



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 Medicine
Western Medicines



Annual Report **2003**

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) 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	10
Report of the Directors	14
Report of the Supervisory Committee	19
Directors, Supervisors and Senior Management Profile	20
Report of the Auditors	23
Consolidated Income Statement	24
Consolidated Balance Sheet	25
Balance Sheet	27
Consolidated Statement of Changes in Equity	29
Consolidated Cash Flow Statement	30
Notes to the Financial Statements	31
Financial Summary	47
Notice of Annual General Meeting	48

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 Wing Yiu (*AHKSA, FCCA*)

COMPANY SECRETARY

YAU Wing Yiu (*AHKSA, FCCA*)

AUDIT COMMITTEE

YANG Shi Jie (*Chairman*)

SUN Xiao Bo

GUO Bin

COMPLIANCE OFFICER

YU Cheng Kun

AUTHORIZED REPRESENTATIVES

GUO Bin

YAU Wing Yiu

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. 655 Chuang Ju Street,
High and New Technology Industrial
Development Zone,
Changchun, Jilin Province,
China

STOCK CODE

8067

I am pleased to announce the operating results of Changchun Da Xing Pharmaceutical Company Limited (the "Company") and its subsidiary, (the "Group") for the year ended 31st December, 2003. The Company's H shares were listed 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 27 December, 1993. The Company is mainly engaged in the manufacturing, sale, research and development of Chinese medicines, Western medicines and biochemical medicines, with the technical capability to produce 9 types of medicine, such as tablets (片劑), granules (顆粒劑), soft capsules (軟膠囊劑), hard capsules (硬膠囊劑), high-capacity injections (大容量注射液), medicinal wine (酒劑), medicinal tea (茶劑), freeze-dry powder for injection (凍乾粉針劑) and herbal cutting (中藥飲片). Major products include pure Chinese medicine, OTC product Jing Tong Ling (頸痛靈), OTC product Xiedali Calcium Carbonate tablets (協達利碳酸鈣片) and Fu Jie Shu capsules (復皆舒膠囊), Sodium Chloride injection (氯化鈉注射液) and glucose injection (葡萄糖注射液). "Chunyan (春燕)" is the Company's registered trademark.

The principal activity of Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司), the subsidiary of the Company, is the production of healthcare medication products. For the year ended 31st December, 2003, the subsidiary had not commenced its business.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31st December, 2003, the Group's turnover was RMB64,730,000, 9.1% lower than that of last year, and the profit attributable to shareholders was RMB21,334,000, 38.5% lower than that of last year.

Starting from April 2003, owing to the outbreak of SARS, there was a significant decrease in the number of people visiting outpatient departments of hospitals of all levels in most of the provinces and cities in the PRC. The sales of products not related to SARS in retail drug-stores was also greatly affected, causing a severe blow to the market sales order. Changchun City was one of the most epidemically afflicted areas where flow of people was curtailed. Salesmen of the Company traveling to their respective business regions were subject to mandatory isolation for observation, which seriously jeopardized the business interface with the customers. As such, the sales turnover and business efficacy of the Group was impaired. On the other hand, the GMP accreditation, to a certain extent, has also affected the sales volume of the year.

The development of the Group has entered into an important stage in 2003. Facing keen market competition, the Group insisted in raising its high-tech capability on all fronts and focused on the work of GMP accreditation. Such initiatives have built up a platform conducive to the continued rapid growth in the years ahead.

A modernized pharmaceutical base has completed

The Company has, since its incorporation in 1993 and after a decade of business venture amid fierce market competition, developed into a business entity that operates independently and assumes responsibility for its own profit and loss, representing a business direction characterized by self-accumulation and self-development.

The newly built plant, in full compliance with GMP standard, is situated in Changchun High and New Technology Industrial Development Zone with a total area of 30,000 square meters and a gross floor area of 22,000 square meters. The plant comprises 5 production lines of Jing Tong Ling (頸痛靈), solid medicines (固體制劑), soft capsules (軟膠丸), Chinese medicine extractions (中藥提取) and biochemical medicine (生化製劑). All the production equipment and ancillary facilities there adopt state-of-the-art models and technologies in China and fundamentally enhance the Group's overall technological capability in producing products with a high-tech component. The scope of production is

expanded with the addition of medicinal tea (茶劑), herbal cutting (中藥飲片) and freeze-dry powder for injection (凍乾粉針) and the production capability of multi-item and multi-prescription products is further augmented. These had laid a solid foundation for the Group to expand its production scale, reduce its production costs and promote its economic efficacy.

The newly built plant is equipped with its own electricity and water supply system to ensure normal production processes of medicines, particularly biochemical medicine and to avoid losses incurred as a result of abnormal factors, accomplishing efficient, automated and programmable management of network-monitoring, automatic alarming and other basic functionalities.

A powerhouse for development of high-tech enterprise has taken shape

The fundamental social function of an enterprise is to provide society with products that meet demands for sustaining growth, with an aim to achieve maximization of profits. Therefore, the products of an enterprise not only reflect the social functions of the enterprise, but in the end also realize the business efficacy of the enterprise and determine whether it can take on rapid development. After a decade of untiring exploration and accumulation, the Group has developed a number of sophisticated high-tech products, and has obtained the state's Certificates of New Medicine and production approvals for Dan Ting cardiopulmonary tablets (丹葶肺心顆粒) and Metronidazole injection (單硝酸異山梨酯注射液) in 2003.

Dan Ting cardiopulmonary tablets (丹葶肺心顆粒) is the first pure Chinese medicine compound approved for production by the State Food and Drug Administration to treat chronic pulmonary heart disease (慢性肺原性心臟病), one of the common cardiopulmonary diseases in our country. The success in the R&D of Dan Ting cardiopulmonary tablets (丹葶肺心顆粒) signifies the breakthrough in the field of pulmonary heart disease treatment in the country, and demonstrates the merits of Chinese medicine treatment in respect of this disease, improves clinical curative effect and overcomes undesirable curative effect and toxic side-effects resulting from pure Western medicine treatment. Additionally, Dan Ting cardiopulmonary tablets (丹葶肺心顆粒) is a good treatment for coughs caused by common cold (i.e. acute and chronic tracheitis) and improve lung function.

Umbro-dinase enzyme injection (注射用蚓激酶), a state class new medicine, has been awarded the state clinical research approval and related clinical research is about to commence.

Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑), a state class new medicine, has completed its clinical research and has reached the conclusion stage, pending the issuance of the state's Certificates of New Medicine and approval for production.

Xueshuantong Luhuana Zhushey (血栓通氯化鈉注射液) and Xuesaitong Luhuana Zhushey (血塞通氯化鈉注射液), two items of state-class 4 new medicine, are pending clinical research approval from the State Food and Drug Administration.

Matrine and Glucose Injection (苦參碱葡萄糖注射液) is pending the issuance of Certificate of New medicine and approval for production from State Food and Drug Administration.

The supplemental materials of Matrine and Sodium Chloride Injection (苦參碱氯化鈉注射液) is under preparation for submission.

Hydrochloric Azasetron Sodium Chloride Injection (鹽酸阿扎司瓊氯化鈉注射液) is pending the issuance of Certificate of New Medicine and approval for production from State Food and Drug Administration.

Xin Ning Ling for Injection (注射用新凝靈) (二乙酰氨基乙酸乙二胺) is a new product to be developed by the Company in 2004, the pharmacodynamics of which are: (1) inhibits plasminogen activator (纖維溶酶激活物) such that plasminogen cannot be activated into Plasmin to block the dissolution of fibrinolysin (纖維蛋白) for purpose of haemostasis; (2) facilitates the release of active substance from platelets (血小板) to increase its cohesion and adhesiveness, such that the staunch-time is reduced for purpose of haemostasis; (3) strengthens the stamina of blood capillaries to decrease their permeability and stop bleeding. Toxicity test of the product indicates that the related LD50 of intravenous injection of white mouse is 683.3mg/kg, and that it is safe for use with low toxicity.

Bleeding is a common clinical phenomenon and endangers the life of the patient if bleeding is not stopped timely. Hence, styptics are of large and wide clinical application. Xin Ning Ling for Injection (注射用新凝靈) (二乙酰氨基乙酸乙二胺) is conducive to the prevention and treatment of various kinds of bleeding, namely, operation bleeding, surgery bleeding, respiratory-tract bleeding, facial features bleeding, gynaecology bleeding, haemorrhoids bleeding, urinary-tract bleeding, cancer-related bleeding, digestive-tract bleeding and cranium bleeding.

Currently, the raw materials of the above-mentioned medicines are already being produced in the country and only domestically produced injection type of the medicine is being sold in the market. However, they are of poor stability and unable to satisfy clinical prescription demand. To facilitate clinical prescription and to enhance the stability of the medicine, the Group has newly built a GMP-standard production line of freeze-dry powder for injection (凍乾粉針) and developed the Xin Ning Ling for Injection (注射用新凝靈) (二乙酰氨基乙酸乙二胺) (0.2g/shot), free of shortcomings accompanied with small fluid injections, which are easy to get damaged and polluted.

Years of clinical application show that Ethylenediamine Diacetate (二乙酰氨基乙酸乙二胺) is of excellent haemostatic effect, but no freeze-dry powder for injection type is approved for production. For this reason, the R&D of freeze-dry powder for injection type of Ethylenediamine Diacetate (二乙酰氨基乙酸乙二胺) is of clinical significance.

It is expected that, in the years to come, the Company will carry through a "three-three" policy, that is, for the coming three years there will be no less than three products a year put to market, so as to put on reserve sufficient drive for the development of the Company.

Robust and integrated nationwide sales network has been consolidated

To further develop the market in 2003, the Group started with the integration of human resources by recruiting, both internally and externally, 14 young and energetic professionals with medical background. They will be deployed to the forefront of the market in order to make the sales team more professional, younger and more aggressive.

Then came the segmentation of market, which involved adopting different management models in light of different market situations, and intensifying policy support to key markets, fanning out from point to area to broaden market coverage and to pave way for future market penetration.

The third step was continued branding enhancement. In 2003, the Group had fully made use of national medicine trade fairs and seminars, events that featured face-to-face exchange of opinions between the companies and the consumers, to effectively promote our products, brand-name and corporate culture in the forms of on-spot demonstrations, Q&A meetings, gifts and leaflets distributing. In Jilin City Meeting, the running out of stock of Jing Tong Ling (頸痛靈) reflected consumers' confidence in the Group's product. Another occasion was at the scene of Changchun Meeting where 200,000 pieces of product leaflets were distributed. Similar incident happened at the product promotion fair organized by the government of Liaoning Province where more than 700 representatives attended and leaders of local medicine and hygiene administrative authorities showed up and delivered speech, in addition to 40 odd pieces of Fu Jie Shu (復皆舒) alone sold on the spot.

Fourthly, the Group has completed the registration of Jing Tong Ling (頸痛靈), one of its flagship products, in Russia and is preparing to have it marketed overseas.

A responsible and committed, hard-working and ambitious, united and unwearied staff team delivered remarkable progress

The Group, based from time to time on its key tasks, conducted comprehensive and systematically quality training in 2003 for the staff and good results were achieved. During the year, staff training amounted to 2000 man sessions and the average training time per staff is 30 man-hours. The scope of training covered a number of aspects, ranging from professional skills for cadres to operational techniques for production posts, from professional theory for engineering personnel to specific expertise for quality inspection personnel, from the know-how for supporting staff to modern sales concept for salesmen, from total quality control (TQC) to GMP, from occupational morals to "Daxing Spirit". In the course of learning the above subjects, the staff of Da Xing has demonstrated their continued self-improvement, studious and enterprising characteristics.

Subject to the demand for development, the Group publicly recruited various professional staff and conducted recruitment exercise in the human resources markets and universities in Jilin Province and Heilongjiang Province. As a result, 56 engineering staff of different fields had been employed, which further improved the technological level and professional quality of our work team and raised our management level to new heights on all aspects.

The Group had intensified its reform in employment and remuneration system in 2003.

First, dismissal mechanism for under-performers at all levels was adopted, so as to genuinely implement system of competition and risk management mechanism in their day-to-day work. There were 8 employees dismissed for poor performance in 2003. This had brought about serious repercussions on every staff member and forcefully urged, in terms of system as well as subjective awareness, other staff to be more motivated, creative, proactive and hard-working, so as to further enhance their performance and improve their efficiency.

Second, the reward system was further adjusted and perfected to break away from traditional practices by implementing piece-work remuneration policy in production, duty specification for middle management and annual remuneration system for senior management. Such systems had been proved effective whereby the workload and performance of the employee are closely linked up, thereby mobilizing enthusiasm of the whole workforce.

It is for such outstanding team that the Group can unceasingly make progress, break records and forge ahead.

The commencement of GMP Accreditation

GMP is the normative standards for pharmaceutical enterprises and regulates all the relevant production activities, and is therefore the inevitable course of development for pharmaceutical enterprises. As such, the Group conducted overall preparation for GMP reorganization and GMP accreditation in 2003.

Based on the overriding principle of upholding technological and technical advancement, we had conducted design and construction on the equipment, facilities and environment of the production plant in full compliance with the requirements of GMP, with a view to reaching GMP standard in terms of overall layout and environment.

According to GMP standard, normative, scientific and standardized management and operational control system were established in every aspect, ranging from procurement of raw and auxiliary materials and packaging materials to workmanship standards of manufacturing, from quality control to chemical examination and inspection, from warehouse storage to transportation and from administration to logistics and back-office security.

With a stringent quality control system, and the formulation of strict post operation standard and craftsmanship requirements, the quality of our products was assured. In 2003, the Group's product recorded 100% of passing rate, both in terms of quality of products and market inspection conducted by random sampling.

Quality assets, high-tech products, strong market network, a staff team that strives for success, and a management team adept in business operation sum up to become critical factors for the Group's continued rapid development, and the growth of Da Xing Pharmaceutical is the result of the non-stop refinement of the above key factors. If one describes Da Xing was at its infancy of development 10 years ago, then no doubt Da Xing is now fully-fledged, with the ability to scale new heights.

PROSPECTS

The Group's operation guideline for 2004 is to follow the direction of the 16th National Congress of the Party, giving priority to science and technology advancement, focusing on market development, increasing market coverage by launching new products, accelerating the building up of modernized enterprise system, and to fully improve the business efficacy of the enterprise.

Intensify market exploration and establish enterprise development platform

Following the completion of GMP accreditation and as the development of new products is now on the right track, the Group will shift its key task to market exploration, with the following main strategies:

To integrate product resources, build scientific product line structure and maximize the benefits of the resources;

To adjust and integrate marketing and sales models that suit the new era;

To establish a scientific system for securing business opportunities to achieve "leveraged development";

To implement corporate image and branding strategy to pave way for phenomenal development;

To strengthen the integration of network resources through combined measures with the help of consolidated measures.

The concrete measures to implement the above strategies are:

To integrate effectively product types and resources and to build up a comprehensive market sales network on all fronts. The Group's market sales in 2004 will be divided into 4 main product lines, namely the line of ordinary medicines (conventional medicines), the OTC line comprising mainly of Jing Tong Ling (頸痛靈), Anfenweima Jiaonang (氨酚偽麻膠囊) and Xiedali Calcium Carbonate tablets (協達利碳酸鈣片); the prescription line comprising mainly of Dan Ting cardiopulmonary tablets (丹葶肺心顆粒) and Fu Jie Shu capsules (復皆舒膠囊); and the line of international sales comprising of Jing Tong Ling (頸痛靈) exports to Russia. The above four product lines will be the main market sectors where the Group will further increase its sales.

It is the Group's objective to cultivate a young, knowledgeable and professionally trained sales team. Talent always comes first after the direction and target has been nailed down. Therefore, the policy of understanding the "situation, objective, quality, determination and overall circumstances" should be carried through in team building such that every member of the team realizes the pressing need of getting a clear understanding of the situation, the sense of achievement from setting a target, the sense of success from improving quality, the sense of mission for having strong determination, the sense of responsibility for having full regard to the general interest. As a result, the sales staff will be fully motivated and the sales work will continue to excel in both quality and scale.

Chairman's Statement

The Group will act according to circumstances which means that it will combine the general attributes of different markets, implementing unique, specific and focused strategies to segmentalize, quantify and differentiate each and every market for the purpose of capitalizing their potentials.

Uphold the principle of scientific and technological advancement, accelerate the research and development of high-tech products and assure continued rapid growth

We will have to speed up the R&D of new products and to launch them on the market as soon as possible to maximize market share and to achieve the "early-bird" effect in 2004.

The trend of the development of modern medical science and clinical research will be combined in formulating new products for the well-being of human beings, and for the improvement of business efficacy of enterprises. The GMP restructure and accreditation of the Group have been completed, which have fundamentally enhanced our technological strength in producing high-tech products. This forms a platform for the R&D of high-tech products, a foundation whereupon technological innovation could flourish.

Reinforce management to establish a modernized operational system

The establishment of a management platform is a guarantee for the healthy and orderly development of enterprise and is an effective way to modernize the pharmaceutical industry. This itself represents an arduous task of innovation. Hence, the Company will keep on developing into a knowledge-intensive consolidated enterprise equipped with top quality technicians, scientific management and market orientation, making the decision making process more scientific, forward-looking and feasible.

FINANCIAL REVIEW

During the financial year in 2003, the Group's turnover was RMB64,730,000, 9.1% lower than that of last year. The gross profit was approximately RMB46,809,000, 13.5% lower than that of last year, and the profit attributable to shareholders was RMB21,334,000, 38.5% lower than that of last year.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's source of fund was cash generated from operating activities, proceeds of placing new shares in 2002 and bank loans. As at 31st December, 2003, the Group's bank balances and cash in hand was RMB89,343,000 (2002: RMB85,834,000) whereas the short-term bank loans were RMB77,000,000 (2002: RMB20,000,000). The short-term bank loans were secured by the fixed assets of the Company and guarantee provided by Changchun Kuancheng Pharmaceutical Factory. Such bank loans are interest-bearing at market rate and repayable within one year.

GEARING RATIO

As at 31st December, 2003, the total assets of the Group amounted to RMB296,277,000 (2002: RMB219,706,000) whereas the total liabilities and the minority interests amounted to RMB88,753,000 (2002: RMB33,516,000). The gearing ratio was 29.96% (2002: 15.25%).

FOREIGN EXCHANGE EXPOSURE

All the operations of the Company are denominated in RMB. For payment of dividend to overseas shareholders, the Company has to convert a portion of RMB to Hong Kong dollars. For the year ended 31st December 2003, the exchange rate of these currencies remained stable. The Company did not have any hedging or other arrangement in relation to these currencies.

DIVIDEND

The directors recommended a final cash dividend of RMB0.5 cent per share (2002: Nil) to shareholders whose names appear on the register of shareholders of the Company on 14th April 2004.

PLEDGE OF THE COMPANY'S ASSETS

At 31st December, 2003, leasehold land and buildings with a net book value of RMB23,670,000 (2002: Nil) and construction in progress of the new office building and factory buildings with a net book value of RMB47,155,000 (2002: Nil) were pledged to a bank to secure banking facilities granted to the Group and the Company to the extent of RMB20,000,000 and RMB22,000,000 (2002: Nil) respectively.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2003, the Company had 289 employees (2002: 298). With the continued growth of the enterprise, it is expected that more professionals will be recruited. Staff remuneration is paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses are paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing fund, etc.

APPRECIATION

2003 was a fruitful year for the Group. I would like to take this opportunity to thank all directors, management and staff of the Group for their hard work and dedication. I would also like to express gratitude to our shareholders and friends both at home and abroad for their full supports. The directors will continue to devote themselves in their work so as to bring remarkable returns to shareholders.

Feng Zhen Wen

Chairman

Changchun, the PRC
18th March, 2004

Statement of Business Objectives

COMPARISON OF BUSINESS PLAN AND ACTUAL BUSINESS PROGRESS

The following compares the actual business progress of the Group as at 31st December, 2003 against the business objectives set out in the Prospectus:

RESEARCH AND DEVELOPMENT

Expected progress

Continue to conduct clinical research of Umbro-dinase enzyme injection (注射用蚓激酶) and Lijie tablets (歷節片)

Actual progress

Preparing clinical sample and other items for the clinical research of Umbro-dinase enzyme injection (注射用蚓激酶); adjusting Lijie tablets (歷節片) according to the new state approval requirements

PRODUCTION

Expected progress

1. Obtain the production approval and thereafter commence the production of Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑)
2. Pass GMP accreditation for the workshop for capsules, tablets and granules and the freeze-dry powder for injection workshop
3. Conduct self-assessment of upgrade and renovation work of the Jing Tong Ling (頸痛靈) workshop in accordance with the Appraisal Standard for Pharmaceutical GMP Accreditation Inspection (藥品GMP 認證檢查評定標準) and thereafter pass GMP accreditation

Actual progress

Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑) has been filed with the State Food and Drug Administration and pending issuance of Certificate of New Medicine and approval for production

The workshop for capsules, tablets and granules and the freeze-dry powder for injection workshop have passed the GMP Accreditation of Changchun City Food and Drug Administration and is expected to obtain State GMP accreditation by the middle of January 2004

Completed self-assessment of workshop for Jing Tong Ling (頸痛靈) and passed the GMP Accreditation of Changchun Food and Drug Administration and is expected to obtain State GMP accreditation by the middle of January 2004

SALES AND MARKETING

Expected progress

Devise and implement strategies for the formation of strategic alliances

Actual progress

July: Sales work meeting was held to recognize the formation of strategic alliances and this message was communicated to all district markets for short-term feedback.

August: Identified target allies and conducted credit check.

September-December: Initiated lobbying activities for alliance forming to accomplish common objectives.

December: Discussed, reviewed and assessed the front-end work done.

Organize a seminar on the topic of further development of markets with sales potential.

July: Gave priority to key markets whereby target markets with sales potential were identified.

August-September: Conducted research on target markets with sales potential.

October: Conducted preliminary discussion and argumentation based on the results and findings of the research.

November: Convened market development seminar.

Launch promotional activities for Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑)

October: Reinforced the approval reporting work of new medicines to expedite the process.

November: Conducted pre-market research.

December: Organized seminar on the sales and promotion strategy of Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑).

Statement of Business Objectives

Expected progress

Launch marketing activities that promote the Company's corporate image

Organize a seminar on the topic of development and clinical research of Chinese medicines

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

Actual progress

July: Verified corporate image lead-in solution.

August: Implemented corporate image implementation solution across the board.

September: Corrected the lay-out of the publication "New Da Xing" to strengthen corporate image.

October-December: Adjusted the design and promotional materials of media advertisements to unify corporate image identification system.

September: To complement Dan Ting cardiopulmonary tablets (丹葶肺心顆粒), product pricing and after-market feasibility research on Chinese medicine clinical research were conducted.

October: Organized seminar on Chinese medicine clinical research attended by clinical experts and sales executives, based on the above research results.

December: Based on the preliminary application on the product, the inventor took the lead to organize a seminar on Chinese medicine clinical research attended by doctors.

September: Convened a sales and marketing seminar attended by sales planning, management, office staff and some external sales planning experts.

October-November: Convened a sales and marketing seminar attended by sales staff in the main office and four offices of two zones respectively.

December: Convened a sales and marketing seminar attended by all sales staff for the purpose of exchanging up-dated market information.

COMPARISON OF USE OF PROCEEDS

The proceeds from the issue of H shares for the listing on GEM had been applied as follows:

	From 28th June, 2002 to 31st December, 2003	
	Planned amount utilized as stated in the Prospectus <i>HK\$(million)</i>	Actual amount utilized <i>HK\$(million)</i>
Research and development		
– Umbro-dinase enzyme injection	9	2
– Urinary trypsin inhibitor	7	1
– Other new medicine	5	4
	21	7
Production facilities for freeze-dry powder for injection	18	18
Strengthening sales and marketing network	8	11
	47	36

As at 31st December, 2003, the Group only utilized approximately HK\$36,000,000 of the proceeds from placing. The remaining balance is unused due to the following reasons:

Umbro-dinase enzyme injection and Urinary trypsin inhibitor

As the State Food and Drug 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 and the clinical approval for Umbro-dinase enzyme injection could only be obtained in April 2003. Furthermore, the production approval for Urinary trypsin inhibitor was being processed, thus the Company had not applied the related proceeds to the relevant clinical research fee and transfer fee.

Report of the Directors

The directors present their annual report together with the audited financial statements for the year ended 31st December, 2003.

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.

The principal activity of the Company's subsidiary, Changchun Zhong Da Healthcare Product Company, is production of healthcare medication products. For the year ended 31st December, 2003, the subsidiary had not commenced operation.

SEGMENTAL INFORMATION

The Group'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, 2003 and the state of affairs of the Group at that date are set out in the financial statements on pages 24 to 46.

The directors recommend the payment of a final cash dividend of RMB0.5 cent per share.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SUBSIDIARY

Details of the subsidiary of the Group for the year ended 31st December, 2003 are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31st December, 2003, the Group's reserves available for cash distribution or distribution in specie amounted to approximately RMB79,755,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer and the five largest customers accounted for approximately 23.6% and 50.6% respectively of its turnover.

In the year under review, the Group's largest supplier and five largest suppliers accounted for approximately 26.3% and 53.8% 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 AND SUPERVISORS

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

Executive directors

FENG Zhen Wen
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 Ying
WANG Ting Jun

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILE

Directors, supervisors and senior management profile of the Group are set out on pages 20 to 22 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 11 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 Group during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31st December, 2003, the interests and short position of the Directors and the Supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

Long positions in shares

Name	Type of interest	Capacity	Number of shares held <i>(Note)</i>	Percentage of domestic shares	Percentage of total registered share capital
Feng Zhen Wen	Personal	Beneficial owner	220,000	0.055%	0.039%
Lu De Yi	Personal	Beneficial owner	100,000	0.025%	0.018%
Li Xiu Jie	Personal	Beneficial owner	100,000	0.025%	0.018%
Yu Cheng Kun	Personal	Beneficial owner	60,000	0.015%	0.011%
Guo Bin	Personal	Beneficial owner	50,000	0.013%	0.009%
Wu Tie Min	Personal	Beneficial owner	50,000	0.013%	0.009%
Xu Feng Ying	Personal	Beneficial owner	50,000	0.013%	0.009%
Wang Ting Jun	Personal	Beneficial owner	50,000	0.013%	0.009%

Note: All are domestic shares

Save as disclosed above, as at 31st December, 2003, none of the Directors and the Supervisors of the Company has any short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31st December, 2003, the following persons had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares

Name	Capacity	Number of shares held <i>(Note)</i>	Percentage of domestic shares	Percentage of total registered share capital
Changchun Kuangcheng Pharmaceutical Factory	Beneficial owner	172,000,000	43.00%	30.66%
Li Yu Ming	Beneficial owner	41,600,000	10.40%	7.42%
Hu Yong	Beneficial owner	35,400,000	8.85%	6.31%
Gao Wei	Beneficial owner	31,000,000	7.75%	5.53%
Wang Jun	Beneficial owner	30,000,000	7.50%	5.35%

Note: All are domestic shares

Save as disclosed above, as at 31st December, 2003, the Directors were not aware of any other person who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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 27 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 Group and the employer's staff retirement costs charged to the profit and loss account for the year are set out in note 12 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, 2003, 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. Three meetings were held by the Committee during the year ended 31st December, 2003.

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
18th March, 2004

Report of the Supervisory Committee

To all Shareholders,

Pursuant to the Company Law of the 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 Group 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 2003, the Committee had actively participated in the discussion on the operational management and development strategies of the Group, and effectively supervised the Group'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.

The Committee has reviewed and agreed to the accompanying Report of the Directors and the audited financial statements to be presented at the forthcoming annual general meeting. The Committee is of the opinion that all members of the Board of Directors, general manager and other senior management of the Group have made contributions, dedicated to the performance of their respective duties and observed a most exact discipline in accordance with the Articles of Association. Up to now, none of the Director, general manager and other senior management of the Group has either abused their rights with prejudice to the Group's interests or infringement to the interests of the shareholders and staff of the Group, 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 2003 and is confident of the Group's future development.

By order of the Committee

Wu Tie Min

Chairman of the Committee

Changchun, the PRC
18th March, 2004

Directors, Supervisors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. FENG Zhen Wen (馮振文), aged 57, 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 13 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 49, 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 21 years of experience in the pharmaceutical research and development.

Ms. LI Xiu Jie (李秀杰), aged 52, 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 28 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. GUO Bin (郭斌), aged 45, 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.

Mr. LU De Yi (蘆德義), aged 47, 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 9 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Lu was transferred to Changchun Kuancheng Pharmaceutical Factory in 2003. The Directors propose to re-designate Mr. Lu as non-executive director of the Company at the forthcoming annual general meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YANG Shi Jie (楊世傑), aged 59, 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 46, 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.

PROPOSED INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. ZHANG Zhong Sheng (張宗生), aged 33, is a Chinese Certified Public Accountant. Mr. Zhang graduated from Dongbei University of Finance and Economics in 1994 with a bachelor's degree in Economics. Mr. Zhang is currently the president of Huaan Certified Public Accountants with approximately 10 years experience in financial auditing including auditing of listed companies. The Directors propose to appoint Mr. Zhang as an independent non-executive director of the Company in the forthcoming annual general meeting.

SUPERVISORS

Mr. WU Tie Min (鄔鐵民), aged 50, 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. Due to personal health reason, Mr. Wu will resign as Supervisor of the Company after the forthcoming annual general meeting.

Ms. XU Feng Yin (徐鳳英), aged 49, 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 49, 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 Wing Yiu (邱榮耀), aged 36, is the qualified accountant and company secretary of the Company. Mr. Yau graduated from the Hong Kong Polytechnic University in 1992 with a bachelor's degree in accountancy and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Yau has more than 13 years of experience in the field of finance and accounting including working in international accounting firms.

Ms. LU Yin Hua (呂迎花), aged 36, 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. The Directors propose to appoint Ms. Lu as executive director of the Company at the forthcoming annual general meeting.

Ms. GAO Yan (高艷), aged 41, 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. The Directors propose to appoint Ms. Gao as Supervisor of the Company at the forthcoming annual general meeting.

Mr. LIN Bo (林柏), aged 47, 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.



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

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 24 to 46 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 Group and 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 of the state of affairs of the Group and the Company as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Chan Kam Wing, Clement

Practising Certificate number P02038

Hong Kong, 18th March, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	4	64,730	71,220
Cost of sales		(17,921)	(17,078)
Gross profit		46,809	54,142
Other revenue	5	748	7,928
Distribution and selling costs		(10,856)	(14,144)
Administrative expenses		(12,869)	(7,977)
Profit from operations		23,832	39,949
Finance costs		(2,512)	(549)
Profit before taxation	6	21,320	39,400
Taxation	7	-	(4,731)
Profit after taxation		21,320	34,669
Minority interest		14	-
Profit attributable to shareholders	8	21,334	34,669
Dividends – final proposed	9	2,805	-
Earnings per share – Basic (RMB)	10	0.038	0.072

The notes on pages 31 to 46 form parts of these financial statements.

Consolidated Balance Sheet

At 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	28,056	29,273
Construction in progress	14	88,069	24,368
Purchased knowhow and prescription	15	16,288	12,502
		<u>132,413</u>	<u>66,143</u>
Current assets			
Inventories	17	6,008	12,535
Trade receivables	18	47,792	42,195
Other receivables		500	–
Prepayments		–	9,958
Deposits paid		6,895	2,724
Deferred expenses	19	13,009	–
Cash and bank deposits		89,343	85,834
Tax recoverable	20	317	317
		<u>163,864</u>	<u>153,563</u>
Current liabilities			
Trade payables	21	5,906	6,891
Other payables and accruals		3,934	3,670
Deposits received		366	57
Dividend payable	22	925	925
Amount due to a shareholder	27(a)	171	171
Short term bank loans (secured)	27(b) & 29	77,000	20,000
Provision for taxation	20	65	1,802
		<u>88,367</u>	<u>33,516</u>
Net current assets		75,497	120,047
Minority interests		386	–
Net assets		207,524	186,190

Consolidated Balance Sheet

At 31st December, 2003

	<i>Note</i>	2003 RMB'000	2002 <i>RMB'000</i>
Capital and reserves			
Share capital	24	56,100	56,100
Reserves		151,424	130,090
Shareholders' funds		207,524	186,190

These financial statements were approved and authorised for issue by the board of directors on 18th March, 2004.

Feng Zhen Wen
Director

Li Xiu Jie
Director

The notes on pages 31 to 46 form parts of these financial statements.

Balance Sheet

At 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	28,056	29,273
Construction in progress	14	88,069	24,368
Purchased knowhow and prescription	15	16,188	12,502
Investment in a subsidiary	16	600	-
		132,913	66,143
Current assets			
Inventories	17	5,933	12,535
Trade receivables	18	47,749	42,195
Other receivables		500	-
Prepayments		-	9,958
Deposits paid		6,895	2,724
Deferred expenses	19	13,009	-
Cash and bank deposits		89,329	85,834
Tax recoverable	20	317	317
		163,732	153,563
Current liabilities			
Trade payables	21	5,823	6,891
Other payables and accruals		3,934	3,670
Deposits received		366	57
Dividend payable	22	925	925
Amount due to a shareholder	27(a)	171	171
Short term bank loans (secured)	27(b) & 29	77,000	20,000
Provision for taxation	20	73	1,802
Amount due to a subsidiary	27(c)	807	-
		89,099	33,516
Net current assets		74,633	120,047
Net assets		207,546	186,190

Balance Sheet

At 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Capital and reserves			
Share capital	24	56,100	56,100
Reserves	25	151,446	130,090
Shareholders' funds		207,546	186,190

These financial statements were approved and authorised for issue by the board of directors on 18th March, 2004.

Feng Zhen Wen
Director

Li Xiu Jie
Director

The notes on pages 31 to 46 form parts of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	Share capital <i>(Note 24)</i> RMB'000	Share premium RMB'000	Retained profits RMB'000	Proposed dividend <i>(Note 9)</i> RMB'000	PRC statutory funds		Total RMB'000
					Statutory surplus reserve <i>(Note 25(a))</i> RMB'000	Staff public welfare fund <i>(Note 25(b))</i> RMB'000	
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
Net profit for the year	-	-	21,334	-	-	-	21,334
Transfer to statutory funds	-	-	(4,412)	-	2,941	1,471	-
Proposed dividend	-	-	(2,805)	2,805	-	-	-
Balance as at 31st December, 2003	56,100	53,581	76,950	2,805	12,065	6,023	207,524

The notes on pages 31 to 46 form parts of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Net cash inflow from operating activities	26(a)	3,356	27,692
Investing activities			
Government subsidies received		-	1,710
Prepayments for property, plant and equipment		-	(9,958)
Purchase for property, plant and equipment		(556)	(1,742)
Payments for knowhow and prescription		(3,786)	(2,962)
Expenditure incurred on construction in progress		(53,743)	(24,368)
Receipts from disposal of property, plant and equipment		-	531
Interest received		838	384
Net cash outflow from investing activities		(57,247)	(36,405)
Financing	26(b)		
Issue of share capital		-	76,797
Payment of share issue expenses		-	(14,784)
New bank loans		77,000	20,000
Repayment of bank loans		(20,000)	(5,500)
Contribution from a minority shareholder		400	-
Net cash inflow from financing		57,400	76,513
Increase in cash and bank deposits		3,509	67,800
Cash and bank deposits at the beginning of the year		85,834	18,034
Cash and bank deposits at the end of the year		89,343	85,834

The notes on pages 31 to 46 form parts of these financial statements.

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 new H shares were listed on the 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.

On 17th January, 2003, the Company set up a new company in the PRC, Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司) with one of its major shareholders, Changchun Kuancheng Pharmaceutical Factory (長春市寬城制藥廠). The new company is 60% owned by the Company and 40% by 長春市寬城制藥廠. 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.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group 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 12 (Revised)	:	Income Taxes
SSAP 35	:	Government Grants

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

Under the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided for on temporary differences arising on investment in a subsidiary, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. The adoption of revised SSAP 12 has had no material impact on the results for the current and prior accounting periods.

In accordance with SSAP 35, government grants are recognised as income over the periods necessary to match them with the related costs. In prior years, the Group credited government grants relating to the acquisition of purchased knowhow and prescription when received to the profit and loss account. The Group has taken advantage of the transitional provision stated in paragraph 42 (b) (ii) of SSAP 35 and government grants received in prior years have not been restated. The Group has adopted SSAP 35 to the grants or portions of grants becoming receivable or repayable after 1st January, 2003.

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 Group is set out below.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation

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

(c) Basis of consolidation

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

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

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

(d) Property, plant and equipment

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

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

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over their estimate 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

(e) 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 attributable to such projects. Cost on completed construction works which are put into operational use are transferred to the appropriate property, plant and equipment category.

(f) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) **Subsidiary**

A subsidiary is an enterprise in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investment in a subsidiary is included in the Company's balance sheet at cost less any impairment loss. The results of the subsidiary are accounted for by the Company on the basis of dividends received and receivable.

(h) **Impairment of assets**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(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) **Receivables**

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

(k) **Provisions and contingent liabilities**

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the acquisition of purchased knowhow and prescription are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(m) Translation of foreign currencies

Foreign currency transactions are translated into Reminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Reminbi 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.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided for on temporary differences arising on investment in a subsidiary except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(o) Retirement benefits scheme contributions

Contributions payable by the Group to defined contribution retirement benefits scheme in the PRC and to the 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.

(p) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) 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.

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)***(r) Related parties**

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

4. TURNOVER

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

The Group'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.

5. OTHER REVENUE

	2003 RMB'000	2002 RMB'000
Other revenue		
Interest income	838	384
Sundry (expenses)/income	(22)	2
Loss on sub-contracting work	(68)	(118)
Stock gain	-	250
Subsidies received	-	1,710
Write back of provision for bad and doubtful debts	-	5,700
	748	7,928

6. PROFIT BEFORE TAXATION

	2003 RMB'000	2002 RMB'000
Profit before taxation is arrived at after charging:-		
Interest expenses on bank loans repayable within five years	2,512	549
Auditors' remuneration:-		
Current year	403	403
Under provision in prior year	150	-
Depreciation	1,773	2,031
Loss on disposal of property, plant and equipment	-	65
Provision for bad and doubtful debts	3,412	-
Cost of inventories	17,725	17,956
Provision for obsolete inventories	196	-
Staff costs (excluding directors' emoluments):-		
Salaries and allowance	4,364	4,388
Pension fund contributions	717	1,005
Housing fund	11	33
and after crediting:-		
Bank interest income	838	384
Write back of provision for bad and doubtful debts	-	5,700
Write back of provision for obsolete inventories	-	878

7. TAXATION

The charge comprises:-
PRC income tax

2003 RMB'000	2002 <i>RMB'000</i>
<u>-</u>	<u>4,731</u>

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%.

Also, as the Company was registered as a Sino-foreign joint stock limited company on 20th December, 2002, it is exempted from income tax for two years starting from year ended 31st December, 2003, its first profit-making year after the registration, followed by a 50% reduction of income tax for the next three years. The subsidiary, Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司) had not commenced business during the year. Thus, it had no assessable profits and hence no PRC income tax was provided for the year ended 31st December, 2003.

The taxation charge for the year can be reconciled to the profit as stated in the financial statements as follows:

	2003 RMB'000	2002 <i>RMB'000</i>
Profit before taxation	<u>21,320</u>	<u>39,400</u>
Taxation calculated at PRC profits tax of 33% (2002: 33%)	7,036	13,002
Tax effect of tax exemption/reduction of income tax under preferential tax treatment	(8,227)	(5,600)
Tax effect of non-taxable item	-	(2,735)
Tax effect of expenses not deductible for taxation purposes	1,191	-
Others	<u>-</u>	<u>64</u>
Taxation for the year	<u>-</u>	<u>4,731</u>

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of RMB21,356,000 (2002: RMB34,669,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

Dividend proposed after year end

- Final dividend of RMB0.5 cent (2002: Nil) per domestic and H share

2003 RMB'000	2002 <i>RMB'000</i>
<u>2,805</u>	<u>-</u>

At a meeting held on 18th March, 2004, the directors proposed a final dividend of RMB0.5 cent per domestic and H share. This proposed dividend has not been included as a liability but reflected as an appropriation of retained earnings in these financial statements.

10. EARNINGS PER SHARE

The calculation of the earnings per share for the year ended 31st December, 2003 is based on the profit attributable to shareholders of approximately RMB21,334,000 (2002: RMB34,669,000) on the weighted average number of approximately 561,000,000 shares (2002: 481,276,712 shares). Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the year ended 31st December, 2003 (2002: Nil).

11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of the emoluments paid to directors of the Company are:-

	2003 RMB'000	2002 <i>RMB'000</i>
Fees	-	-
Other emoluments:-		
Salaries, allowances and other benefits	181	184
Bonus	-	92
Retirement scheme contributions	14	19
	195	295

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:-

	2003	2002
RMBNil – RMB1,000,000	5	5

During the year ended 31st December, 2003, the five executive directors received individual emoluments of approximately RMB64,000 (2002: RMB77,000), RMB44,000 (2002: RMB65,000), RMB44,000 (2002: RMB60,000), RMB43,000 (2002: RMB66,000) and RMBNil (2002: RMB27,000).

(b) Details of the emoluments paid to supervisors of the Company are:-

	2003 RMB'000	2002 <i>RMB'000</i>
Salaries, allowances and other benefits	96	88
Bonus	-	49
Retirement scheme contributions	10	10
	106	147

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

	2003	2002
RMBNil – RMB1,000,000	3	3

11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

(b) *(continued)*

During the year ended 31st December, 2003, the three supervisors received individual emoluments of approximately RMB43,000 (2002: RMB60,000), RMB43,000 (2002: RMB60,000), RMB20,000 (2002: RMB27,000).

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 director or supervisors during the year ended 31st December, 2003.

(c) Details of the emoluments paid to the five highest paid individuals during the year included three (2002: four) directors and one (2002: Nil) supervisor whose emoluments are set out above. Details of remuneration of the remaining one (2002: one) individual are as follows:-

	2003 RMB'000	2002 RMB'000
Salaries, allowances and other benefits	482	473
Retirement scheme contributions	14	10
	<hr/> 496 <hr/>	<hr/> 483 <hr/>

12. RETIREMENT BENEFITS

The employees of the Group 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 the PRC, the Group is required to contribute 24% (2002: 25%) of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group 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 Group in an independently administered fund. The Group is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. The employer's contributions vest fully once they are made. At 31st December, 2003, no forfeited contributions were available to reduce the contributions payable in future years.

The Group's contribution to retirement benefits scheme for the year amounted to RMB732,000 (2002: RMB1,024,000).

13. PROPERTY, PLANT AND EQUIPMENT

The Group and the Company	Leasehold land and buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Transportation equipment <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1st January, 2003	28,695	9,328	3,078	464	41,565
Additions	-	66	457	33	556
At 31st December, 2003	28,695	9,394	3,535	497	42,121
Accumulated depreciation:					
At 1st January, 2003	4,307	5,917	1,748	320	12,292
Charge for the year	718	671	325	59	1,773
At 31st December, 2003	5,025	6,588	2,073	379	14,065
Net book value:					
At 31st December, 2003	23,670	2,806	1,462	118	28,056
At 31st December, 2002	24,388	3,411	1,330	144	29,273

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

14. CONSTRUCTION IN PROGRESS

The Group and the Company

	2003 RMB'000	2002 <i>RMB'000</i>
At 1st January, 2003	24,368	-
Addition	63,701	24,368
At 31st December, 2003	88,069	24,368

15. PURCHASED KNOWHOW AND PRESCRIPTION

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Cost:				
Beginning of the year	12,812	9,850	12,812	9,850
Additions	3,786	2,962	3,686	2,962
End of the year	16,598	12,812	16,498	12,812
Accumulated amortisation:				
Beginning of the year	310	310	310	310
Charge for the year	-	-	-	-
End of the year	310	310	310	310
Net book value:				
End of the year	16,288	12,502	16,188	12,502
Beginning of the year	12,502	9,540	12,502	9,540

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

At 31st December, 2003 and 2002, production of the related products had not yet commenced. Accordingly, no amortization had been charged for the purchased knowhow and prescription for 2003 and 2002.

16. INVESTMENT IN A SUBSIDIARY

	The Company	
	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	600	-

Particulars of the subsidiary are as follows:-

Name of company	Country of incorporation and operation	Percentage of equity held directly	Principal activity
Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司)	PRC	60%	Production of healthcare medication products

17. INVENTORIES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Inventories comprise:-				
At cost:				
Raw materials	3,926	3,709	3,851	3,709
Work in progress	526	3,604	526	3,604
Finished goods	1,585	543	1,585	543
Goods-in-transit	905	5,417	905	5,417
Provision for obsolete inventories	(934)	(738)	(934)	(738)
	6,008	12,535	5,933	12,535

The above provisions represented full provision against obsolete inventories as at 31st December, 2003 and 2002.

18. TRADE RECEIVABLES

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 month	3,377	5,440	3,377	5,440
Between 2 to 3 months	9,898	10,643	9,898	10,643
Between 4 to 6 months	10,801	10,426	10,801	10,426
Between 7 to 12 months	13,381	11,911	13,338	11,911
Between 1 to 2 years	8,217	3,118	8,217	3,118
Between 2 to 3 years	2,118	657	2,118	657
	47,792	42,195	47,749	42,195

19. DEFERRED EXPENSES

Deferred expenses (the Group and the Company) mainly represent prepaid advertising expenses for 2004.

20. TAX RECOVERABLE AND PROVISION FOR TAXATION

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Tax recoverable comprises:				
Income tax	317	317	317	317

20. TAX RECOVERABLE AND PROVISION FOR TAXATION *(continued)*

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Provision for taxation comprises:				
Value added tax	64	1,331	72	1,331
City construction tax	-	466	-	466
Personal income tax	1	5	1	5
	<u>65</u>	<u>1,802</u>	<u>73</u>	<u>1,802</u>

21. TRADE PAYABLES

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 3 months	736	1,304	736	1,304
Between 4 to 6 months	350	277	283	277
Between 7 to 12 months	719	638	703	638
Between 1 to 2 years	508	1,943	508	1,943
Between 2 to 3 years	795	66	795	66
Over 3 years	2,798	2,663	2,798	2,663
	<u>5,906</u>	<u>6,891</u>	<u>5,823</u>	<u>6,891</u>

22. DIVIDEND PAYABLE

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

23. DEFERRED TAXATION

The Group and the Company had no significant deferred tax assets or liabilities at the balance sheet date.

24. 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, 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 of RMB0.1 each on placing (<i>Notes b and c</i>)	<u>161,000</u>	<u>16,100</u>
Total domestic shares and H shares of RMB0.1 each at 31st December, 2002 and 2003	<u>561,000</u>	<u>56,100</u>

- (a) Pursuant to a resolution of an extraordinary general meeting of shareholders on 8th February, 2002 and the approval from 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 RMB1 each into 10 shares of RMB0.1 each.
- (b) On 28th June, 2002, pursuant to the listing of the Company's shares on the 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.

25. RESERVES

The Company	Share capital (Note 24) RMB'000	Share premium RMB'000	Retained profits RMB'000	Proposed dividend (Note 9) RMB'000	PRC statutory funds		Total RMB'000
					Statutory surplus reserve (Note 25(a)) RMB'000	Staff public welfare fund (Note 25(b)) RMB'000	
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
Net profit for the year	-	-	21,356	-	-	-	21,356
Transfer to statutory funds	-	-	(4,412)	-	2,941	1,471	-
Proposed dividend	-	-	(2,805)	2,805	-	-	-
Balance as at 31st December, 2003	56,100	53,581	76,972	2,805	12,065	6,023	207,546

(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 Group's employees and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the Group.

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation to net cash inflow from operating activities**

	2003	2002
	RMB'000	RMB'000
Profit before taxation	21,320	39,400
Interest income	(838)	(384)
Interest expenses	2,512	549
Government subsidies received	-	(1,710)
Loss on disposal of property, plant and equipment	-	65
Depreciation	1,773	2,031
	<hr/>	<hr/>
Operating profit before working capital changes	24,767	39,951
Decrease in inventories	6,527	6,699
Increase in trade receivables	(5,597)	(11,352)
(Increase)/decrease in other receivables	(500)	1,022
Increase in deposits paid	(4,171)	(122)
(Increase)/decrease in deferred expenses	(13,009)	1,774
Increase in current accounts with shareholders, net	-	3,808
Decrease in trade payables	(985)	(3,598)
Increase/(decrease) in other payables and accruals	264	(1,218)
Increase/(decrease) in deposits received	309	(2,280)
(Decrease)/increase in other tax payables	(1,737)	1,845
	<hr/>	<hr/>
Net cash inflow generated from operations	5,868	36,529
Interest paid	(2,512)	(549)
Income tax paid	-	(8,288)
	<hr/>	<hr/>
Net cash inflow from operating activities	3,356	27,692

Notes to the Financial Statements

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Share capital including premium		Bank loans		Minority interests	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1st January	109,681	47,668	20,000	5,500	-	-
Issue of H shares, net of expenses	-	62,013	-	-	-	-
New bank loans	-	-	77,000	20,000	-	-
Repayment of bank loans	-	-	(20,000)	(5,500)	-	-
Contribution from a minority shareholder	-	-	-	-	400	-
At 31st December	109,681	109,681	77,000	20,000	400	-

27. RELATED PARTY TRANSACTIONS

- (a) The amount due to a shareholder represents an unsecured advance made by its major shareholder, Changchun Kuancheng Pharmaceutical Factory. The balance is unsecured, interest free and has no fixed repayment terms.
- (b) The short-term bank loans of RMB35,000,000 are guaranteed by its major shareholder, Changchun Kuancheng Pharmaceutical Factory (2002: RMB20,000,000).
- (c) The amount due to a subsidiary is unsecured, interest free and has no fixed repayment terms.

28. CAPITAL COMMITMENTS

At 31st December, 2003, the Group had the following capital commitments:-

	2003 RMB'000	2002 RMB'000
Contracted but not provided for		
- Construction in progress	-	12,338
- Property, plant and equipment	3,185	14,153
- Purchased knowhow and prescription	17,802	13,888
	20,987	40,379

29. ASSET PLEDGED

At 31st December, 2003, leasehold land and buildings with a net book value of RMB23,670,000 (2002: Nil) and construction in progress of the new office and factory buildings with a net book value of RMB47,155,000 (2002: Nil) were pledged to a bank to secure banking facilities granted to the Group and the Company to the extent of RMB20,000,000 and RMB22,000,000 (2002: Nil) respectively.

	Year ended 31 December				
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Result					
Turnover	64,730	71,220	63,714	40,128	30,143
Profit before taxation	21,320	39,400	29,235	14,368	11,091
Taxation	-	(4,731)	(4,923)	(2,419)	(3,736)
Profit before minority interest	21,320	34,669	24,312	11,949	7,355
Minority interest	14	-	-	-	-
Profit attributable to shareholders	21,334	34,669	24,312	11,949	7,355
Assets and liabilities					
Total assets	296,277	219,706	116,982	102,389	81,305
Total liabilities and minority interest	(88,753)	(33,516)	(27,474)	(37,193)	(43,658)
Net assets	207,524	186,190	89,508	65,196	37,647

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Changchun Da Xing Pharmaceutical Company Limited (the "Company") will be held at No. 655 Chuang Ju Street, High and New Technology Industrial Development Zone, Changchun, Jilin Province, the PRC on Friday, 14th May, 2004 at 9:00 a.m. to consider the following businesses:

I. As ordinary resolutions:

1. To review and approve the report of the directors, audited financial statements and auditors' report for the year 2003.
2.
 - (i) To appoint Ms. Lu Yin Hua as new executive director;
 - (ii) to re-designate Mr. Lu De Yi as non-executive director;
 - (iii) to appoint Mr. Zhang Zhong Sheng as new independent non-executive director; and
 - (iv) to appoint Ms. Gao Yan as a new supervisor.
3. To consider and approve the dividend distribution proposal for the year 2003.
4. To review and approve the remuneration of directors and supervisors for 2004 and the year-end rewards for 2003.
5. 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 2004 with a term of office until the conclusion of next annual general meeting, whose remunerations are fixed by the board of directors of the Company.

II. As a special resolution:

6. To consider and approve the amendments of the articles of association of the Company (the "Articles") based on their existing context and in accordance with Appendix 3 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") as revised and effective from 31st March, 2004. Details of the amendments to the Articles are set out as follows (the proposed changes are marked up for ease of reference):

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

Article 8.11

- (a) That the third paragraph of Article 8.11 be amended as follows:

"If a recognised clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (or its nominee) is a shareholder of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its representative or representatives at any meeting of the Company or at any meeting of any class of shareholders of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. The person so authorised pursuant to this provision shall be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house (or its nominee) could exercise if it were an individual shareholders of the Company."

Notice of Annual General Meeting

Article 8.19

(b) That Article 8.19 be amended as follows:

“A resolution put to vote shall be decided on a show of hands unless specifically required under the GEM Listing Rules or any other applicable laws, rules or regulations to be by poll or unless demanded by any of the following persons for a poll before or after the declaration of the result of the show of hands:

- (1) the Chairman of the meeting;
- (2) at least two shareholders present in person or by proxy and entitled to vote;
- (3) any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than (inclusive) one-tenth of the total voting rights of all shareholders having the right to vote at the meeting.

Unless a poll is so demanded, a declaration by the Chairman that a resolution has on a show of hands been carried and an entry to that effect in the minutes of the relevant meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

Any demand for a poll may be withdrawn.”

Article 8.28

(c) That the following paragraph be added to Article 8.28 as second paragraph of Article 8.28:

“Where any shareholder who, to the Company’s knowledge is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.”

Article 10.01

(d) That Article 10.01 be amended as follows:

“The Company shall establish a board of directors. The board of directors shall be composed of 9 directors including 3 independent non-executive directors (referring to directors independent from shareholders of the Company and not working with the Company). The board shall consist of, 1 chairman and 8 directors, out of which 3 shall be independent non-executive directors and 1 shall be non-executive director. Directors shall deal with matters authorized by the Board”

Article 10.02

(e) That the second paragraph of Article 10.02 be amended as follows:

“The minimum length of the period, during which notice to the Company of the intention to propose a person for election as a Director and during which notice to the Company by such person of his willingness to be elected may be given, will be at least 7 days. The aforesaid period for lodgment of the notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting.”

Notice of Annual General Meeting

Article 10.08

(f) That the second paragraph of Article 10.08 be amended as follows:

“A Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as such term is defined in the GEM Listing Rules) has a material interest nor shall he be counted in the quorum present at the same board meeting.”

By order of the Board

YAU Wing Yiu

Company Secretary

Changchun, the PRC

18th March, 2004

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, the 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 Wednesday, 14th April, 2004 to Friday, 14th May, 2004 (both dates inclusive), during which no transfer of shares will be registered.
5. Those shareholders whose names stand on the register on Wednesday, 14th April, 2004 are entitled to attend and vote at the meeting.
6. The shareholders who intend to attend the meeting should complete and lodge the reply slip at the Company's legal address (No. 655 Chuang Ju Street, High and New Technology Industrial Development Zone, Changchun, Jilin Province, the PRC) before Saturday, 24th April, 2004. The receipt can be delivered in person or by mail, telegram or fax (fax number: 86-431-5531 036).
7. The annual general meeting will not last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.