENT (UNAUDITED)**

	<b>Six months ended 30th June,</b>	
	<b>2002</b>	<b>2001</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>
<b>Net cash inflow from operating activities</b>	19,132	953
<b>Net cash outflow from investing activities</b>	<u>(90)</u>	<u>(2,198)</u>
<b>Net cash inflow/(outflow) before financing</b>	19,042	(1,245)
<b>Net cash inflow/(outflow) from financing</b>	<u>55,919</u>	<u>(1,000)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	74,961	(2,245)
<b>Cash and cash equivalents at the beginning of the period</b>	<u>18,034</u>	<u>9,134</u>
<b>Cash and cash equivalents at the end of the period</b>	<u><u>92,995</u></u>	<u><u>6,889</u></u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	<u><u>92,995</u></u>	<u><u>6,889</u></u>

## CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital <i>RMB('000)</i>	Retained profits <i>RMB('000)</i>	Share premium <i>RMB('000)</i>	PRC statutory funds		Total <i>RMB('000)</i>
				Statutory surplus reserve <i>RMB('000)</i>	Staff public welfare fund <i>RMB('000)</i>	
As at 1st January, 2002	40,000	32,192	7,668	6,439	3,209	89,508
New issue of H Shares upon public listing	14,000	–	–	–	–	14,000
Profit for the period	–	20,075	–	–	–	20,075
Increase in share premium	–	–	52,780	–	–	52,780
Share issuing costs	–	–	(14,432)	–	–	(14,432)
Transfer to statutory funds	–	(3,011)	–	2,008	1,003	–
As at 30th June, 2002	<u>54,000</u>	<u>49,256</u>	<u>46,016</u>	<u>8,447</u>	<u>4,212</u>	<u>161,931</u>

## NOTES TO FINANCIAL STATEMENTS

### 1. Basis of preparation

The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 27th December, 1993, and its H shares were listed on GEM on 28th June, 2002. Details of these are set out in the prospectus of the Company issued on 21st June, 2002.

The Company has been principally engaged in the manufacture and sale of Chinese medicines and western medicines in the PRC since its incorporation. It is also engaged in the research and development of Chinese medicines, western medicines and biochemical medicines.

This interim financial statements has been prepared in accordance with the GEM Listing Rules of the Stock Exchange and the Statements of Standard Accounting Practice No. 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

### 2. Principal accounting policies

The principal accounting policies adopted in preparing this interim financial statements are the same as that adopted in preparing the annual financial statements for the year ended 31st December, 2001.

### 3. Turnover

Turnover comprises the invoiced value of merchandise sold net of value added tax and after allowances for returns and discounts.

The Company's turnover and operating profit are entirely derived from the PRC on the sales of pharmaceutical products. Accordingly, no analysis by business or geographical segment is provided.

### 4. Other revenue/(expenses)

	Six months ended 30th June,		Three months ended 30th June,	
	2002	2001	2002	2001
	RMB('000)	RMB('000)	RMB('000)	RMB('000)
(Loss)/Gain from sub-contracting work	(75)	43	(2)	126
Stock gain/(loss)	25	(128)	25	(128)
Written back on provision for bad debts	1,736	–	1,736	–
Interest income	106	12	72	12
Others	47	2	–	1
	<u>1,839</u>	<u>(71)</u>	<u>1,831</u>	<u>11</u>

## 5. Profit before taxation

	Six months ended 30th June,		Three months ended 30th June,	
	2002	2001	2002	2001
	RMB('000)	RMB('000)	RMB('000)	RMB('000)
Profit before taxation is				
arrived at after charging:				
Interest expenses on bank loans	223	540	96	290
Loss on disposal of property, plant and equipment	77	—	—	—
Amortisation of purchased knowhow and prescription	—	29	—	14
Depreciation	944	942	472	471
	<u>944</u>	<u>942</u>	<u>472</u>	<u>471</u>

## 6. Taxation

PRC income tax is computed according to the relevant laws and regulations in the PRC. Since the year ended 31st December, 2000, the Company has been qualified as a High and New Technology Enterprise as defined by the Changchun City Science and Technology Committee and its applicable tax rate has been accordingly reduced from 33% to 15%.

## 7. Dividend

The Board of Directors of the Company does not recommend the payment of any interim dividend in respect of the six months ended 30th June, 2002 (2001: Nil).

## 8. Earnings per share

The calculation of the basic earnings per share for the three months ended 30th June, 2002 is based on the unaudited profit attributable to shareholders for the period of RMB10,615,000 (2001: RMB4,371,000) and on the weighted average number of shares of 404,615,385 shares (2001: 400,000,000 shares) in issue during the period.

The calculation of the basic earnings per share for the six months ended 30th June, 2002 is based on the unaudited profit attributable to shareholders for the period of RMB20,075,000 (2001: RMB9,726,000) and on the weighted average number of shares of 402,320,442 shares (2001: 400,000,000 shares) in issue during the period.

The calculation of the diluted earnings per share for the three months ended 30th June, 2002 is based on the unaudited profit attributable to shareholders for the period and on the weighted average number of shares of 406,923,077 shares during the period, which represents the weighted average number of shares based on 404,615,385 shares used in the calculation of the basic earnings per share and 21,000,000 shares assumed to be issued upon the exercise of the over-allotment option.



The calculation of the diluted earnings per share for the six months ended 30th June, 2002 is based on the unaudited profit attributable to shareholders for the period and on the weighted average number of shares of 403,480,663 during the period, which represents the weighted average number of shares based on 402,320,442 shares used in the calculation of the basic earnings per share and 21,000,000 shares assumed to be issued upon the exercise of the over-allotment option.

No diluted earnings per share is calculated for the three and six months ended 30th June, 2001, as there were no dilutive events during such periods.

## 9. Property, plant and equipment

	Leasehold land and buildings <i>RMB('000)</i>	Furniture, fixtures and equipment <i>RMB('000)</i>	Plant and machinery <i>RMB('000)</i>	Transportation equipment <i>RMB('000)</i>	Total <i>RMB('000)</i>
<b>Cost</b>					
As at 1st January, 2002	28,695	400	9,076	2,445	40,616
Additions	–	50	160	–	210
Disposals	–	(6)	(245)	–	(251)
	<u>28,695</u>	<u>444</u>	<u>8,991</u>	<u>2,445</u>	<u>40,575</u>
As at 30th June, 2002	28,695	444	8,991	2,445	40,575
<b>Accumulated depreciation</b>					
At 1st January, 2002	3,590	266	5,103	1,499	10,458
Charge for the period	359	25	441	119	944
Written back on disposal	–	(2)	(127)	–	(129)
	<u>3,949</u>	<u>289</u>	<u>5,417</u>	<u>1,618</u>	<u>11,273</u>
As at 30th June, 2002	3,949	289	5,417	1,618	11,273
<b>Net book value</b>					
As at 30th June, 2002	<u>24,746</u>	<u>155</u>	<u>3,574</u>	<u>827</u>	<u>29,302</u>
As at 1st January, 2002	<u>25,105</u>	<u>134</u>	<u>3,973</u>	<u>946</u>	<u>30,158</u>

## 10. Purchased knowhow and prescription

	As at 30th June, 2002 <i>RMB('000)</i>	As at 31st December, 2001 <i>RMB('000)</i>
Cost	9,870	9,850
Less: Amortisation	<u>(310)</u>	<u>(310)</u>
	<u>9,560</u>	<u>9,540</u>

## 11. Inventories

	<b>As at 30th June, 2002</b>	<b>As at 31st December, 2001</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>
Raw materials	2,132	4,856
Work-in-progress	5,413	5,513
Finished goods	10,556	10,481
	<hr/>	<hr/>
	18,101	20,850
Less: Provision for obsolete inventories	(1,616)	(1,616)
	<hr/>	<hr/>
	<u>16,485</u>	<u>19,234</u>

## 11. Trade debtors

Details of the aging analysis of trade debtors net of provision for doubtful debts are as follows:

	<b>As at 30th June, 2002</b>	<b>As at 31st December, 2001</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>
Within 1 month	9,567	3,480
Between 2 to 3 months	8,640	4,198
Between 4 to 6 months	8,793	2,742
Between 7 to 12 months	4,136	8,314
Between 1 to 2 years	3,663	9,351
Between 2 to 3 years	–	2,756
Over 3 years	–	2
	<hr/>	<hr/>
	<u>34,799</u>	<u>30,843</u>

The Company usually allows a credit period for all of its customers. Only a trivial amount of sales are settled on a cash-on-delivery basis. The Company's credit period given to its customers varies in accordance with the payment history and reputation of the customers and in most cases do not exceed 3 months. The Company allows a credit period ranging from 3 months to 6 months for its major customers. A credit limit will also be assigned to each of the Company's customers in accordance with their respective sales payment and creditability records. The Company usually does not make further sales to new customers who have not settled payment of previous sales that had been outstanding longer than the relevant credit period given or the total outstanding amount have exceeded their respective pre-approved credit limit or customers which have a dissatisfactory repayment history.

### 13. Amounts due from shareholders

The amounts due from shareholders are unsecured, interest free and have no fixed repayment terms.

### 14. Trade creditors

Details of the aging analysis of trade creditors are as follows:

	<b>As at 30th June, 2002</b>	<b>As at 31st December, 2001</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>
Within 3 months	2,013	4,229
Between 4 to 6 months	672	1,851
Between 7 to 12 months	3,327	1,007
Between 1 to 2 years	649	463
Between 2 to 3 years	669	309
Over three years	797	2,630
	<u>8,127</u>	<u>10,489</u>

### 15. Dividend payable

Dividend payable is unsecured and interest free, but is repayable on demand.

### 16. Bank loans

	<b>As at 30th June, 2002</b>	<b>As at 31st December, 2001</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>
Bank loans repayable within one year	<u>5,500</u>	<u>5,500</u>

## 17. Share capital

	Number of shares ('000)			Value RMB('000)
	Domestic shares of RMB1 each	Domestic shares of RMB0.1 each	H shares of RMB0.1 each	
<b>Registered, issued and fully paid:</b>				
On the date of incorporation, i.e. 27th December, 1993	32,000	–	–	32,000
Increase in capital	8,000	–	–	8,000
As at 1st January, 2002	40,000	–	–	40,000
Nominal value of the shares changed from RMB1 per share to RMB0.1 per share	(40,000)	400,000	–	–
Issue of H shares on 28th June, 2002	–	–	140,000	14,000
As at 30th June, 2002	–	400,000	140,000	54,000

Due to the listing of shares of the Company on GEM on 28th June, 2002, the Company placed 140,000,000 new H shares of RMB 0.1 each at HK\$0.45 per share for cash. A sum of HK\$63,000,000 has been raised (before the relevant issuing costs). The amount in excess of the nominal value of the shares in issue has been credited to the share premium account.

Also on 19th July, 2002, the Company exercised the over-allotment option to allot and issue 21,000,000 new H shares (“the Over-allotment shares”) on the basis of HK\$0.45 per H share. The Over-allotment shares represented approximately 3.7% of all the Company’s share capital in issue immediately after the allotment of the Over-allotment shares. The Over-allotment shares were issued and listed on GEM on 23rd July, 2002.

## 18. Reserves

	Retained profits <i>RMB('000)</i>	Share premium <i>RMB('000)</i>	PRC statutory funds		Total <i>RMB('000)</i>
			Statutory surplus reserve <i>RMB('000)</i>	Staff public welfare fund <i>RMB('000)</i>	
As at 1st January, 2002	32,192	7,668	6,439	3,209	49,508
Profit for the period	20,075	–	–	–	20,075
Increase in share premium	–	52,780	–	–	52,780
Issuing cost of shares	–	(14,432)	–	–	(14,432)
Transfer to statutory funds	<u>(3,011)</u>	<u>–</u>	<u>2,008</u>	<u>1,003</u>	<u>–</u>
As at 30th June, 2002	<u>49,256</u>	<u>46,016</u>	<u>8,447</u>	<u>4,212</u>	<u>107,931</u>

## 19. Capital commitment

	As at 30th June, 2002 <i>RMB('000)</i>	As at 31st December, 2001 <i>RMB('000)</i>
Contracted but not provided for:		
– Knowhow and prescription	<u>10,280</u>	<u>10,280</u>

## OPERATING RESULTS

For the six months ended 30th June, 2002, the Company recorded a turnover of RMB38,493,000, an approximately 30.7% increase as compared with that for the corresponding period in 2001. The profit attributable to shareholders was RMB20,075,000, an approximately 106.4% increase as compared with that for the corresponding period in 2001. Basic earnings per share were RMB5.0 cents, and the diluted earnings per share were RMB5.0 cents.

## BUSINESS REVIEW

For the six months ended 30th June, 2002, the turnover of the Company increased by RMB9,041,000. This is mainly because during the period, the Company made much efforts in further expanding its existing markets while at the same time, tapping new ones. Meanwhile, the Company also launched all-out marketing and promotion campaigns and recruited additional marketing staff in various major cities. Capitalizing on its outstanding

quality and unique therapeutical effects, Jing Tong Ling, the Company's flagship product, was well received in markets. Accordingly, the turnover of the product rose steadily, reassuring a stable growth to the Company's turnover.

For the six months ended 30th June, 2002, the Company recorded an unaudited gross profit of RMB29,705,000, with a gross profit margin of 77%. The unaudited gross profit for the corresponding period in last year was RMB20,391,000, with a gross profit margin of 69%. The increase in gross profit is mainly due to the increase in turnover and sales of products with higher profit margin.

With the consistent efforts and new measures adopted by the Company's debt collection group, the Company was able to recover in the six months under review a doubtful debt of RMB1,736,000 provided for in the previous year and the amount was recorded in the Company's other revenue (see note 4 to the financial statements).

Active market expansion and stronger emphasis on staff training gave rise to a drastic increase of sales and distribution costs, from RMB1,954,000 for the corresponding six months in last year to RMB4,735,000 for the six months ended 30th June, 2002. In addition, for the period under review, the management did not find any substantial bad and doubtful debts and obsolete inventories. Accordingly, the management considers that the current level of provisions for bad and doubtful debts and obsolete inventories is adequate. Therefore, administrative expenses for the six months under review were largely reduced as compared with the corresponding period in last year.

### **Liquidity and Financial Resources**

The Company was successfully listed on GEM on 28th June, 2002 by placing of 140,000,000 H Shares. The proceeds of placing, net of related expenses, were RMB52,348,000. The Company shall apply the proceeds in the way as set out in the prospectus dated 21st June, 2002. As at 30th June, 2002, the Company's bank balances and cash in hand was approximately RMB92,995,000 whereas the short-term bank loan was approximately RMB5,500,000. Taken into consideration of its current financial resources, the Company shall have adequate capital for its continual operation and development.

### **Prospects**

In respect of its existing products, the Company will not only strive to tap new markets, but will also put effort to widen existing market share. Currently, the Company has undertaken to develop six new products and adopted pre-requisite measures to ensure that workshops of Jing Tong Ling as well as production of capsules, tablets and granules will comply with their respective GMP standards before the deadline imposed by the relevant PRC government authorities. The Company will also strive to develop other new products with market potential, understand market needs of new medicines, and identify suitable hospitals and research institutes for joint development of new products.

By capitalising on the geographical superiority the Company enjoys, its prestigious brand names, experienced management and strong research and development team, the state-of-art equipment as well as pool of state-recognised professional pharmacists, the management believes that the Company will maintain good performance in the years ahead.

### **Substantial investment**

For the six months ended 30th June, 2002, the Company did not have any substantial investment.

### **Major acquisition and disposal/Future plans for substantial investment**

For the six months ended 30th June, 2002, the Company did not made any major acquisition and disposal. Except as stated in the prospectus dated 21st June, 2002, there is no plan of no major investment or acquisition of capital assets.

### **Pledge of assets and contingent liabilities**

For the six months ended 30th June, 2002, the Company did not have any substantial pledge of assets and contingent liabilities.

### **Gearing ratio**

For the six months ended 30th June, 2002, the total assets of the Company was approximately RMB186,665,000 whereas the total liabilities was approximately RMB24,734,000. The gearing ratio (total liabilities divided by total assets) is 13.25%.

### **Staff information**

As at 30th June, 2002, the Company employed an aggregate of 300 staff in the PRC and in Hong Kong. For the six months under review, the salaries were approximately RMB2,900,000. The salary of staff was determined according to the performance of staff and the market trend.

Each of the executive Directors and supervisors has entered into a service agreement with the Company, pursuant to which, executive Directors may be granted cash bonus with reference to the Company's profitability at the Board's discretion, but shall subject to shareholders' approval (the interested Directors shall abstain from voting in the Board meeting during which his/her entitlement and the amount of bonus is considered). In any financial year, the discretionary bonus payable to all executive Directors shall not exceed 2% of the Company's profit after tax, minority interest and extraordinary loss (extraordinary profit not included). According to the service contract, each Directors and supervisors is entitled to receive an annual salary as specified. Subject to approval by the shareholders,

such annual salary may be increased annually at the discretion of the Board at not more than 15% of the annual salary in the previous year.

### **Foreign exchange exposure**

All the operating revenue of the Company is denominated in RMB. For payment of dividend to overseas shareholders, the Company has to convert a portion of RMB to Hong Kong dollars. During the period under review, the exchange rate of these currencies remained stable. The Company did not have any hedging or other arrangement in relation to these currencies.

### **Use of proceeds for issue of new shares: from 28th June, 2002 to 30th June, 2002**

The actual net proceeds for issue of new shares on 28th June, 2002 were RMB52,348,000 and the net proceeds estimated in the prospectus dated 21st June, 2002 were RMB54,060,000. The actual net proceeds for issue of new shares were RMB1,712,000 less than the amount estimated in the prospectus, and this is mainly due to the difference of shares issuance expenses expected to be incurred. During the period between 28th June, 2002 to 30th June, 2002, the actual net proceeds for New Issue had been applied in accordance with the prospectus.

### **Disclosure of Directors' and Supervisors' interests in shares**

As at 30th June, 2002, the beneficial interests of the Company's Directors, Supervisors and their respective associates in the share capital of the Company which will be required pursuant to section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance") to be entered in the register referred to therein or which required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

<b>Name</b>	<b>Personal Interest</b> <i>Number of shares</i> <i>(Note)</i>	<b>Family Interest</b> <i>Number of shares</i>	<b>Corporate Interest</b> <i>Number of shares</i>	<b>Other Interest</b> <i>Number of shares</i>
Feng Zhen Wen	220,000	–	–	–
Lu De Yi	100,000	–	–	–
Li Xiu Jie	100,000	–	–	–
Yu Cheng Kun	60,000	–	–	–
Guo Bin	50,000	–	–	–
Wu Tie Min	50,000	–	–	–
Xu Feng Ying	50,000	–	–	–
Wang Ting Jun	50,000	–	–	–

*Note:* All are domestic shares



Except as disclosed above, as at 30th June, 2002, none of the Company's Directors, Supervisors and their respective associates holds any interests of the Company. None of the Company's directors or supervisors or their spouse or children under the age of 18 has been offered or exercised any rights to subscribe for the shares of the Company.

### Substantial Shareholders

As at 30th June, 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of shareholding
Changchun Kuangcheng Pharmaceutical Factory	172,000,000( <i>note</i> )	31.85%

*Note:* All are domestic shares

Save as disclosed above, as far as the Company awares, as at 30th June, 2002, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

### COMPARISON OF THE IMPLEMENTATION PLAN AND ITS ACTUAL PROGRESS: FROM 17TH JUNE, 2002 TO 30TH JUNE, 2002

#### 1. Research and development

##### Implementation plan

Continue to conduct the clinical research of Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑) and Lijie tablets (歷節片)

##### Actual progress

1. Three clinical studies of Urinary trypsin inhibitor have been completed
2. In the course of selecting clinical studies unit for Lijie tablets

#### 2. Sales and marketing

##### Implementation plan

Provide training to sales and marketing staff

##### Actual progress

A 3-day training session for overall sales and marketing staff in mid-July 2002 was under preparation and the preparation works include selection of training site and arrangement of curriculum

### **Implementation plan**

Recruit sales and marketing staff in various cities in the PRC

Participate in a national medical seminar and a seminar in respect of sales and marketing strategy in the PRC

### **Actual progress**

Recruitment work has been in progress. The number of staff to be recruited has not been finalized and was in the progress of selecting and examining staff

Conducted preparation work to attend the “Seminar of manufacturing, studies and research of Jilin Province” to be convened in Changchun on 31 July 2002 to study the latest scientific achievement of various institutes and scientific research units

## **3. Production**

### **Implementation plan**

Continue to inspect relevant facilities and arrange for the preparatory work for the implementation of GMP standards for the workshop for capsules, tablets and granules, based on the design prepared by the relevant provincial pharmaceutical design institute

Appoint the relevant provincial pharmaceutical design institute to prepare the design for the implementation of GMP standards for the Jing Tong Ling (頸痛靈) workshop

Upgrade facilities for the freeze-dry powder for injection workshop

### **Actual progress**

Implementation of GMP standards for the workshop for solid products was in the final stage of design verification and testing of equipment

The design of production line of Jing Tong Ling was underway.

The fine-tuning on production line of freeze-dry powder for injection was underway.

## **COMPETING INTERESTS**

As at 30th June, 2002, none of the director or management shareholders (as defined in GEM Listing Rules) of the Company or their respective associates had interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Company.

## **SPONSORS' INTERESTS**

Pursuant to the agreement dated 20th June, 2002 entered into between the Company and CSC Asia Limited (“CSC Asia”), for the purpose of Chapter 6 of the GEM Listing Rules, CSC Asia was retained as Company’s sponsor during the period between 28th June, 2002 to 31st December, 2004.

As at 30th June, 2002, neither CSC Asia, its directors, employees or their respective associates has any interest in the Company’s securities nor has any rights to subscribe for or to nominate persons to subscribe for securities of the Company.

## **COMPLIANCE OF RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures since the listing of its shares on 28th June, 2002.

## **PURCHASE, DISPOSAL OR REDEMPTION OF SECURITIES**

For the period ended 30th June, 2002, the Company did not purchase, dispose of or redeem any of the its listed shares.

## **AUDIT COMMITTEE**

The Company established an audit committee (“Audit Committee”) on 8th February, 2002 with its written terms of reference. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company. The Audit Committee comprises two independent non-executive directors and one executive director. One meeting has been convened since the establishment of the audit committee.

By order of the Board  
**Feng Zhen Wen**  
*Chairman*

Jilin Province, the PRC, 12th August, 2002