



**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)

Changchun Da Xing



**Chinese Medicines**



**Western Medicines**

\*For identification purposes

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website ([www.hkgem.com](http://www.hkgem.com)) in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (“Directors”) of Changchun Da Xing Pharmaceutical Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with 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.*

# Contents

	Page
Corporate Information	2
Chairman's Statement	3
Statement of Business Objectives	12
Report of the Directors	16
Report of the Supervisory Committee	22
Directors, Supervisors and Senior Management Profile	23
Notice of Annual General Meeting	26
Report of the Auditors	27
Income Statement	28
Balance Sheet	29
Statement of Changes in Equity	31
Cash Flow Statement	32
Notes to the Financial Statements	33



## **BOARD OF THE DIRECTORS**

### **Executive directors**

FENG Zhen Wen (*Chairman*)

YU Cheng Kun

LI Xiu Jie

GUO Bin

LU De Yi

### **Independent non-executive directors**

YANG Shi Jie

SUN Xiao Bo

## **SUPERVISORS**

WU Tie Min

XU Feng Yin

WANG Ting Jun

## **QUALIFIED ACCOUNTANT**

YAU Chung Hang (AHKSA, ACCA)

## **COMPANY SECRETARY**

YAU Chung Hang (AHKSA, ACCA)

## **AUDIT COMMITTEE**

YANG Shi Jie (*Chairman*)

SUN Xiao Bo

GUO Bin

## **COMPLIANCE OFFICER**

YU Cheng Kun

## **AUTHORIZED REPRESENTATIVES**

GUO Bin

YAU Chung Hang

## **AUDITORS**

Horwath Hong Kong CPA Limited

## **SPONSOR**

CSC Asia Limited

## **LEGAL ADVISERS**

Woo, Kwan, Lee & Lo

## **PRINCIPAL BANKER**

Industrial and Commercial Bank of China,  
Changchun Branch

## **H SHARE SHARE REGISTRAR AND TRANSFER OFFICE**

Hong Kong Registrars Limited

## **LEGAL ADDRESS**

No. 22, Kaixuan Road, Kuancheng District,  
Changchun, Jilin Province, China  
(中國吉林省長春市寬城區凱旋路22號)

## **STOCK CODE**

8067

# Chairman's Statement |

I am pleased to announce the operation results of Changchun Da Xing Pharmaceutical Company Limited (the "Company") for the year ended 31st December, 2002. This is our first annual report since the listing of the Company's H shares on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited on 28th June, 2002.

The Company was incorporated as a joint stock limited company on 27th December, 1993 with the approval of the People's Government of Changchun. The Company is engaged in manufacture, sale, research and development of Chinese medicines, Western medicines and biochemical medicines. The medicinal products produced by the Company are in forms of tablets, granules, soft capsules, hard capsules, high-capacity injections and oral liquid. Major products produced by the Company include a Chinese medicine named Jing Tong Ling (頸痛靈) and four Western medicines, namely, Xiedali Calcium Carbonate tablets (協達利碳酸鈣片), Fu Jie Shu capsules (復皆舒膠囊), Sodium Chloride injection (氯化鈉注射液) and 5% glucose injection (5%葡萄糖注射液). "Chunyan (春燕)" is the Company's trademark registered in the PRC.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the year ended 31st December, 2002, turnover and profit attributable to shareholders of the Company amounted to RMB71,220,000 and RMB34,669,000, representing an increase of 11.78% and 42.60% over last year respectively.

The year 2002 marked an outstanding milestone in the history of the Company's development. In face of intense competition and severe challenges, the Company adhered to its development strategy which primarily comprising capital-oriented approach, extensive market exploration and intensive product development. Throughout the year the Company worked diligently in keeping abreast in the industry aiming for a brighter prospect. In 2002, the Company was accredited with "High and New Technology Enterprise of Jilin Province" (吉林省高新技術企業) and "Celebrated Medium Enterprise in Jilin Province" (吉林省小巨人明星企業) by the Jilin Provincial Government. Also, the Western medicine, Xiedali Calcium Carbonate tablets (協達利碳酸鈣片), was awarded "Prize for Advancement of Sciences and Technology in the Jilin Province" (吉林省科學技術進步獎).

In 2002, the Company adhered to a market-oriented approach in order to maintain and accelerate the growth momentum. Meanwhile, the Company advanced through the development of hi-tech products utilizing the latest technology and adopting a modernized management. To improve the overall management standards and quality, the Company focused on developing an efficient business model for fast growing enterprises. As a result, the Company has achieved considerable increases in both sales revenue and net profit.

### Achievements from extensive market exploration

The Company has an extensive marketing network comprising over 240 large scaled sales agents, and approximately 1,000 distributors and 10,000 points of sales. In 2002, the Company maintained the principles of exploring the developed coastal regions and the Western China market, accrued to increase both the geographical reach and depth of market penetration. The Company unremittingly reformed and upgraded its operating and marketing model so as to be in line with both the economic cycle and the Company's own market uniqueness circumstances. Such effort in turn incubated the Company a new business model and philosophy.



1. *Intensify the development of existing markets and effectively tapping new potential markets*

The Company adopted various measures to further improve the brand awareness of Chunyan (春燕). The Company maintained and improved the image of the Chunyan (春燕) brand by effectively using news media, consultation service and business cooperation; fostered its relationship with distributors through union functions and product promotion seminars; further raised the brand awareness of the enterprise and products; and expanded market share by disseminating product promotional materials and organizing activities including sample distribution.

2. *Focus on exploration of the Western China market*

In 2002, one of the major marketing activities of the Company was the development of the Western China market. The western region is a large and populous territory with enormous untapped market potential. The Western Development driven by the PRC government has set foundations for speedy development of various industries. To best capitalize on these opportunities, the Company developed a strategy focusing on its nationally renowned products Jing Tong Ling (頸痛靈), Fu Jie Shu (復皆舒) and Xiedali (協達利). The Company considered distributors as an important sales channel for the distribution of its over-the-counter ("OTC") medicines, in which manufacturers and distributors shared risks and benefits. The Company has also adopted multimedia advertising and other brand building activities for the brandname of Chunyan (春燕) to boost sales. Chongqing saw a rapid growth in market network with more than 300 new points of sale over the corresponding period last year. Jing Tong Ling (頸痛靈), under the brandname Chunyan (春燕), became famous in local markets as effective treatment for cervical spondylopathy.

3. *Proactively develop international market*

The PRC's entry into the World Trade Organization ("WTO") created new opportunities for the Company. During June and July 2002, the Company sent its delegates to Russia and Ukraine to participate in bilateral trade conferences and through which, the Company not only familiarized itself with the rules of international trade, but also had the opportunity to examine and better understand the developing trends in international markets. As such, in its future development, the Company will be operated in line with the international practices and actively implement an efficient brand strategy by widely promoting its products and culture, thus building the foundations to an international market. Currently, the Company's products and trademarks are being registered in countries such as Vietnam, South Africa, Malaysia, Singapore and Indonesia.

4. *Strengthen the sales force*

In 2002, the Company organized two business training programs for its salespeople, and recruited 20 more new professionals with tertiary or higher education background in an effort to intensify its market development and sales strength.

### **Satisfactory results from new product development**

The core mission of the Company is to speed up the development of new and high technological products and to further improve the operational efficiency. The Company's direction in 2002 is attained through "Focused, Speedy and Result-oriented" approach. This approach has brought the Company forward through the development of new products thus opening a new era for production, product development and innovations.

## Chairman's Statement

### 1. Successful projects under research

Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑)

A State Class 2 New Medicine, applicable to acute pancreatitis, acute deterioration stage of chronic compound pancreatitis and acute circulatory disturbance, has completed its clinical research and entered into the conclusion stage of clinical research.

Umbro-dinase enzyme injection (注射用蚓激酶)

A State Class 3 New Medicine, applicable to acute myocardial infarction and acute stage of cerebral infarction. Materials for application of clinical research have all been submitted to National Pharmaceutical Approval Centre. This product preparing for clinical research.

Yushi cardiopulmonary tablets (魚石肺心顆粒)

A State Class 3 New Chinese Medicine, applicable to clear away the heat and eliminate the phlegm, relieve cough and asthma, and cure chronic lung-derivative heart disease at acute stage. With its conclusion of the clinical research, the application of this product has been submitted to National Pharmaceutical Approval Centre for approval of the Certificate of New Medicine.

Lijie tablets (歷節片)

A State Class 3 New Chinese Medicine, applicable to rheumatoid arthritis. Materials of application are being re-processed in accordance with the new Administrative Measures on Registration of Medicine (藥品註冊管理辦法).

Metronidazole injection (單硝酸異山梨酯注射液)

A State Class 4 New Medicine, Certificate of New Medicine for this product will be issued shortly.

### 2. New projects with immense prospect

After assessing the trends in the pharmaceutical market, consolidating the Company's existing product mix and production technologies, and performing research in a number of State Class 4 New Medicines, the Company has concluded in the production of medicines such as Xueshuantong Zhusheye (血栓通注射液) in 2002.

Xueshuantong Luhua Zhusheye (血栓通氯化鈉注射液) and Xuesaitong Luhua Zhusheye (血塞通氯化鈉注射液)

State Class 4 New Chinese Medicines, Cardiovascular disease has long been the No. 1 killer. Incidence of cardiovascular diseases in the PRC has been on a constant increase. As most cardiovascular diseases is characterized with spreading and repeated attacks, western medicine has been restricted in application due to its relatively strong adverse effects in spite of its distinct therapeutic effectiveness. On the other hand, Chinese injection medicine for cardiovascular diseases is widely applied in clinical cases owing to its unique therapeutic mechanism and distinct therapeutic effect. Both Xueshuantong Luhua Zhusheye (血栓通氯化鈉注射液) and Xuesaitong Luhua Zhusheye (血塞通氯化鈉注射液) have wide clinical applications without toxicity or side effects and have functions of expanding blood vessels, inhibiting platelet aggregation, thrombus and free radicals, inducing the production of organizational cellulase original activated material (纖維酶原激活物質) and protecting against cerebral ischemia and myocardial ischemia. Both products are developed specially to ensure a convenient, effective yet safe therapy. Since the two products are primary medicines for cardiovascular diseases, having enormous market potential. It is believed that the two medicines are able to create prominent social effects and bring about high economic effectiveness for the Company.

The Company is preparing the application materials for clinical research approval for the two products in accordance with the new Administrative Measures on Registration of Medicine (藥品註冊管理辦法).

**Matrine and Glucose Injection (苦參碱葡萄糖注射液) and Matrine and Sodium Chloride Injection (苦參碱氯化鈉注射液)**

State Class 4 New Medicines. Matrine (苦參碱) has essential values in pharmacological avidity and clinical application against diseases in the central nervous system and cardiovascular diseases and with anti-virus, anti-inflammatory, immunity and anti-tumour functions. Matrine has a continuous inhibitory effects against hepatitis A, B viruses. With its inhibitory effects against reproduction of HbeAg of hepatitis B, Matrine has certain anti-hepatitis B virus effects. As no revival symptoms of serum DHBV-DNA arises after stopping dosage, Matrine possesses direct effects against pathological hepatitis and of bettering physical signs, clearing away yellowness and inhibiting enzyme. Matrine injection applies to reviving abnormal levels of Serum Glutamate Pyruvate Transferase (谷丙轉氨酶) and bilirubin (膽紅素) for chronic avidity hepatitis and mobility hepatitis patients. Being liver protective and liver tonic, matrine injection can clear away heatiness and dampness, induce urination, deprive yellowness and toxic elements, improve pathological hepatitis symptoms and physical signs as well as inhibit reproduction of HbeAg of hepatitis B. With high tolerance, the medicine is suitable for long-term use without serious side effects. Currently, incidence of hepatitis is high, but the recovery rate is low and with no effective medicine. Most of the injections can be directly injected, reducing the risk of cross contamination from outside, and are convenient for clinical use. There are approximately 120 million hepatitis patients in the PRC. With such a huge number of patients, the medicines have enormous market potential and prospects.

The applications of the above two medicines have been submitted to the State Pharmaceutical Approval Centre, and the Certificate of New Medicine will be granted shortly.

**Raw Materials and Pharmaceutics of Astragaloside (黃芪皂苷原料及制劑)**

A State Class 2 New Chinese Medicine, applicable to cardiac function deficiency, coronary heart disease, virus myocarditis, acute and chronic heart failure and chronic hepatitis, etc, has a huge potential market. Astralglus Root Injection (small volume) was launched to the market in 1999. However, as Astralglus Root Injection is mainly composed of pure medicinal materials and use to be produced by traditional equipment with low technology, the final product result in considerable amounts of impurities, thus leads to unstable quality and adverse effects on clinical use.

Astragaloside is used as a raw material to formulate injection due to its physical and chemical stability, thus maintaining medicinal effectiveness, ensuring a stable quality for both raw material and the medicine. Pharmacological research has proven, extracted and processed astragaloside has distinct avidity effects on animals having cardiac function deficiency. Toxicological research has proven its safety, therefore the Company has confirmed extracting astragaloside, the effective part of Astralglus Root, as raw material. How to make use of astragaloside as the high volume injection become the main research direction and replacing Astralglus Root Injection (small volume) has become the market objective. The species is exclusively manufactured in the PRC. With the increase in the number of cardiopathy and myocarditis patients, the development of this product will be a good news to patients.



Currently, no application or report on domestic and overseas research or production has been submitted. The medicine is undergoing the basic test and still in the information classification stage.

Hydrochloric Azasetron Sodium Chloride Injection (鹽酸阿扎司瓊氯化鈉)

A State Class 4 New Medicine. Hydrochloric Azasetron Sodium Chloride Injection (鹽酸阿扎司瓊氯化鈉注射液) is applicable to vomit caused by cell toxicant medicines. Scientific and technological development bring about side effects such as environmental pollution that threatens human health and result in more and more malignancy patients. Nausea and vomit triggered by anticarcinogen are nightmare to patients. Research on receptor affinity has proven that the affinity of Hydrochloric Azasetron (鹽酸阿扎司瓊) is approximately 410 times stronger than that of methoxy (甲氧氯普胺) twice as strong as Ondansetron's (思丹西酮) and having the same effect as Granistron's (格拉司瓊). Animal tests have proven that 0.1 mg/kg of veinal injection of Hydrochloric Azasetron (鹽酸阿扎司瓊) can strongly inhibit hare vomit triggered by cis-DDP, 1 (順鉑) whereas a dose of 0.3 mg/kg can completely suppress ferret vomit caused by adriacin and cyclophosphamide. Clinical research findings have proven that 10 mg of veinal injection of Hydrochloric Azasetron (鹽酸阿扎司瓊) can effectively inhibit nausea and vomit accompanied with anticarcinogens such as cis-DDP, 1.

Currently there are only a few manufacturers engaged in the production of Hydrochloric Azasetron Sodium Chloride Injection, resulting in less intense market competition. The Company is the pioneer to transform injection of small volume into infusion in the PRC. Resulting in strong market competitiveness and profitability.

Materials for application of Certificate of New Medicine is being prepared.

Development of the above medicines has not only reflected the Company's capability in technically skewed production like infusion production lines that passed GMP certification, but also bring about positive social and economic effectiveness. The research stage for these medicines had been completed and have been or will be under application for approval of clinical research and the Certificate of New Medicine from National Pharmaceutical Approval Center. These medicines need relatively less investment, short cycle and highly effective.

### 3. *Proposed projects with huge potential*

Xiaokexin (消渴欣)

Xiaokexin is a State Class 2 New Medicine and a pure Chinese Medicine used for lowering blood sugar level. It is produced with effective elements extracted, transformed and separated from individual herbal medicinal materials. Highly effective with small oral dosages and low toxicity, Xiaokexin has been clinically proven to be the most effective Chinese medicine for lowering blood sugar level. The herbal material used in this medicine is set out in Medicine Code and with the rich resources in Jilin Province, the price for the medicine is relatively low.

80% of the clinical research on Xiaokexin is presently completed. Tests on production technique, effectiveness and acute toxicology have basically completed.

### Improved Modernized Management Standard

It is the Company's ever-striving pursuits to consistently improve and modernizing its management system, as well as to establish a scientific and contemporary foundation for the management which can keep pace with the Company's continuous rapid development.

1. *Freeze-dry Powder for Injection Production Line (凍乾粉針生產線)*

Construction of freeze-dry powder for injection production line is underway in the Changchun High and New Technology Industrial Development Zone ("Hi-Tech Zone"). At present, the building and equipment selection has primarily been completed. It is expected that the whole production line will be completed by the end of October 2003 together with the attainment of the Good Manufacturing Practice ("GMP") certification by the end of 2003. The completion of this production line enables the Company to enhance production technology, manufacture new medicines and strengthen its ability to cope with market competition. Furthermore, as the production line is located at the Hi-Tech Zone, the Company will be able to enjoy the concessions offered by the State, which greatly enhance its competitiveness and profitability.

2. *Full Implementation of GMP Reorganization*

GMP certification is critical to the existence and development of the Company. To meet the demand for rapid development and improved effectiveness so as to attain GMP standard by June 2004, the Company will utilize the concessions offered by the State to enterprises in the Hi-Tech Zone to improve in speed, quality and capacity, and determined to undertake GMP reorganization for production lines such as Jing Tong Ling, solid medicines and capsule medicines. As such, the starting and standards of production will be set at a high standard, and modernized medicine production lines complying with GMP standards will be established in the Hi-Tech Zone. Through the implementation of GMP reorganization, the Company will enjoy the following benefits:

- A. GMP reorganization will fully be implemented and completed in the Hi-Tech Zone without prejudice to the current operation. This can avoid material economic loss arising from overall suspension due to reorganization of existing production lines;
- B. Being start at a high standard, the GMP reorganization is characterized by systematization, standardization and long validity, it can prevent various problems such as time-consuming, material loss from suspension, wastage arising from removal, caused by the reorganization of the existing facilities;
- C. Product quality will be guaranteed. With an expansion in production scale, production technologies will also be enhanced and attribute more resources to manufacture a wide range of technology-driven medicines, hence establishing a production system that caters to market demand.
- D. The Company will enjoy the concessions offered by the State to the Hi-Tech Zone.

It is expected that GMP reorganization will be completed at the end of October 2003 and attain GMP certification at the end of December 2003.

## Chairman's Statement |

### 3. *Overall Improvement of Staff Quality*

On the base of quality training offered by the Company, competition and risk mechanisms were adopted for the formation of workforce in 2002, in turn optimize the staff quality and building an energetic and ambitious team.

For middle management, a society-orientated and recruitment competition system was implemented to enhance the quality of officers, with personnel having tertiary or higher education, stronger organizing ability and profound management experience. This served to promote the modernization for various professional-based management.

Professional quality training was offered, which included business training to salespersons, skill training to medicine manufacturing staff, and functional training to administrative and management staff.

Dismissal mechanism of under-performers in all departments or positions was adopted. This further increase the staff's awareness of being proactive, having a forward looking attitude and encouraging the staff to perform well, hence ensuring efficient, quality-oriented operation.

### 4. *Steady enhancement in products quality and further implementation of branding strategy*

Product quality management system is improved scientifically and standardized. Measures for quality assurance and quality control have proven to be effective. Qualified product rate at the first test has reached 100%, and market qualified rate by sampling has also reached 100%.

## PROSPECTS

The Company's overall development for 2003 is to follow the direction of the 16th National Congress of the Party. Main focus will be on pharmaceutical business and related product development will be put forward. Meanwhile, the Company will stress on new medicine development, with biochemical medicines, Chinese medicines and infusion as its key business; top priority will be given for market development; strengthen the management team to achieve better effectiveness in face of GMP reorganization; thus strive for new heights.

## TO CONSOLIDATE ON THE FOUNDATION OF THE COMPANY'S UNDERPINNED DEVELOPMENT IN THE MARKET

The Company will carefully analyze market situations and adhere to the overall consideration no omission. In other words, it will pay attention to both the key focuses and the general market condition. According to the various market conditions, it will formulate corresponding strategies and measures for developing, supporting and enhancing its product mix to fully explore the market potential and expand sales network. It will further expand the market by consolidating and standardizing the established sales network and strengthening customer relationship. Besides keeping its existing market in key regions, the Company will also strenuously develop new markets and extend its reach to the nationwide market in order to establish a complete sales network and distribution channels. It will continue to build a strong sales team and strengthen the awareness and corporate culture on effectiveness, timing, hardworking, sacrifice, toughness and steadfastness. As such, the Company will develop a devoted sales team with a macroview and dignity. Meanwhile, it will further consolidate basic management and strengthen logistics mechanism to keep enhancing sales management level. Furthermore, through suitable product-market matching, quality service, effective promotion and its own good reputation, the Company will speed up the development of international sales outlets and enlarge its market shares domestically and internationally.

## ACCELERATE TECHNOLOGY INNOVATION TO ENSURE HIGH ECONOMIC EFFECTIVENESS

By 2003, the Company expects that new medicine certificates and production approval will be granted for products such as Yushi cardiopulmonary tablets (魚石肺心顆粒), Metronidazole injection (單硝酸異山梨酯注射劑), Matrine and sodium chloride injection (苦參碱氯化鈉注射液) and Matrine and glucose injection (苦參碱葡萄糖注射液). This will greatly enhance the product mix, increase technology application to products and procure the rapid growth of the Company. Meanwhile, the Company will concentrate on new products development, continue to identify potential projects and adhere to the principle of high effect, high technology, value-added and private ownerships, for setting up foundation of one or two new product development. By achieving GMP certifications and consolidating its GMP recognition, the Company is committed to attain GMP certifications for production lines such as solid medicine, biochemical medicine and oral liquid in 2003 on the foundation of its GMP certification for infusion. In doing so, the Company will strictly implement GMP management practices, consistently adopt new technology and technique to ensure product quality and cost-saving so that its modernized pharmaceutical management can be continuously improved.

## RESEARCH AND DEVELOPMENT ON MEDICINE-RELATED BUSINESS

In 2003, the Company will include the development of medicine-related sectors in its 3 to 5 years business plan. It will adhere to the principle of "Company being the priority, Planning Ahead and Continuous Development" so as to contribute more to the society and achieving greater economic growth. In January 2003, the Company and Changchun Kuancheng Pharmaceutical Factory (長春市寬城制藥廠) invested RMB600,000 and RMB400,000, representing 60% and 40% of the registered capital respectively, to co-found Changchun Zhong Da Healthcare Product Company (長春中大保健品公司), which Fu Li Kang (復力康) capsule, a newly developed health-care product of the Company, was injected by the Company. This helps to establish a market-oriented operation system, which strengthen the Company's competitiveness in the international market after China's accession to WTO, especially for healthcare products. The management believe it can eventually contribute promising return to both the Company and shareholders.

## FINANCIAL REVIEW

For the financial year ended 2002, the Company reported a turnover of RMB71,220,000, an increase of 11.78% over the previous year; gross profit of approximately RMB54,142,000, an increase of 20.77% over the previous year; and profit attributable to shareholders of approximately RMB34,669,000, representing an increase of 42.60% over the previous year. Jing Tong Ling, the flagship product, recorded sales of RMB58,665,000, representing an increase of 23.75% over the previous year.

## LIQUIDITY AND FINANCIAL RESOURCES

During the year, capital of the Company mainly included cash arising from operating activities and funds raised by placing new H shares in June 2002. As at 31st December, 2002, bank balances and cash in hand was RMB85,834,000 (2001: RMB18,034,000) and short-term bank loans were RMB20,000,000 (2001: RMB5,500,000). The short-term bank loans were guaranteed by Changchun Kuancheng Pharmaceutical Factory and interest-bearing at market rate and repayable within one year.



### **GEARING RATIO**

As at 31st December, 2002, total assets of the Company amounted approximately RMB219,706,000 (2001: RMB116,982,000) and total liabilities amounted approximately RMB33,516,000 (2001: RMB27,474,000). The gearing ratio (total liabilities to total assets) was 15.25% (2001: 23.49%).

### **DIVIDEND**

The directors do not recommend the payment of any dividend for the year.

### **PLEDGE OF ASSETS OF THE COMPANY**

As at 31st December, 2002, none of the Company's assets was pledged as securities for any liabilities.

### **EMPLOYEES AND REMUNERATION POLICY**

As at 31st December, 2002, the Company had 289 employees (2001: 298). With intensive development of the market, continuous research and development of new products and increasing application of high technology, the Company is expected to recruit additional professionals. Remuneration of staff is based on the relevant policies in the PRC, with discretionary bonuses depending on individual performance. Other benefits include pension, unemployment insurance, housing fund, etc.

### **APPRECIATION**

2002 was a fruitful year for the Company. I would like to take this opportunity to thank all directors, management and staff of the Company for their hard work. I would also like to express our gratitude to our shareholders and friends at home and abroad for their great supports. Our directors will continue to devote themselves bring remarkable returns to shareholders.

**FENG ZHEN WEN**

*Chairman*

Changchun, the PRC  
14th March, 2003

# Statement of Business Objectives

## COMPARISON OF BUSINESS PLAN AND ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress of the Company as at 31st December, 2002 to the business objectives set out in the Prospectus:

### RESEARCH AND DEVELOPMENT

#### Expected progress

Continue to conduct the clinical research of Lijie tablets (歷節片)

Finish the clinical research of Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑) and apply for the relevant governmental approval for its production

#### Actual progress

Reorganizing application documents pursuant to the new Measures for Registration and Administration of Medicine (《藥品註冊管理辦法》)

Clinical research completed and is conducting data compilation and statistics

### SALES AND MARKETING

#### Expected progress

Participate in seminars on the topics of multilateral trade, international trade and purchases

Launch marketing activities to promote the Company's Chinese medicines for a month

Launch promotional activities for Metronidazole injection (單硝酸異山梨酯注射液)

#### Actual progress

Participated in China (Changchun) - Russia Trade Conference in Moscow and China (Changchun) - Ukraine Trade Conference in JIFU (基輔) during the period from 28th June to 15th July, 2002. The viability of importing pharmaceutical products, hygiene materials and agricultural and sideline products of China (Changchun) into Russian and Ukrainian markets was extensively discussed.

Extensive marketing and promotional activities were conducted in some regional markets in September, 2002 in response to the overall promotional activities of the Company. Among which, a one month promotion program on the Company's product Jing Tong Ling (頸痛靈) was jointly conducted with Tong Ji (同基藥業) in Sichuan, Ju Qi (巨琪醫藥) and He Ping (和平藥房) in Chongqing, and Mai Di Sen (麥迪森醫藥) in Henan.

In 2002, experts were invited to attend an academic seminar on clinical application of Metronidazole injection (單硝酸異山梨酯注射液) held by the Company in Chang Bai Shan Hotel (長白山賓館) in Changchun. In the seminar, the experts provided constructive suggestions for clinical application and promotion of Metronidazole injection.

## Statement of Business Objectives |

### SALES AND MARKETING (continued)

#### Expected progress

Evaluate the Company's existing client portfolio

#### Actual progress

Based on the forms of organisation, the clients of the Company are mainly classified as:

- 1) Companies with limited liability, representing approximately 75% or the majority of the Company's client base;
- 2) State-owned enterprises, representing approximately 25% or the minority of the Company's client base.

Organise an open-air promotional event

From July to December 2002, the Company together with the agent of Fu Jie Shu (復皆舒) of Sichuan market launched a large scale open-air promotion program in Chengdu, Sichuan. During which, 300,000 leaflets and 10,000 posters were distributed.

Organise forums for sales and marketing staff for the purpose of exchanging up-dated market information

From 15th to 16th July, 2002, the Company organized forums for the marketing staff. During which, staff had an opportunity to exchange and discuss their views on market situation, business models, sales promotion, competition measures and after-sale service, etc.

Recruit up to 20 sales and marketing staff

The Company recruited a total of 20 sales and marketing staff in April and December 2002. They were deployed to those regional markets in Yunan, Guangxi, Henan, Chongqing, Hebei, Jilin, Shanxi, Gansu, Ningxia, Qinghai, Zhejiang, Heilongjiang, Sichuan and Shandong, to embark on sales and marketing.

Complete the construction of the Company's website to promote its corporate image and products

The website construction has substantially completed.

## PRODUCTION

### Expected progress

Obtain the production approvals and thereafter commence the production of Yushi cardiopulmonary tablets (魚石肺心顆粒), Clindamycin phosphate (克林霉素磷酸酯注射液) and Metronidazole injection (單硝酸異山梨酯注射液)

Implement and complete the upgrade and renovation work on the workshop for capsules, tablets and granules

Inspect relevant facilities and arrange for the preparatory work for the implementation of GMP standards for the Jing Tong Ling (頸痛靈) workshop, based on the design prepared by the relevant provincial pharmaceutical design institute

Increase the number of production equipment and facilities for freeze-dry powder for injection workshop

### Actual progress

Application was submitted to the State Medicine Approval Centre (國家藥審中心) for granting new medicine certificate and production lot number of Yushi cardiopulmonary tablets (魚石肺心顆粒).

Due to its complicate production process and inappropriateness for scale production, Clindamycin phosphate (克林霉素磷酸酯注射液) project was returned to the research institute.

Pursuant to the new Administrative Measures on Injected Medicine (藥品注射管理辦法), the Company has submitted additional reference materials of Metronidazole injection (單硝酸異山梨酯注射液) to the State Medicine Approval Centre (國家藥審中心) for granting new medicine certificate and production lot number.

Land construction and the model selection of equipment were completed.

Equipment selection and all preparatory works completed and ready for implementation in April 2003.

Land construction of freeze-dry powder for injection workshop as well as the model selection of equipment finished.



## Statement of Business Objectives

### COMPARISON OF USE OF PROCEEDS

The proceeds from the issue of H Shares for the listing on GEM, after deduction of related expenses, amounted to approximately HK\$59 million and have been applied as follows:

	Original plan*	Planned amount utilized up to 31st December, 2002*	Actual amount utilized up to 31st December, 2002
	HK\$(million)	HK\$(million)	HK\$(million)
<b>Research and development</b>			
Umbro-dinase enzyme injection (注射用蚓激酶)	11	3	–
Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑)	8	3	–
Other new medicines	6	2	3
	25	8	3
<b>Investments in production facilities for freeze-dry powder for injection</b>			
	18	8	7
<b>Strengthening sales and marketing network</b>			
	16	5	6
	59	21	16

\* Amounts extracted from the Company's prospectus dated 21st June, 2002 issued in connection with the listing of the Company's H Shares on GEM and the full exercise of the over-allotment option.

As at 31st December 2002, the Company only utilized approximately HK\$16,000,000 of the proceeds from placing. The remaining balance is unused due to the following reasons:

**Umbro-dinase enzyme injection (注射用蚓激酶) and Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑)**  
As the State Drugs Administration revised its examination and approval measures on new medicines in the second half of 2002, the time needed for drugs examination and approval had been extended for half a year, thus the clinical approvals for the two aforesaid medicines were also extended for the same period. Hence the Company had not applied the related proceeds to the expected clinical activities.

# Report of the Directors

The directors present their annual report together with the audited financial statements for the year ended 31st December, 2002.

## **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 the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 28th June, 2002.

On 19th July, 2002, the over-allotment option was exercised and the Company accordingly allotted and issued 21,000,000 new H shares, which were listed on GEM on 23rd July, 2002.

## **PRINCIPAL ACTIVITY**

The Company is principally engaged in the manufacture and sale of Chinese medicines and Western medicines in the PRC since its incorporation. There were no changes in the nature of the Company's principal activities during the year. It is also engaged in the research and development of Chinese medicines, Western medicines and biochemical medicines.

## **SEGMENTAL INFORMATION**

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.

## **RESULTS AND APPROPRIATIONS**

The profit for the year ended 31st December, 2002 and the state of affairs of the Company at that date are set out in the financial statements on pages 28 to 45.

The directors do not recommend the payment of a final dividend.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Company are set out in note 12 to the financial statements.

## **SUBSIDIARY**

As at 31st December, 2002, the Company had no subsidiary (as defined under the Companies ordinance).

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Other than in connection with the Company's placing of H shares on the GEM, the Company did not purchase, sell or redeem any of its listed securities during the year.

### RESERVES

Details of movements in the reserves of the Company during the year are set out in the statement of changes in equity.

### DISTRIBUTABLE RESERVES

As at 31st December, 2002, the Company's reserves available for cash distribution or distribution in specie amounted to approximately RMB62,833,000.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Company's largest customer and the five largest customers accounted for approximately 13.2% and 35.1% respectively of its turnover.

In the year under review, the Company's largest supplier and five largest suppliers accounted for approximately 31.5% and 90.5% respectively of its purchases.

None of the directors, their associates 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 suppliers.

### DIRECTORS

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

#### Executive directors

FENG Zhen Wen  
LU De Yi  
LI Xiu Jie  
YU Cheng Kun  
GUO Bin

### **Independent non-executive directors**

YANG Shi Jie  
SUN Xiao Bo

### **Supervisors**

WU Tie Min  
XU Feng Ying  
WANG Ting Jun

## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILE**

Directors, supervisors and senior management profile of the Company are set out on pages 23 to 25 of the annual report.

## **EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS**

Details of the directors' emoluments and those of the five highest paid individuals in the Company are set out in note 9 to the financial statements.

## **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors and supervisors has entered into a service contract with the Company for an initial term of three years, which may be renewed upon re-election and re-appointment.

Each of the two independent non-executive directors of the Company has entered into a service contract with the Company for an initial term of three years, which may be renewed upon re-election and re-appointment and subject to a maximum term of six years.

Apart from the foregoing, no directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment other than statutory compensation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

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



### DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31st December, 2002, the interest of the directors, the supervisors and their respective associates in the registered capital of the Company, as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company or which require, 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:

Directors/supervisors	Type of interests	Approximate percentage of beneficial interests in the Company's share capital	Number of domestic shares held
Feng Zhen Wen	personal	0.039	220,000
Lu De Yi	personal	0.018	100,000
Li Xiu Jie	personal	0.018	100,000
Yu Cheng Kun	personal	0.011	60,000
Guo Bin	personal	0.009	50,000
Wu Tie Min	personal	0.009	50,000
Xu Feng Ying	personal	0.009	50,000
Wang Ting Jun	personal	0.009	50,000

Save as disclosed above, as at 31st December, 2002 neither the directors, the supervisors, nor their respective associates had any interests in any securities of the Company. None of the directors or supervisors or their spouses or children under the age 18 had been offered or exercised any rights to subscribe for the securities of the Company.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the only shareholder with an interest of 10% or more of the issued shared capital of the Company was follows:

Name	Number of domestic shares held	Approximate effective interests in the registered capital of the company
Changchun Kuancheng Pharmaceutical Factory (長春市寬城制藥廠)	172,000,000	30.66%

Save as disclosed above, the Company had no notice of any interests to be recorded pursuant to Section 16(1) of the SDI Ordinance as at 31st December, 2002.

## COMPETING INTEREST

None of the directors or the management shareholders (as defined in GEM Listing Rules) of the Company had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Company.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles 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

Save as those related party transactions disclosed in note 11 to the financial statements, there were no other transactions which need to be disclosed as connected transactions under Chapter 20 of GEM Listing Rules.

## STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Company and the employer's staff retirement costs charged to the profit and loss account for the year are set out in note 10 to the financial statements.

## 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 GEM Listing Rules, CSC Asia was retained as Company's sponsor during the period between 28th June, 2002 (date of listing) to 31st December, 2004.

As at 31st December, 2002, neither CSC Asia, its directors, employees or their respective associates had 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 WITH THE GEM LISTING RULES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the H shares on GEM on 28th June, 2002.

## AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 8th February, 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Company. The Committee has three members comprising the two independent non-executive directors, Mr Yang Shi Jie and Mr Sun Xiao Bo, and an executive director, Mr Guo Bin. The Committee has held three meetings since its formation.

## Report of the Directors |

### AUDITORS

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

By Order of the Board

**Feng Zhen Wen**

*Chairman*

Changchun, the PRC

14th March, 2003

# Report of Supervisory Committee

To all Shareholders,

Pursuant to the Company Law of PRC, the relevant laws and regulations in Hong Kong and the Articles of Association of the Company, and in accordance with the principle of protecting the rights and interests of the Company and its shareholders, all members of the Supervisory Committee of Changchun Da Xing Pharmaceutical Company Limited (the "Committee") has duly fulfilled their duties. During the year 2002, with reference to the proceeds using plan disclosed in the Company's Prospectus, the Committee has duly examined the use of the proceeds raised from placing the Company's H shares on GEM in Hong Kong, actively participated in the discussion on the operational management and development strategies, and effectively supervised the Company's major decisions in compliance with the laws and regulations in the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

After due auditing, the Committee has approved the accompanying Report of the Directors and the audited financial statements. The Committee is of the opinion that all members of the Board of Directors, general manager and other senior management of the Company have dedicated to the performance of their respective duties in accordance with the Article of Association. Up to now, none of the Director, general manager and other senior management of the Company, to the best of the Committee's knowledge, has either abused their rights with prejudice to the Company's interests or infringement to the interests of the shareholders and staff of the Company, or breached the laws and regulations in the PRC, rules or the Articles of Association.

The Committee is satisfied with the accomplishments and the economic effectiveness made in 2002 and is confident of the Company's future development.

By order of the Committee

**Wu Tie Min**

*Chairman of the Committee*

Changchun, the PRC  
14th March, 2003



# Directors, Supervisors And Senior Management Profile

## DIRECTORS

### Executive Directors

**Mr. FENG Zhen Wen** (馮振文), aged 56, is the Chairman and the general manager of the Company. He is a founding member of the Company and is responsible for the strategic planning and overall management of the Company. Mr. Feng completed his tertiary course from the School of Jilin Provincial Communist Party (中共吉林省委黨校). He has about 12 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Feng was named as a Second Annual Outstanding Entrepreneur of the National Pharmaceutical Industry (全國醫藥行業第二屆優秀企業家) in 1994 and was awarded Labour Medal of the Jilin Province (吉林省總工會五一勞動獎章) in 1998. In 1999, Mr. Feng was named the Labour Model of the Jilin Province (吉林省勞動模範). Mr. Feng is also a delegate of the Changchun City People's Congress.

**Mr. YU Cheng Kun** (于承昆), aged 48, is an executive Director and the deputy general manager of the Company. He is responsible for overseeing the day-to-day operations of the Company, including production and technology management, equipment management and storage and transportation management. Mr. Yu holds a bachelor's degree in pharmacology from the Shenyang Pharmacy College (瀋陽藥學院) and is a senior engineer. He joined the Company in December 1993 and has about 20 years of experience in the pharmaceutical research and development.

**Ms. LI Xiu Jie** (李秀杰), aged 51, is an executive Director. She is responsible for the financial and accounting management of the Company. Ms. Li graduated from the University of Continuing Education for Changchun Workers (長春職工業餘大學) majoring in industrial accountancy and is a senior accountant in the PRC certified by the PRC Human Resources (中國人事部). She joined the Company in December 1993 and has about 27 years of experience in the finance and accounting. She is also an administrative director of the 3rd Council of the China Pharmaceutical Accounting Association (中國醫藥會計學會第三屆理事會).

**Mr. LU De Yi** (蘆德義), aged 46, is an executive Director. He is responsible for overseeing the marketing and promotional activities of the Company. Mr. Lu received his tertiary education from the Jilin University (吉林省大學). He joined the Company in December 1993 and has about 8 years of experience in the medical and pharmaceutical industry in the PRC.

**Mr. GUO Bin** (郭斌), aged 44, is an executive Director and the secretary to the Board. He is responsible for the day-to-day operations of the Board. Mr. Guo graduated from the Institute of Fine Machinery of Optical Engineering of Changchun (長春光學精密機械學院) majoring in enterprise management and is an economist. Prior to joining the Company in December 1993, Mr. Guo had over 6 years of experience working in the quality control and production department of Changchun Kuancheng Pharmaceutical Factory (長春市寬城製藥廠) and over 3 years of experience working as the general manager for Changchun Kuancheng Industrial Supply Company (長春市寬城區工業物資供應公司), a company engaged in the supply and sale of raw material resources.

### Independent non-executive Directors

**Mr. YANG Shi Jie** (楊世傑), aged 58, was appointed as an independent non-executive Director in February 2001. Mr. Yang graduated from the Medical School of Jilin University (吉林醫科大學) in 1970 and has obtained his doctorate degree from the Medical School of the Aichi Gakuin University, Japan. Mr. Yang was once the deputy head of the School of Fundamental Medicines of the Jilin University (吉林大學) which is formerly known as Baiqiuen Medical University (白求恩醫科大學). Mr. Yang is currently the head of the School of Fundamental Medicines of Jilin University and a Chinese medicine expert of the SDA.

**Mr. SUN Xiao Bo** (孫曉波), aged 45, was appointed as an independent non-executive Director in February 2001. Mr. Sun is currently the head of the School of Research of Chinese Medicines of the Jilin Province, the PRC. He is also a Chinese medicine expert of the SDA, a member of the Appraisal Committee of National Fundamental Medicines (國家級基本藥物評審委員會) and an appraiser of the Appraisal Team of the Chinese Medicines of the Appraisal Committee of the National Science Advancement Award (國家科技進步獎評審委員會). Mr. Sun also holds many other public duties in the PRC.

### SUPERVISORS

**Mr. WU Tie Min** (鄔鐵民), aged 49, is the Chairman of Supervisory Committee of the Company (監事會). Mr. Wu graduated from the University of Television Broadcast of Jilin (吉林廣播電視大學) majoring in law. Prior to joining the Company in December 1993, he had been senior management of Changchun Electrical Appliances Installation Factory (長春市電器承裝廠), a state-owned factory.

**Ms. XU Feng Yin** (徐鳳英), aged 48, is a member of the Supervisory Committee of the Company. She is responsible for production of the Company. Ms. Xu graduated from the Chinese medicine professional examination of the Jilin Province Self Education Examination Instruction Committee (吉林省自學考試指導委員會) majoring in Chinese medicines and is an engineer. She joined the Company in December 1993 and has 26 years of experience in the pharmaceutical industry in the PRC.

**Mr. WANG Ting Jun** (王廷君), aged 48, is a member of the Supervisory Committee of the Company. He is responsible for overseeing the Company's union and marketing activities. Mr. Wang graduated from the Chinese medicine professional examination of the Jilin Province Self Education Examination Instruction Committee (吉林省自學考試指導委員會). He joined the Company in September 1997 and has 27 years of experience in the operation management.

### SENIOR MANAGEMENT

**Mr. Yau Chung Hang** (邱仲珩), aged 30, is the qualified accountant and company secretary of the Company. Mr. Yau graduated from City University of Hong Kong in 1995 with a higher diploma in accountancy and is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Before joining the Company in January 2002, he had 7 years of experience in the field of finance and accounting including working in Deloitte Touche Tohmatsu.

## Directors, Supervisors And Senior Management Profile

**Ms. LU Yin Hua (呂迎花)**, aged 35, is the chief engineer of the Company. Ms. Lu is responsible for overseeing quality control, quality assurance and technical improvements. Ms. Lu graduated from the Chinese medicine professional examination of the Jilin Self Education Examination Instruction Committee (吉林省自學考試指導委員會) majoring in biopharmaceutics pharmacy. Prior to joining the Company in December 1993, Ms. Lu worked in Changchun Chuncheng Pharmaceutical Factory (長春市春城製藥廠) for 4 years.

**Ms. GAO Yan (高艷)**, aged 40, is the head of research and development of new medicines. Ms. Gao is responsible for the supervision of the overall research and development process of new medicines, including collation of relevant technical information regarding the new medicines, formulation of strategies for research and development of new medicines and conducting clinical research. Ms. Gao graduated from Shenyang Pharmacy College (瀋陽藥學院) majoring in chemical pharmacy. Prior to joining the Company in January 1997, Ms. Gao worked in the technical department of Changchun Kuancheng Pharmaceutical Factory (長春市寬城製藥廠) for 12 years.

**Mr. Lin Bo (林柏)**, aged 46, is the manager of the sales department. Mr. Lin is responsible for the Company's marketing strategy and sales in general. Mr. Lin graduated from Yan Bian Medical College (延邊醫學院) majoring in pharmacy. He joined the Company in June 2002.

**Ms. Zhang Wen Ping (張文平)**, aged 36, is the supervisor of the quality assurance department of the Company. Ms. Zhong is responsible for the quality assurance work of the Company's products. Ms. Zhang graduated from the University of Chinese Medicines of Changchun (長春中醫學院) majoring in Chinese medicines. Ms. Zhang joined the Company in January 2001.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting of Changchun Da Xing Pharmaceutical Company Limited (the "Company") will be held at No. 22 Kaixuan Road, Kuancheng District, Changchun, Jilin Province, China on 14th May, 2003 at 9:00 a.m. for the following purposes:

1. To review and approve the Report of the Directors, audited financial statements and Auditors' Report for the year 2002.
2. To review and approve the remuneration of directors and supervisors for 2003 and the year-end rewards for 2002.
3. To review and approve the re-appointment of Shu Lun Pan Certified Public Accountants Co., Ltd. and Horwath Hong Kong CPA Limited as the Company's domestic and overseas auditors respectively, for the year 2003 with a term of office until the conclusion of next annual general meeting, whose remunerations are to be fixed by the Board of Directors.

By order of the Board  
**YAU Chung Hang**  
*Secretary*

Changchun, the PRC  
14th March, 2003

## Notes:

1. Any member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the meeting in accordance with the article of association of the Company. A proxy needs not be a member of the Company.
2. To be valid, a form of proxy together with, if the form of proxy is signed by another person on behalf of the appointor under the power of attorney or other authority documents, a copy of the power of attorney or other authority documents certified by the notarial solicitor must be delivered at Hong Kong Registrars Limited on Rooms 1901-1905, 19/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong ("the Company's Shares Registrar"), no later than 24 hours before the time appointed for holding the meeting or vote.
3. If an individual shareholder appoints a proxy to attend the meeting, such proxy should produce the power of attorney and proof of his/her identity when attending; if a corporate shareholder appoints a proxy to attend the meeting, such proxy should produce proof of his/her identity and legal representative or the copy of the resolution (which is certified by a notary public) of the Board of the corporate shareholder or other decision-making authorities under which he/she is appointed.
4. The register of members of H shares of the Company will be closed from 14th April, 2003 (Monday) to 14th May, 2003 (Wednesday) (both dates inclusive), during which no transfer of shares will be registered.
5. Those shareholders whose names stand on the register on 18th April, 2003 (Friday) are entitled to attend and vote at the meeting.
6. The shareholders who intend to attend the meeting should complete and lodge the attendance receipt at the Company's legal address (22 Kaixuan Road, Kuancheng District, Changchun, Jilin Province, the PRC) before 30th April, 2003 (Wednesday). The receipt can be delivered in person or by mail, telegram or fax (fax number: 86-431-2937358).
7. The annual general meeting will not last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.

# Report of the Auditors |



## **Horwath Hong Kong CPA Limited**

2001 Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
Telephone : (852) 2526 2191  
Facsimile : (852) 2810 0502  
[www.horwath.com.hk](http://www.horwath.com.hk)

TO THE SHAREHOLDERS OF

### **CHANGCHUN DAXING PHARMACEUTICAL COMPANY LIMITED**

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

We have audited the financial statements on pages 28 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company as at 31st December, 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosures requirements of the Hong Kong Companies Ordinance.

### **HORWATH HONG KONG CPA LIMITED**

Certified Public Accountants

**Chan Kam Wing, Clement**

Practising Certificate number P02038

Hong Kong, 14th March, 2003



# Income Statement

For the year ended 31st December, 2002

(Expressed in Renminbi)

	<i>Note</i>	<b>2002</b> <i>RMB'000</i>	2001 <i>RMB'000</i>
<b>Turnover</b>	4	71,220	63,714
<b>Cost of sales</b>		(17,078)	(18,885)
<b>Gross profit</b>		54,142	44,829
<b>Other revenue</b>	5	7,928	1,685
<b>Distribution and selling costs</b>		(14,144)	(4,860)
<b>Administrative expenses</b>		(7,977)	(11,288)
<b>Profit from operations</b>		39,949	30,366
<b>Finance costs</b>		(549)	(1,131)
<b>Profit before taxation</b>	6	39,400	29,235
<b>Taxation</b>	7	(4,731)	(4,923)
<b>Profit attributable to shareholders</b>		34,669	24,312
<b>Earnings per share – Basic (RMB)</b>	8	0.072	0.061

The notes on pages 33 to 45 form parts of these financial statements.

# Balance Sheet

At 31st December, 2002

(Expressed in Renminbi)

	Note	2002 RMB'000	2001 RMB'000
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	29,273	30,158
Construction in progress	13	24,368	–
Purchased know-how and prescription	14	12,502	9,540
		<b>66,143</b>	<b>39,698</b>
<b>Current assets</b>			
Inventories	15	12,535	19,234
Trade receivables	16	42,195	30,843
Other receivables		–	1,022
Prepayments		9,958	–
Deposits paid		2,724	2,602
Deferred expenses		–	1,774
Amount due from shareholders	17	–	3,637
Cash and bank deposits		85,834	18,034
Tax recoverable	18	317	138
		<b>153,563</b>	<b>77,284</b>
<b>Current liabilities</b>			
Trade payables	19	6,891	10,489
Other payables and accruals		3,670	4,888
Deposits received		57	2,337
Dividend payable	20	925	925
Amounts due to a shareholder	17	171	–
Short term bank loans	11	20,000	5,500
Provision for taxation	18	1,802	3,335
		<b>33,516</b>	<b>27,474</b>
<b>Net current assets</b>		<b>120,047</b>	<b>49,810</b>
<b>Net assets</b>		<b>186,190</b>	<b>89,508</b>

## Balance Sheet

At 31st December, 2002

	<i>Note</i>	<b>2002</b> <i>RMB'000</i>	2001 <i>RMB'000</i>
Capital and reserves			
<b>Share capital</b>	21	<b>56,100</b>	40,000
<b>Reserves</b>		<b>130,090</b>	49,508
<b>Shareholders' funds</b>		<b>186,190</b>	89,508

These financial statements were approved and authorised for issue by the board of directors on 14th March, 2003.

**Feng Zhen Wen**  
*Director*

**Li Xiu Jie**  
*Director*

The notes on pages 33 to 45 form parts of these financial statements.

# Statement of Changes in Equity

For the year ended 31st December, 2002

(Expressed in Renminbi)

	Share capital	Share premium	Retained profits	PRC statutory funds		Total
				Statutory surplus reserve	Staff public welfare fund	
	RMB'000	RMB'000	RMB'000	(Note 22) RMB'000	(Note 22) RMB'000	RMB'000
Balance as at 1st January, 2001	40,000	7,668	12,094	3,630	1,804	65,196
Net profit for the year	–	–	24,312	–	–	24,312
Transfer to statutory funds	–	–	(4,214)	2,809	1,405	–
Balance as at 31st December, 2001	40,000	7,668	32,192	6,439	3,209	89,508
Net profit for the year	–	–	34,669	–	–	34,669
Transfer to statutory funds	–	–	(4,028)	2,685	1,343	–
Issue of share capital	16,100	60,697	–	–	–	76,797
Share issue expenses	–	(14,784)	–	–	–	(14,784)
Balance as at 31st December, 2002	56,100	53,581	62,833	9,124	4,552	186,190

The notes on pages 33 to 45 form parts of these financial statements.

# Cash Flow Statement

For the year ended 31st December, 2002

(Expressed in Renminbi)

	<i>Note</i>	<b>2002</b> <i>RMB'000</i>	2001 <i>RMB'000</i>
<b>Net cash inflow from operating activities</b>	23(a)	<b>27,692</b>	26,943
<b>Investing activities</b>			
Government subsidies received		1,710	1,100
Prepayment for property, plant and equipment		(9,958)	–
Purchase for property, plant and equipment		(1,742)	(2,528)
Payments for know-how and prescription		(2,962)	(5,300)
Expenditure incurred on construction in progress		(24,368)	–
Receipts from disposal of property, plant and equipment		531	106
Receipts from disposal of purchased know-how and prescription		–	150
Interest received		384	59
<b>Net cash outflow from investing activities</b>		<b>(36,405)</b>	(6,413)
<b>Net cash (outflow)/inflow before financing</b>		<b>(8,713)</b>	20,530
<b>Financing</b>			
	23(b)		
Issue of share capital		76,797	–
Payment of share issue expenses		(14,784)	–
New bank loans		20,000	6,000
Repayment of bank loans		(5,500)	(17,230)
Repayment of other loan		–	(400)
<b>Net cash inflow/(outflow) from financing</b>		<b>76,513</b>	(11,630)
<b>Increase in cash and cash equivalents</b>		<b>67,800</b>	8,900
<b>Cash and cash equivalents at the beginning of the year</b>		<b>18,034</b>	9,134
<b>Cash and cash equivalents at the end of the year</b>		<b>85,834</b>	18,034
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash and bank deposits		85,834	18,034

The notes on pages 33 to 45 form parts of these financial statements.



# Notes to the Financial Statements

(Expressed in Renminbi unless otherwise stated)

## 1. Organisation and operations

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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") on 28th June, 2002.

On 19th July, 2002, the over-allotment option was exercised and the Company accordingly allotted and issued 21,000,000 new H shares, which were listed on GEM on 23rd July, 2002.

The Company is principally engaged in the manufacture and sale of chinese medicines and western medicines in the PRC. It is also engaged in the research and development of chinese medicines, western medicines and bio-chemical medicines.

## 2. Adoption of Statements of Standard Accounting Practice

In the current year, the Company has adopted, for the first time, the following revised and new Statements of Standard Accounting Practices ("SSAP") issued by the Hong Kong Society of Accountants:—

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

In accordance with SSAP 1 (Revised), the statement of changes in equity has been presented in place of the statement of recognised gains and losses.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no material impact on the results of the current and prior accounting periods.

In accordance with SSAP 15 (Revised), cash flows are classified by operating, investing and financing activities. The presentation of the cash flow statement has been changed to conform to the requirements of this revised SSAP.

SSAP 34 prescribes the accounting and disclosure for employee benefits. This new SSAP has had no material impact on the results of the current and prior accounting periods.

## 3. Principal accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. A summary of the significant accounting policies adopted by the Company is set out below.

### (b) Basis of preparation

These financial statements have been prepared in the historical cost convention.

**3. Principal accounting policies** *(continued)**(c) Revenue recognition*

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Company.

Sub-contracting income is recognised when the services are rendered and the relevant work is completed.

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

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

*(d) Taxation*

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting year from that in which they are recognised in the financial statements.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

*(e) Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation at the balance sheet date.

The costs of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major expenditure on modifications and betterments of property, plant and equipment which will result in future economic benefits is capitalised, while expenditures on maintenance and repairs are expensed when incurred.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over their estimated useful lives. The estimated useful lives are as follows:

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

Where, in the opinion of the directors, the recoverable amounts of property, plant and equipment have declined below their carrying amounts provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions in recoverable amounts are charged directly to the profit and loss account.

## Notes to the Financial Statements | (continued)

(Expressed in Renminbi unless otherwise stated)

### 3. Principal accounting policies (continued)

(f) *Borrowing costs*

Interest is expensed as incurred, except for interest directly attributable to the construction projects, which is capitalised as part of the cost of those projects. Interest is capitalized at the weighted average cost of the related borrowings up to the date when the project is completed and ready for its intended use.

(g) *Purchased knowhow and prescription*

Purchased knowhow and prescription are stated at cost, less amortisation calculated on a straight-line basis over the remaining transfer period since the commencement of the production of the related products. The cost of purchased knowhow and prescription with no transfer period is amortised over 10 years since the commencement of the production of the related products.

(h) *Construction in progress*

Construction in progress is stated at cost less provision for diminution in value which includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Cost on completed construction works are transferred to the appropriate property, plant and equipment category.

(i) *Inventories*

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

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

(j) *Retirement benefits scheme contributions*

Contributions payable by the Company to its defined contribution retirement benefits scheme in the PRC and to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance are charged to the profit and loss account in the year in which they fall due.

(k) *Government subsidies*

Government subsidies of a revenue nature are recognised as other income in the profit and loss account in the year when they become receivable with reasonable assurance.

(l) *Related parties*

For the purposes of this report, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(Expressed in Renminbi unless otherwise stated)

**3. Principal accounting policies** (continued)*(m) Impairment of assets*

Properties, plant and equipment and purchased knowhow and prescriptions are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the profit and loss account. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating units.

Reversal of impairment losses recognised in prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the profit and loss account.

*(n) Translation of foreign currencies*

Foreign currency transactions are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Renminbi at the rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account.

**4. 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 payment is provided.

**5. Other revenue**

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Other revenue		
Interest income	384	59
Sundry income	2	317
Loss from sub-contracting work	(118)	(89)
Stock gain	250	298
Subsidies received	1,710	1,100
Write back of provision for bad and doubtful debts	5,700	–
	7,928	1,685

## Notes to the Financial Statements | (continued)

(Expressed in Renminbi unless otherwise stated)

### 6. Profit before taxation

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Profit before taxation is arrived at after charging:–		
Interest expenses on bank loans repayable within five years	549	984
Other interest expenses	–	147
	549	1,131
Auditors' remuneration	403	200
Directors' emoluments	295	154
Depreciation	2,031	1,939
Loss on disposal of property, plant and equipment	65	1
Provision for bad and doubtful debts	–	3,746
Provision for obsolete inventories	–	1,585
Amortisation of purchased knowhow and prescription	–	57
Loss on disposal of purchased knowhow and prescription	–	10
Staff costs (excluding directors' emoluments)	5,426	4,880
Housing fund	33	36
and after crediting:–		
Bank interest income	384	59
Write back of provision for bad and doubtful debts	5,700	–
Write back of provision for obsolete inventories	878	–

### 7. Taxation

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
The charge comprises:–		
PRC income tax	4,731	4,923

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%.

The Company did not have any significant unprovided deferred taxation at the year end.

### 8. Earnings per share

The calculation of the earnings per share for the year ended 31st December, 2002 is based on the profit attributable to shareholders of approximately RMB34,669,000 (2001: RMB24,312,000) on the weighted average number of approximately 481,276,712 (2001: 400,000,000 shares) in issue during the year, taking into account that the stock split occurred in April 2002 was applied on 1st January, 2001. Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the year ended 31st December, 2002 (2001: Nil).



(Expressed in Renminbi unless otherwise stated)

**9. Directors' and senior executives' emoluments**(a) *Details of the emoluments paid to directors of the Company are:-*

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Fees	-	-
Other emoluments:-		
Salaries, allowances and other benefits	184	130
Bonus	92	6
Retirement scheme contributions	19	18
	295	154

During the year, no emoluments were paid or payable to the two independent non-executive directors of the Company.

The number of executive directors whose remuneration falls within the following bands is as follows:-

	2002	2001
RMBNil – RMB1,000,000	5	5

During the year ended 31st December, 2002, the five executive directors received individual emoluments of approximately RMB77,000 (2001: RMB42,000), RMB66,000 (2001: RMB34,000), RMB65,000 (2001: RMB34,000), RMB60,000 (2001: RMB24,000) and RMB27,000 (2001: RMB20,000),

Details of the emoluments paid to supervisors of the Company are:-

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Salaries, allowances and other benefits	88	68
Bonus	49	4
Retirement scheme contributions	10	10
	147	82

The number of supervisors whose remuneration falls within the following bands is as follows:-

	2002	2001
RMBNil – RMB1,000,000	3	3

During the year ended 31st December, 2002, the three supervisors received individual emoluments of approximately RMB60,000 (2001: RMB31,000), RMB60,000 (2001: RMB31,000), RMB27,000 (2001: RMB20,000),

None of the Company's directors or supervisors waived or agreed to waive any emoluments. No incentive payment for joining the Company nor compensation for loss of office was paid or payable to any directors or supervisors during the year ended 31st December, 2002 (2001: Nil).

## Notes to the Financial Statements | (continued)

(Expressed in Renminbi unless otherwise stated)

### 9. Directors' and senior executives' emoluments (continued)

(b) Details of the emoluments paid to the five highest paid individuals during the year included four (2001: three) directors and no (2001: two) supervisors whose emoluments are set out above. Details of remuneration of the remaining one (2001: Nil) are as follows:–

	2002 RMB'000	2001 RMB'000
Salaries, allowances and other benefits	473	–
Retirement scheme contributions	10	–
	<b>483</b>	<b>–</b>

### 10. Retirement benefits

The employees of the Company in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government, and in the case of employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF scheme") under the Mandatory Provident Fund Scheme Ordinance.

In PRC, the Company is required to contribute a 25% of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefits scheme is to make the required contributions under the scheme.

In Hong Kong, the assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company is required to contribute a certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Company with respect to the retirement benefits schemes is to make the required contributions under the scheme. The employer's contributions vest fully once they are made. At 31st December, 2002, no forfeited contributions were available to reduce the contributions payable in future years.

The Company's contribution to retirement benefits scheme for the year amounted to RMB1,024,000 (2001: RMB789,000).

### 11. Related party transactions

The short-term bank loans of RMB20,000,000 are guaranteed by its major shareholder, Changchun Kuancheng Pharmaceutical Factory (長春市寬城製藥廠) (2001: RMB5,500,000 by an independent third party, 長春市電氣器材廠).

(Expressed in Renminbi unless otherwise stated)

**12. 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>
Cost:					
At 1st January, 2002	28,695	400	9,076	2,445	40,616
Additions	–	88	474	1,180	1,742
Disposals	–	(24)	(222)	(547)	(793)
At 31st December, 2002	28,695	464	9,328	3,078	41,565
Accumulated depreciation:					
At 1st January, 2002	3,590	266	5,103	1,499	10,458
Charge for the year	717	64	933	317	2,031
Written back on disposal	–	(10)	(119)	(68)	(197)
At 31st December, 2002	4,307	320	5,917	1,748	12,292
Net book value:					
At 31st December, 2002	24,388	144	3,411	1,330	29,273
At 31st December, 2001	25,105	134	3,973	946	30,158

The Company's leasehold land and buildings are situated in the PRC and held under a medium-term lease.

**13. Construction in progress**

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
At 1st January, 2002	–	–
Addition	24,368	–
At 31st December, 2002	24,368	–

## Notes to the Financial Statements | (continued)

(Expressed in Renminbi unless otherwise stated)

### 14. Purchased knowhow and prescription

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Cost:		
Beginning of the year	9,850	4,710
Additions	2,962	5,300
Disposal	—	(160)
End of the year	12,812	9,850
Accumulated amortisation:		
Beginning of the year	310	253
Charge for the year	—	57
End of the year	310	310
Net book value:		
End of the year	12,502	9,540
Beginning of the year	9,540	4,457

Purchased knowhow and prescription were all acquired from independent third parties.

### 15. Inventories

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Inventories comprise:—		
At cost:		
Raw materials	3,709	4,856
Work in progress	3,604	5,513
Finished goods	543	1,516
Goods-in-transit	5,417	8,965
Provision for obsolete inventories	(738)	(1,616)
	12,535	19,234

The above provisions represented full provision against obsolete inventories as at 31st December, 2001 and 2002.

## Notes to the Financial Statements | (continued)

(Expressed in Renminbi unless otherwise stated)

### 16. Trade receivables

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

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Within 1 month	5,440	3,480
Between 2 to 3 months	10,643	4,198
Between 4 to 6 months	10,426	2,742
Between 7 to 12 months	11,911	8,314
Between 1 to 2 years	3,118	9,351
Between 2 to 3 years	657	2,756
Over 3 years	–	2
	<b>42,195</b>	<b>30,843</b>

### 17. Amounts due (to)/from shareholders

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Changchun Kuancheng Pharmaceutical Factory	(171)	2,947
Hu Yong	–	690
	<b>(171)</b>	<b>3,637</b>

The balances with shareholders were unsecured, interest free and had no fixed repayment terms.

### 18. Tax recoverable and provision for taxation

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Tax recoverable comprises:		
City construction tax	–	138
Income tax	317	–
	<b>317</b>	<b>138</b>

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Provision for taxation comprises:		
Value added tax	1,331	95
City construction tax	466	–
Income tax	–	3,240
Personal income tax	5	–
	<b>1,802</b>	<b>3,335</b>



## Notes to the Financial Statements | (continued)

(Expressed in Renminbi unless otherwise stated)

### 19. Trade payables

Details of the aging analysis of trade payables are as follows:–

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Within 3 months	1,304	4,229
Between 4 to 6 months	277	1,851
Between 7 to 12 months	638	1,007
Between 1 to 2 years	1,943	463
Between 2 to 3 years	66	309
Over 3 years	2,663	2,630
	<b>6,891</b>	<b>10,489</b>

### 20. Dividend payable

Dividend payable was unsecured, interest free and repayable on demand.

### 21. Share capital

	Number of shares <i>'000</i>	Amount <i>RMB'000</i>
Registered, issued and fully paid:		
Total domestic shares of RMB1.0 each at 1st January, 2001 and 2002	40,000	40,000
Sub-division of domestic shares from RMB1.0 each to RMB0.1 each ( <i>Note a</i> )	360,000	–
New issue of H shares on placing ( <i>Notes b and c</i> )	161,000	16,100
Total domestic shares and H shares of RMB0.1 each at 31st December, 2002	<b>561,000</b>	<b>56,100</b>

- (a) Pursuant to a resolution of an extraordinary general meeting of shareholders on 8th February, 2002 and the approval from the China Securities Regulatory Commission on 9th April, 2002, the outstanding domestic shares of the Company were sub-divided from 1 share of nominal value of RMB 1 each into 10 shares of RMB 0.1 each.
- (b) On 28th June, 2002, pursuant to the listing of the Company's shares on GEM, the Company issued by way of share placement of 140,000,000 H shares of RMB0.10 each for cash of HK\$0.45 per share.
- (c) On 19th July, 2002, the over-allotment option was exercised and the Company accordingly allotted and issued 21,000,000 new H share, which were listed on the GEM on 23rd July, 2002.

Domestic shares and H shares are both ordinary shares in the share capital of the Company. However, H shares may only be subscribed for, by and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank *pari passu* with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

(Expressed in Renminbi unless otherwise stated)

**22. Reserves***(a) Statutory surplus reserve*

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

*(b) Staff public welfare fund*

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

**23. Notes to cash flow statements***(a) Reconciliation of profit before taxation to net cash inflow from operating activities*

	2002 RMB'000	2001 RMB'000
Profit before taxation	39,400	29,235
Interest income	(384)	(59)
Interest expenses	549	1,131
Government subsidies received	(1,710)	(1,100)
Loss on disposal of purchased know-how and prescription	–	10
Loss on disposal of property, plant and equipment	65	1
Amortisation of purchased know-how and prescription	–	57
Depreciation	2,031	1,939
<b>Operating profit before working capital changes</b>	<b>39,951</b>	<b>31,214</b>
Decrease in inventories	6,699	3,023
(Increase)/decrease in trade receivables	(11,352)	1,410
Decrease/(increase) in other receivables	1,022	(1,022)
Increase in deposits paid	(122)	(413)
Decrease/(increase) in deferred expenses	1,774	(224)
Increase/(decrease) in current accounts with shareholders, net	3,808	(5,181)
(Decrease)/increase in trade payables	(3,598)	1,664
(Decrease)/increase in other payables and accruals	(1,218)	98
(Decrease)/increase in deposits received	(2,280)	2,337
Increase in other tax payables	1,845	22
<b>Net cash inflow generated from operations</b>	<b>36,529</b>	<b>32,928</b>
Interest paid	(549)	(1,131)
Income tax paid	(8,288)	(4,854)
<b>Net cash inflow from operating activities</b>	<b>27,692</b>	<b>26,943</b>

## Notes to the Financial Statements (continued)

(Expressed in Renminbi unless otherwise stated)

### 23. Notes to cash flow statements (continued)

(b) Analysis of changes in financing during the year

	Share Capital including premium		Bank loans		Other loan	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
At 1st January	47,668	47,668	5,500	16,730	—	400
Issue of H shares, net of expenses	62,013	—	—	—	—	—
New bank loans	—	—	20,000	6,000	—	—
Repayment of bank loans	—	—	(5,500)	(17,230)	—	—
Repayment of other loan	—	—	—	—	—	(400)
At 31st December	109,681	47,668	20,000	5,500	—	—

### 24. Capital commitments

At 31st December, 2002, the Company had the following capital commitments:—

	2002 RMB'000	2001 RMB'000
Contracted but not provided for		
– Construction in progress	12,338	—
– Property, plant and equipment	14,153	—
– Purchased knowhow and prescription	13,888	10,280
	40,379	10,280

### 25. Subsequent event

Subsequent to year end, the Company set up a new company in the PRC Changchun Zhong Da Healthcare Product Company (長春中大保健品有限公司) with its major shareholder Changchun Kuancheng Pharmaceutical Factory (長春市寬城製藥廠). The new company is 60% owned by the Company and 40% by Changchun Kuancheng Pharmaceutical Factory (長春市寬城製藥廠). The principal activity of the new company is production of healthcare medication products which will not compete with the existing products produced by the Company. The registered share capital of the new company is RMB1,000,000, and has been fully paid up. The new company will rent part of the Company's premises for production at market rent. The new company has not commenced operations as of date of this report.