



長春達興藥業股份有限公司

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

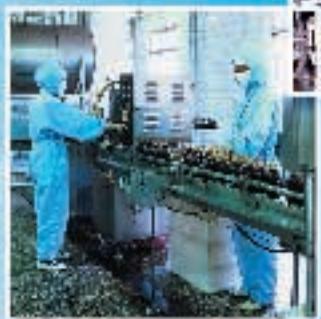
(a joint stock limited company incorporated in the People's Republic of China)

Changchun

Da Xing

Chinese Medicine

Western Medicines



Interim Report **2004**



## HIGHLIGHTS

|                                     |      | Six months ended<br>30 June |                |
|-------------------------------------|------|-----------------------------|----------------|
|                                     |      | 2004                        | 2003           |
|                                     |      | <i>RMB'000</i>              | <i>RMB'000</i> |
| Turnover                            | +46% | <b>52,545</b>               | 35,883         |
| Gross profit                        | +46% | <b>39,023</b>               | 26,716         |
| Profit attributable to shareholders | +56% | <b>24,102</b>               | 15,464         |
| Earnings per share                  | +54% | <b>4.3 cents</b>            | 2.8 cents      |



The unaudited results of Changchun Da Xing Pharmaceutical Company Limited (the "Company") and its subsidiary (the "Group") for the three and six months ended 30 June 2004 together with the comparative unaudited figures for the corresponding periods in 2003 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

|                                     | Notes | Six months<br>ended 30 June |                 | Three months<br>ended 30 June |                 |
|-------------------------------------|-------|-----------------------------|-----------------|-------------------------------|-----------------|
|                                     |       | 2004<br>RMB'000             | 2003<br>RMB'000 | 2004<br>RMB'000               | 2003<br>RMB'000 |
| Turnover                            | 3     | <b>52,545</b>               | 35,883          | <b>31,024</b>                 | 15,105          |
| Cost of sales                       |       | <b>(13,522)</b>             | (9,167)         | <b>(7,846)</b>                | (4,106)         |
| Gross profit                        |       | <b>39,023</b>               | 26,716          | <b>23,178</b>                 | 10,999          |
| Other revenue/(expenses)            | 4     | <b>579</b>                  | 152             | <b>248</b>                    | (61)            |
| Distribution and selling costs      |       | <b>(8,388)</b>              | (5,967)         | <b>(5,720)</b>                | (3,459)         |
| Administrative expenses             |       | <b>(5,102)</b>              | (4,864)         | <b>(2,587)</b>                | (2,172)         |
| Profit from operations              |       | <b>26,112</b>               | 16,037          | <b>15,119</b>                 | 5,307           |
| Finance costs                       |       | <b>(2,010)</b>              | (603)           | <b>(883)</b>                  | (301)           |
| Profit before taxation              | 5     | <b>24,102</b>               | 15,434          | <b>14,236</b>                 | 5,006           |
| Taxation                            | 6     | <b>-</b>                    | -               | <b>-</b>                      | -               |
| Profit after taxation               |       | <b>24,102</b>               | 15,434          | <b>14,236</b>                 | 5,006           |
| Minority interests                  |       | <b>-</b>                    | 30              | <b>-</b>                      | -               |
| Profit attributable to shareholders |       | <b>24,102</b>               | 15,464          | <b>14,236</b>                 | 5,006           |
| Earnings per share                  |       |                             |                 |                               |                 |
| - Basic (RMB)                       | 7     | <b>0.043</b>                | 0.028           | <b>0.025</b>                  | 0.009           |



## CONDENSED CONSOLIDATED BALANCE SHEET

|                                    |              | As at<br><b>30 June</b><br><b>2004</b><br><b>RMB'000</b><br><b>(Unaudited)</b> | As at<br>31 December<br>2003<br><i>RMB'000</i><br><i>(Audited)</i> |
|------------------------------------|--------------|--|--|
|                                    | <i>Notes</i> |  |  |
| <b>Non-current assets</b>          |              |  |  |
| Property, plant and equipment      | 8            | <b>116,344</b>   | 28,056   |
| Construction in progress           | 9            | –  | 88,069   |
| Purchased knowhow and prescription | 10           | <b>16,988</b>  | 16,288   |
|                                    |              | <b>133,332</b>   | 132,413  |
| <b>Current assets</b>              |              |  |  |
| Inventories                        | 11           | <b>5,984</b>   | 6,008  |
| Trade receivables                  | 12           | <b>62,295</b>  | 47,792   |
| Other receivables                  |              | –  | 500  |
| Deposits paid                      |              | <b>16,381</b>  | 6,895  |
| Deferred expenses                  | 13           | <b>38,112</b>  | 13,009   |
| Cash and bank deposits             |              | <b>76,623</b>  | 89,343   |
| Tax recoverable                    |              | <b>317</b>   | 317  |
|                                    |              | <b>199,712</b>   | 163,864  |
| <b>Current liabilities</b>         |              |  |  |
| Trade payables                     | 14           | <b>9,870</b>   | 5,906  |
| Other payables and accruals        |              | <b>5,112</b>   | 3,934  |
| Deposits received                  |              | <b>358</b>   | 366  |
| Dividend payable                   | 15           | <b>3,730</b>   | 925  |
| Amount due to a shareholder        | 16           | <b>171</b>   | 171  |
| Short term bank loans (secured)    | 17           | <b>77,000</b>  | 77,000   |
| Deferred income                    | 18           | <b>300</b>   | –  |
| Provision for taxation             |              | <b>7,296</b>   | 65   |
|                                    |              | <b>103,837</b>   | 88,367   |
| <b>Net current assets</b>          |              | <b>95,875</b>  | 75,497   |
| <b>Minority interests</b>          |              | <b>386</b>   | 386  |
| <b>Net assets</b>                  |              | <b>228,821</b>   | 207,524  |
| <b>Capital and reserves</b>        |              |  |  |
| Share capital                      | 19           | <b>56,100</b>  | 56,100   |
| Reserves                           |              | <b>172,721</b>   | 151,424  |
| Shareholders' funds                |              | <b>228,821</b>   | 207,524  |



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

|   | <b>Six months<br/>ended 30 June</b> |                        |
|---|-------------------------------------|------------------------|
|   | <b>2004</b><br><i>RMB'000</i>       | 2003<br><i>RMB'000</i> |
| <b>Net cash outflow from operating activities</b>                   | <b>(10,460)</b>                     | (659)                  |
| <b>Net cash outflow from investing activities</b>                   | <b>(2,260)</b>                      | (34,888)               |
| <b>Net cash outflow before financing</b>                            | <b>(12,720)</b>                     | (35,547)               |
| <b>Net cash inflow from financing</b>                               | <b>—</b>                            | 20,400                 |
| <b>Decrease in cash and cash equivalents</b>                        | <b>(12,720)</b>                     | (15,147)               |
| <b>Cash and cash equivalents at the beginning<br/>of the period</b> | <b>89,343</b>                       | 85,834                 |
| <b>Cash and cash equivalents at the end<br/>of the period</b>       | <b>76,623</b>                       | 70,687                 |
| <b>Analysis of the balance of cash and<br/>cash equivalents</b>     |                                     |                        |
| Cash and bank deposits  | <b>76,623</b>                       | 70,687                 |



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

|                             | Share<br>capital     | Share<br>premium     | Retained<br>profits  | PRC statutory funds<br>Statutory<br>surplus<br>reserve | Staff<br>public<br>welfare<br>fund | Total                 |
|-----------------------------|----------------------|----------------------|----------------------|--|------------------------------------|-----------------------|
|                             | <i>RMB'000</i>       | <i>RMB'000</i>       | <i>RMB'000</i>       | <i>RMB'000</i>   | <i>RMB'000</i>                     | <i>RMB'000</i>        |
| Balance as at               |                      |                      |                      |  |                                    |                       |
| 1 January 2003              | 56,100               | 53,581               | 62,833               | 9,124  | 4,552                              | 186,190               |
| Profit for the period       | -                    | -                    | 15,464               | -  | -                                  | 15,464                |
| Transfer to statutory funds | -                    | -                    | (2,736)              | 1,824  | 912                                | -                     |
|                             | <hr/>                | <hr/>                | <hr/>                | <hr/>  | <hr/>                              | <hr/>                 |
| Balance as at               |                      |                      |                      |  |                                    |                       |
| 30 June 2003                | <u>56,100</u>        | <u>53,581</u>        | <u>75,561</u>        | <u>10,948</u>  | <u>5,464</u>                       | <u>201,654</u>        |
| Balance as at               |                      |                      |                      |  |                                    |                       |
| 1 January 2004              | 56,100               | 53,581               | 76,950               | 12,065   | 6,023                              | 204,719               |
| Profit for the period       | -                    | -                    | 24,102               | -  | -                                  | 24,102                |
| Transfer to statutory funds | -                    | -                    | (3,615)              | 2,410  | 1,205                              | -                     |
|                             | <hr/>                | <hr/>                | <hr/>                | <hr/>  | <hr/>                              | <hr/>                 |
| <b>Balance as at</b>        |                      |                      |                      |  |                                    |                       |
| <b>30 June 2004</b>         | <u><b>56,100</b></u> | <u><b>53,581</b></u> | <u><b>97,437</b></u> | <u><b>14,475</b></u>                                   | <u><b>7,228</b></u>                | <u><b>228,821</b></u> |



## NOTES

### 1. Basis of preparation

The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 27 December 1993, and its H shares were listed on GEM on 28 June 2002.

On 19 July 2002, the over-allotment option was exercised and the new H shares were listed on GEM on 23 July 2002.

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

The subsidiary of the Company, Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司) ("Changchun Zhong Da" (長春中大)) was established in the PRC on 17 January 2003. The Company and Changchun Kuancheng Pharmaceutical Factory (長春市寬城製藥廠), a major shareholder of the Company own 60% and 40% the equity capital of Changchun Zhong Da respectively. The principal activity of Changchun Zhong Da is production and sale of healthcare medication products and it has not commenced business since establishment.

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

### 2. Principal accounting policies

The principal accounting policies adopted in preparing this interim financial statements are the same as that adopted in preparing the annual financial statements for the year ended 31 December 2003.

### 3. 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.



#### 4. Other revenue/(expenses)

|                                | Six months<br>ended 30 June |                 | Three months<br>ended 30 June |                 |
|--------------------------------|-----------------------------|-----------------|-------------------------------|-----------------|
|                                | 2004<br>RMB'000             | 2003<br>RMB'000 | 2004<br>RMB'000               | 2003<br>RMB'000 |
| Loss from sub-contracting work | (2)                         | (70)            | (2)                           | (30)            |
| Stock gain                     | 156                         | -               | 42                            | -               |
| Interest income                | 418                         | 217             | 207                           | 100             |
| Others                         | 7                           | 5               | 1                             | (131)           |
|                                | <b>579</b>                  | <b>152</b>      | <b>248</b>                    | <b>(61)</b>     |

#### 5. Profit before taxation

|   | Six months<br>ended 30 June |                 | Three months<br>ended 30 June |                 |
|---|-----------------------------|-----------------|-------------------------------|-----------------|
|   | 2004<br>RMB'000             | 2003<br>RMB'000 | 2004<br>RMB'000               | 2003<br>RMB'000 |
| <b>Profit before taxation is<br/>arrived at after charging:</b> |                             |                 |                               |                 |
| Interest expenses on bank loans                                 | 2,010                       | 603             | 883                           | 301             |
| Depreciation  | 1,341                       | 856             | 672                           | 428             |

#### 6. Taxation

PRC income tax is computed according to the relevant laws and regulations in the PRC. Since the year ended 31 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 20 December 2002, it is exempted from income tax for two years starting from year ended 31 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 had not commenced business during the period. Thus, it had no assessable profits and hence no PRC income tax was provided for the six months ended 30 June 2004.

#### 7. Earnings per share

The calculation of the basic earnings per share for the three months ended 30 June 2004 is based on the unaudited profit attributable to shareholders for the period of RMB14,236,000 (2003: RMB5,006,000) and on the weighted average number of 561,000,000 shares (2003: 561,000,000 shares) in issue during the period.



The calculation of the basic earnings per share for the six months ended 30 June 2004 is based on the unaudited profit attributable to shareholders for the period of RMB24,102,000 (2003: RMB15,464,000) and on the weighted average number of 561,000,000 shares (2003: 561,000,000 shares) in issue during the period.

Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the six months ended 30 June 2004 (2003: NIL).

## 8. Property, plant and equipment

|   | Leasehold<br>land and<br>buildings<br><i>RMB'000</i> | Plant and<br>machinery<br><i>RMB'000</i> | Transportation<br>equipment<br><i>RMB'000</i> | Furniture,<br>fixtures<br>and<br>equipment<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|---|--|--|---|--|-------------------------|
| <b>Cost</b>                               |  |  |   |  |                         |
| At 1 January 2004                         | 28,695   | 9,394                                    | 3,535   | 497  | 42,121                  |
| Additions                                 | -  | 438                                      | 138   | 39   | 615                     |
| Transfer from construction<br>in progress | 47,920   | 40,679                                   | -   | 415  | 89,014                  |
| <b>At 30 June 2004</b>                    | <b>76,615</b>  | <b>50,511</b>                            | <b>3,673</b>                                  | <b>951</b>   | <b>131,750</b>          |
| <b>Accumulated depreciation</b>           |  |  |   |  |                         |
| At 1 January 2004                         | 5,025  | 6,588                                    | 2,073   | 379  | 14,065                  |
| Charge for the period                     | 796  | 339                                      | 153   | 53   | 1,341                   |
| <b>At 30 June 2004</b>                    | <b>5,821</b>   | <b>6,927</b>                             | <b>2,226</b>                                  | <b>432</b>   | <b>15,406</b>           |
| <b>Net book value</b>                     |  |  |   |  |                         |
| <b>At 30 June 2004</b>                    | <b>70,794</b>  | <b>43,584</b>                            | <b>1,447</b>                                  | <b>519</b>   | <b>116,344</b>          |
| At 31 December 2003                       | 23,670   | 2,806                                    | 1,462   | 118  | 28,056                  |



## 9. Construction in progress

|   | <b>As at<br/>30 June<br/>2004<br/>RMB'000<br/>(Unaudited)</b> | As at<br>31 December<br>2003<br>RMB'000<br>(Audited) |
|---|---|--|
| At 1 January 2004                         | <b>88,069</b>   | 24,368   |
| Additions                                 | <b>945</b>  | 63,701   |
| Transfer to property, plant and equipment | <b>(89,014)</b>   | -  |
|   | <b>—</b>  | <b>88,069</b>  |

## 10. Purchased knowhow and prescription

|                    | <b>As at<br/>30 June<br/>2004<br/>RMB'000<br/>(Unaudited)</b> | As at<br>31 December<br>2003<br>RMB'000<br>(Audited) |
|--------------------|---|--|
| Cost               | <b>17,298</b>   | 16,598   |
| Less: Amortisation | <b>(310)</b>  | (310)  |
|                    | <b>16,988</b>   | <b>16,288</b>  |

## 11. Inventories

|  | <b>As at<br/>30 June<br/>2004<br/>RMB'000<br/>(Unaudited)</b> | As at<br>31 December<br>2003<br>RMB'000<br>(Audited) |
|--|---|--|
| Raw materials                            | <b>4,212</b>  | 3,926  |
| Work-in-progress                         | <b>672</b>  | 526  |
| Finished goods                           | <b>612</b>  | 1,585  |
| Goods-in-transit                         | <b>1,422</b>  | 905  |
|  | <b>6,918</b>  | 6,942  |
| Less: Provision for obsolete inventories | <b>(934)</b>  | (934)  |
|  | <b>5,984</b>  | <b>6,008</b>   |



## 12. Trade receivables

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

|                        | <b>As at<br/>30 June<br/>2004<br/>RMB'000<br/>(Unaudited)</b> | As at<br>31 December<br>2003<br>RMB'000<br>(Audited) |
|------------------------|---|--|
| Within 1 month         | <b>11,981</b>   | 3,377  |
| Between 2 to 3 months  | <b>14,831</b>   | 9,898  |
| Between 4 to 6 months  | <b>15,252</b>   | 10,801   |
| Between 7 to 12 months | <b>10,058</b>   | 13,381   |
| Between 1 to 2 years   | <b>8,846</b>  | 8,217  |
| Between 2 to 3 years   | <b>1,327</b>  | 2,118  |
|                        | <b>62,295</b>   | 47,792   |

## 13. Deferred expenses

Deferred expenses represent prepaid advertising expenses.

## 14. Trade payables

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

|                      | <b>As at<br/>30 June<br/>2004<br/>RMB'000<br/>(Unaudited)</b> | As at<br>31 December<br>2003<br>RMB'000<br>(Audited) |
|----------------------|---|--|
| Within 3 months      | <b>3,656</b>  | 736  |
| Between 4-6 months   | <b>883</b>  | 350  |
| Between 7-12 months  | <b>319</b>  | 719  |
| Between 1 to 2 years | <b>1,164</b>  | 508  |
| Between 2 to 3 years | <b>1,217</b>  | 795  |
| Over 3 years         | <b>2,631</b>  | 2,798  |
|                      | <b>9,870</b>  | 5,906  |

## 15. Dividend payable

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



## 16. Amount due to a shareholder

The amount due to a shareholder is unsecured, interest free and has no fixed repayment terms.

## 17. Short term bank loans

As at 30 June 2004, leasehold land and buildings with net book value of RMB70,794,000 (2003: leasehold land and buildings RMB23,670,000; construction in progress RMB47,155,000) were pledged to a bank to secure short term bank loans granted to the Group to the extent of RMB42,000,000 (2003: RMB42,000,000). The remaining short term bank loans of RMB35,000,000 were guaranteed by the major shareholder, Changchun Kuancheng Pharmaceutical Factory (2003: RMB35,000,000).

## 18. Deferred income

Deferred income represents the government grant received for the research and development of the Group's new medicine.

## 19. Share capital

|  | <b>Number<br/>of shares</b><br><i>'000</i> | <b>Value</b><br><i>RMB'000</i> |
|--|--|--------------------------------|
| <b>Registered, issue and fully paid:</b>     |  |                                |
| <b>As at 1 January 2004 and 30 June 2004</b> |  |                                |
| Domestic shares of RMB0.1 each               | 400,000                                    | 40,000                         |
| H shares of RMB0.1 each                      | 161,000                                    | 16,100                         |
|  | <u>561,000</u>                             | <u>56,100</u>                  |



## 20. Capital commitment

|                                      | <b>As at<br/>30 June<br/>2004<br/>RMB'000<br/>(Unaudited)</b> | As at<br>31 December<br>2003<br>RMB'000<br>(Audited) |
|--------------------------------------|---|--|
| Contracted but not provided for:     |   |  |
| – Property, plant and equipment      | <b>2,240</b>  | 3,185  |
| – Purchased knowhow and prescription | <b>17,802</b>   | 17,802   |
|                                      | <b>20,042</b>   | 20,987   |

## 21. Interim Dividend

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2004 (2003: Nil).

## FINANCIAL REVIEW

### Operating results

For the six months ended 30 June 2004, the Group recorded a turnover of RMB52,545,000, 46% higher than that of the corresponding period in 2003. The profit attributable to shareholders for the period was RMB24,102,000, an increase of 56% as compared with that for the corresponding period in 2003. For the six months ended 30 June 2004, the basic earnings per share were RMB4.3 cents, an increase of RMB1.5 cents as compared with that of the corresponding period in 2003.

### Liquidity and financial resources

For the six months ended 30 June 2004, the Group's primary source of funds was cash generated from the operating activities, net cash proceeds from the issue of new H shares pursuant to a placing exercise of the Company in June 2002 and bank loans. As at 30 June 2004, the Group's cash and bank balances amounted to RMB76,623,000 and short term bank loans of RMB77,000,000. The Board believes that the current financial position is adequate for the Group's continual operation and development.



## Gearing ratio

As at 30 June 2004, the total assets of the Group was approximately RMB333,044,000 whereas the total liabilities was approximately RMB103,837,000. The gearing ratio (total liabilities divided by total assets) is 31%.

## Material investment

Except the investments in Changchun Zhong Da and various new medicines, the Group did not have other material investment for the six months ended 30 June 2004. Changchun Zhong Da had not commenced business during the period under review. The development of new medicines is proceeded in accordance with schedule.

## Major acquisition and disposal

For the six months ended 30 June 2004, the Group did not have any major acquisition and disposal.

## Pledge of assets and contingent liabilities

Leasehold land and buildings of the Group were pledged to secure short term bank loans. Please refer to note 17 of the condensed consolidated financial statements for details. The Group did not have any material contingent liabilities as at 30 June 2004.

## Staff information

As at 30 June 2004, the Group employed a total of 295 staff in the PRC and in Hong Kong. During the period under review, the salaries were approximately RMB2,358,000. The salary of staff was determined according to the performance of staff and the market trend. Each of the executive Directors and supervisors has entered into a service agreement with the Company, pursuant to which, executive Directors may be granted cash bonus with reference to the Company's profitability at the Board's discretion, but shall subject to shareholders' approval (the interested Directors shall abstain from voting in the Board meeting during which his/her entitlement and the amount of bonus is considered). In any financial year, the discretionary bonus payable to all executive Directors shall not exceed 2% of the Company's profit after tax, minority interest and extraordinary loss (extraordinary profit not included). According to the service contract, each Directors and supervisors is entitled to receive an annual salary as specified. Subject to approval by the shareholders, such annual salary may be increased annually at the discretion of the Board at not more than 15% of the annual salary in the previous year.



## Foreign exchange exposure

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

## BUSINESS REVIEW AND PROSPECTS

### Results of the Group

The Group's results made a remarkable progress in the second quarter of 2004. Both the revenue and profit attributable to shareholders for the six months ended 30 June 2004 recorded a significant increase of over 46% comparing with that of corresponding period in 2003. Reasons for the increase are follows:

- a. By the effort of the sales and marketing staff, sales volume of major products increased significantly;
- b. Increase in sales price of major products in the second quarter of 2004;
- c. Due to high market demand, medicinal injection products started the penetration into the market and recorded a substantial increase in sales volume during the period under review.

Similar to that of corresponding period in 2003, Jing Tong Ling contributed over 80% to the total revenue of the Group for the six months ended 30 June 2004. Although the medicinal injection products contributed only approximately 2% to the total revenue, its revenue and profit generating potential cannot be ignored in the future.

The increase in sales price of major products during the period under review had been offset by the increase in production cost upon the up-running of new factory and lowering the overall gross profit ratio similar to that of corresponding period in 2003.

During the period under review, more promotional activities had been conducted to boost the revenue of the Group and therefore the distribution and selling costs increased accordingly.

In order to remain flexible in capital management, short term bank loans had been used during the period which led to the increase in interest cost.



## **Research and development on new medicine**

Research and development on new medicine has been continued. The progress of research and development activities was closely monitored by the Group's technicians and proceed with laid down schedules.

## **Prospects**

The Group will adopt the "Increase the East, Enter the West" strategy to intensify the market share of the Group's products. Based on the strategy, by engaging additional sales person and promotional activities, the Group will put more effort on increasing the revenue from Eastern part of PRC. For the Western part of PRC, the Group has already setup offices in various cities in the Western part (e.g. Chengdu, Kunming) in order to promote the Group's products.

Regarding the Group's products, with the original five major products continue their dominant position in the Group's revenue, medicinal injection products will be a new force that cannot be ignored. It is expected that the Group's first bio-chemical product will be approved for production in the second half of 2004 and brings in significant revenue to the Group in later time.

Export of Jing Tong Ling to Russia in late June 2004 is an important move to the Group. With similar environment and life style, there should be a high market potential of Jing Tong Ling in Russia.



## COMPARISON OF BUSINESS PLAN AND ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress of the Group as at 30 June 2004 to the business objectives set out in the Prospectus:

### RESEARCH AND DEVELOPMENT

#### Expected progress

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

#### Actual progress

The preparation work for the clinical research was being conducted.

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

### SALES AND MARKETING

#### Expected progress

1. Provide training to sales and marketing staff
2. Conduct company visits to clients located in various focal markets
3. Launch new promotional activities such as paying visits to patients in medical institutions

#### Actual progress

Training courses had been conducted for sales and marketing staff from 15 to 18 January 2004.

The sales and marketing staff visited various focal markets such as Shanghai and Guangzhou to attend sales meetings/exhibitions and understand the market conditions.

Sales and marketing staff visited patients in various medical institutions regularly in order to understand the market situation.



## COMPARISON OF USE OF PROCEEDS

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

|   | <b>From 28 June 2002<br/>to 30 June 2004</b>                               |                                       |
|---|--|---------------------------------------|
|   | <b>Planned<br/>amount<br/>utilized<br/>as stated in<br/>the Prospectus</b> | <b>Actual<br/>amount<br/>utilized</b> |
|   | <i>HK\$ million</i>  | <i>HK\$ million</i>                   |
| <b>Research and development</b>   |  |                                       |
| - Umbro-dinase enzyme injection (注射用蚓激酶)                                    | 11   | 2                                     |
| - Urinary trypsin inhibitor<br>(注射用尿胰蛋白酶抑制劑)                                | 8  | 1                                     |
| - Other new medicine  | 6  | 4                                     |
|   | 25   | 7                                     |
| Investments in production facilities for<br>freeze-dry powder for injection | 18   | 18                                    |
| Strengthening sales and marketing network                                   | 17   | 17                                    |
|   | 60   | 42                                    |

As at 30 June 2004, only HK\$42,000,000 of the placing proceeds was utilized. The reform in approval procedures of new medicines in 2002 and the outbreak of SARS in 2003 delayed the approval of the Group's new medicines by the relevant authorities. Umbro-dinase enzyme injection is still in the clinical testing while Urinary trypsin inhibitor is in the final stage of approval process. As a result, the remaining balance of the placing proceeds is still unused.



## INTEREST IN SHARES

### Directors' and supervisors' interests in shares

As at 30 June 2004, 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 5.46 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<br>(Note) | Percentage of domestic shares | Percentage of total registered share capital |
|---------------|------------------|------------------|----------------------------|-------------------------------|--|
| Feng Zhen Wen | Personal         | Beneficial owner | 220,000                    | 0.055%                        | 0.039%                                       |
| 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%                                       |
| Lu Yin Hua    | Personal         | Beneficial owner | 100,000                    | 0.025%                        | 0.018%                                       |
| Lu De Yi      | Personal         | Beneficial owner | 100,000                    | 0.025%                        | 0.018%                                       |
| 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 30 June 2004, 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 5.46 of the GEM Listing Rules.



## Substantial Shareholders' interests in Shares

As at 30 June 2004, 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<br>shares held<br><i>(Note)</i> | Percentage<br>of domestic<br>shares | Percentage<br>of total<br>registered<br>share capital |
|---|------------------|---|-------------------------------------|---|
| Changchun Kuancheng<br>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 30 June 2004, 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.

## OTHER INFORMATION

### Competing interests

As at 30 June 2004, none of the director or management shareholders (as defined in GEM Listing Rules) of the Company had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Company.

### Sponsors' interests

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



As at 30 June 2004, neither CSC Asia, its directors, employees or their respective associates has any interest in the Company's securities nor has any rights to subscribe for or to nominate persons to subscribe for securities of the Company.

### **Board practices and procedures**

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the period.

### **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 period.

### **Audit Committee**

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The quarterly results of the Group for the 6 months ended 30 June 2004 have been reviewed by the audit committee, who were of the opinion that such results were prepared in accordance with the applicable accounting standards and requirements, and that adequate disclosures had been made.

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

Jilin Province, the PRC, 13 August 2004

As at the date of this report the Board comprises five executive directors, being Feng Zhen Wen, Yu Cheng Kun, Li Xiu Jie, Guo Bin and Lu Yin Hua; a non-executive director, Lu De Yi, and three independent non-executive directors, being Yang Shi Jie, Sun Xiao Bo and Zhang Zhong Sheng.