



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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2002**

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This announcement, for which the directors (“The Directors”) of Changchun Da Xing Pharmaceutical Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

The Company was incorporated as a joint stock limited company on 27th December, 1993 with the approval of the People's Government of Changchun. The Company is engaged in the research, development, manufacture and sale of Chinese medicines, Western medicines, biochemical medicines and material medicines. The medicinal products produced by the Company are in forms of tablets, granules, soft capsules, hard capsules, high-capacity injections and oral liquid. Major products produced by the Company include a Chinese medicine named Jing Tong Ling and four Western medicines, namely, Xiedali calcium carbonate tablets, Fu Jie Shu capsules, sodium chloride injection and 5% glucose injection. "Chunyan (春燕)" is the Company's trademark registered in the PRC. For the year ended 31st December, 2002, turnover and profit attributable to shareholders of the Company amounted to RMB71,220,000 and RMB34,669,000, representing an increases of 11.78% and 42.60% over last year respectively.

ANNUAL RESULTS

The Board of Directors (the "Board") of the Company is pleased to announce the audited results of the Company for the year ended 31st December, 2002 together with comparative figures for the corresponding period in the last financial year:

	<i>Notes</i>	2002 RMB('000)	2001 RMB('000)
Turnover	2	71,220	63,714
Cost of sales		(17,078)	(18,885)
Gross profit		54,142	44,829
Other revenue		7,928	1,685
Distribution and selling costs		(14,144)	(4,860)
Administrative expenses		(7,977)	(11,288)
Profit from operations		39,949	30,366
Finance costs		(549)	(1,131)
Profit before taxation	3	39,400	29,235
Taxation	4	(4,731)	(4,923)
Profit attributable to shareholders		34,669	24,312
Earnings per share	5		
– Basic (RMB)		0.072	0.061

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 27th December, 1993, and its H shares were listed on GEM on 28th June, 2002. Details of these are set out in the prospectus of the Company issued on 21st June, 2002. In addition, on 19th July, 2002, the over-allotment option was exercised and the Company accordingly allotted and issued 21,000,000 new H shares ("the Over-allotment Shares") at the placing price of HK\$0.45 per H share. The Over-allotment Shares represented approximately 3.7% of all the Company's issued share capital immediately after the allotment of the Over-allotment Shares. The Over-allotment Shares were issued and listed on GEM on 23rd July, 2002.

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

The accompanying financial statements are prepared in accordance with the accounting standards issued by the Hong Kong Society of Accountants.

2. Turnover

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

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

3. Profit before taxation

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

4. Taxation

	2002 <i>RMB ('000)</i>	2001 <i>RMB ('000)</i>
The charge comprises:		
PRC income tax	<u>4,731</u>	<u>4,923</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%.

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

5. Earnings per share

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

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31st December, 2002 (2001: Nil).

Reserves

	Retained profits	Share premium	PRC statutory funds		Total
	RMB('000)	RMB('000)	Statutory surplus reserve	Staff public welfare fund	RMB('000)
			RMB('000)	RMB('000)	
Balance as at 1st January, 2001	12,094	7,668	3,630	1,804	25,196
Net profit for the year	24,312	–	–	–	24,312
Transfer to statutory funds	(4,214)	–	2,809	1,405	–
Balance as at 31st December, 2001	32,192	7,668	6,439	3,209	49,508
Net profit for the year	34,669	–	–	–	34,669
Issue of H shares	–	60,697	–	–	60,697
Share issue costs	–	(14,784)	–	–	(14,784)
Transfer to statutory funds	(4,028)	–	2,685	1,343	–
Balance as at 31st December, 2002	<u>62,833</u>	<u>53,581</u>	<u>9,124</u>	<u>4,552</u>	<u>130,090</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2002, the Company adhered to a market-oriented approach in order to maintain and accelerate the growth momentum. Meanwhile, the Company advanced through the development of hi-tech products utilizing the latest technology and adopting a modernized management. To improve the overall management standards and quality, the Company focused on developing an efficient business model for fast growing enterprises. As a result, the Company has achieved considerable increases in both sales revenue and net profit. For the year ended 31st December, 2002, the turnover and profit attributable to shareholders of the Company amounted to RMB71,220,000 and RMB34,669,000, representing increases of 11.78% and 42.60% over last year respectively.

Extensive Market Exploration

The Company has an extensive marketing network comprising over 240 large scaled sales agents, and approximately 1,000 distributors and 10,000 sales outlets. In 2002, the Company maintained the principles of exploring the developed coastal regions and the Western China market, accruing to increase both the geographical reach and depth of market penetration.

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

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

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

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

3. *Proactively develop international market*

The PRC's entry into the World Trade Organization opened new opportunities for the Company. During June and July 2002, the Company sent its delegates to Russia and Ukrania to participate in bilateral trade conferences, through this Company familiarized itself with the rules of international trade, had the opportunity to examine and better understand the developing trends in international markets. As such, in its future development, the Company will be able to operate inline with the

international practices and actively implement an efficient brand strategy by widely promoting its products and culture, thus building the foundations to an international market. Currently, the Company's products and trademarks are being registered in countries such as Russia, Vietnam, South Africa, Malaysia, Singapore and Indonesia.

4. *Strengthening our sales force*

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

New product development

To speed up the development of new and high technological products and to further improve the operational vitality was the core mission of the Company. Especially in 2002, with the direction of "Focused, Speedy and Result-oriented", the Company has brought the development of new products into a good cyclic and orderly orbit, opening a new era of production, development and innovations.

1. Projects under research

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

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

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

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

Yushi cardiopulmonary tablets (魚石肺心顆粒)

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

Lijie tablets (歷節片)

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

Metronidazole injection (單硝酸異山梨酯注射液)

A State Class 4 New Medicine, which will receive the Certificate of New Medicine shortly.

2. New projects

According to development trends in pharmaceutical market, together in consolidation with existing product structure and production technologies, the Company has determined its main focuses after the research of 4 State Class New Medicines such as Xueshuantong Zhushuye (血栓通注射液) in 2002.

Xueshuantong Luhua Zhushuye (血栓通氯化鈉注射液), Xuesaitong Luhua Zhushuye (血塞通氯化鈉注射液)

A State Class 4 New Chinese Medicine, applicable to cardiovascular disease. The Company is preparing the application materials for clinical research approval of the two products in accordance with the new Administrative Measures on Registration of Medicine (藥品註冊管理辦法).

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

State Class 4 New Medicines. Matrine (苦參碱) has essential values in pharmacological avidity and clinical application against central nervous system diseases and cardiovascular diseases and with anti-virus, antiinflammatory, immunity and anti-tumour functions. The applications of such two medicines have been submitted to the State Pharmaceutical Approval Centre, and the Certificate of New Medicine will be granted shortly.

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

A State Class 2 Chinese Medicine, applicable to cardial functional insufficiency, coronary heart disease, virus myocarditis, acute and chronic heart failure and chronic hepatitis, etc. The medicine is under the basic test and information classification stage.

Hydrochloric Azasetron Sodium Chloride Injection (鹽酸阿紮司瓊氯化鈉注射液)

A State Class 4 New Medicine. Hydrochloric Azasetron Sodium Chloride Injection (鹽酸阿紮司瓊氯化鈉注射液) is applicable to vomiting caused by cell toxicant medicines. The documentation for the application of the Certificate of New Medicine is underway.

3. Proposed projects

Xiaokexin (消渴欣)

Xiaokexin (消渴欣) is a State Class 2 New Medicine which is a pure Chinese Medicine used for lowering blood sugar level. At present, 80% of the clinical research on Xiaokexin (消渴欣) has been completed. Tests on production technique, effectiveness and acute toxicology has basically completed.

MODERNIZED MANAGEMENT STANDARD WAS TOTALLY IMPROVED

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

1. Freeze-dry Powder for Injection Production Line

Construction of freeze-dry powder for injection production line is underway in Changchun High and New Technology Industrial Development Zone. At present, the building and equipment selection has primarily been completed. It is expected that whole production line will be completed at the end of October 2003 and gain GMP certification at the end of 2003.

2. Full Implementation of GMP Reorganization

GMP certification is critical to the existence and development of an enterprise. To meet the demand for rapid development and improved effectiveness so as to attain GMP standard by June 2004, the Company make full use of concessions offered by the State to enterprises in Changchun High and New Technology Industrial Development Zone to improve in speed, quality and capacity, and determine to undertake GMP reorganization for production lines such as Jing Tong Ling, solid medicines and capsule medicines.

3. Overall Improvement of Staff Quality

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

4. Steady enhancement in products quality and further implementation of brand strategy

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

PROSPECT

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

TO LEAP ON THE FOUNDATION OF THE COMPANY'S DEEP UNDERPINNED DEVELOPMENT IN THE MARKET

The Company will carefully analyze market situations and stick to overall consideration without omission of each parts. In other words, it will pay attention to both the key focuses and general situation. According to each specific situation of various markets, it will formulate corresponding strategies and measures for developing, supporting and enhancing its product mix to fully explore market potential and expand sales network. It will further expand the market by consolidating and standardizing the established sales network and strengthening customer relationship. Besides keeping its existing market in key regions, the Company will also strenuously develop new markets and extend its reach to the nationwide market in order to establish a complete sales network and distribution channels. It will continue to build a strong sales team and strengthen the awareness and corporate culture on effectiveness, timing, hardworking, sacrifice, toughness and steadfastness. As such, the Company will develop a devoted sales team with macroview and dignity. Meanwhile, it will further consolidate basic management and strengthen logistics mechanism to keep enhancing sales management level. Furthermore, through suitable product-market matching, quality service, effective promotion and its own good reputation, the Company will speed up the development of international sales outlets and enlarge its market shares domestically and internationally.

ACCELERATE TECHNOLOGY INNOVATION TO ENSURE HIGH ECONOMIC EFFECTIVENESS

By 2003, the Company expects that new medicine certificates of and production approval will be granted for products such as yushi cardiopulmonary tablets, metronidazole injection, matrine and sodium chloride injection and matrine and glucose injection. This will positively enhance the product mix, increase technology application to products and procure the rapid growth of the Company. Meanwhile, the Company will concentrate on new products development, continue to identify potential projects and adhere to the principle of high effect, high technology, value-added and private ownerships, for setting up foundation of one or two new product development. By achieving GMP certifications and consolidating its GMP recognition, the Company is committed to attain GMP certifications for production lines such as solid medicine, biochemical medicine and oral liquid in 2003 on the foundation of its GMP certification for infusion. In doing so, the Company will strictly implement GMP management practices, consistently adopt new technology and technique to ensure product quality and cost-saving so that its modernized pharmaceutical management can be continuously improved.

ACTIVITY EXPLORE POTENTIAL FOR RELATED SECTORS

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

LIQUIDITY AND FINANCIAL RESOURCES

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

GEARING RATIO

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

DIVIDEND

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

PLEDGE OF THE COMPANY'S ASSETS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2002, the Company had 289 employees (2001: 298). With deep exploration of the market, continuous research and development of new products and adoption of high technology, the Company expects to recruit more professionals. The staff's salaries are paid in accordance with relevant policies in the PRC with discretionary bonuses depending on individual performance. Other benefits include pension, unemployment insurance, housing fund, etc.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

For the year ended 31st December, 2002, the Company did not purchase, sell or redeem any of its listed shares.

FOREIGN EXCHANGE EXPOSURE

All the operating revenue of the Company is denominated in RMB. For payment of dividend to overseas shareholders, the Company has to convert a portion of RMB to Hong Kong dollars. For the year ended 31st December, 2002, the exchange rate of these currencies remained stable. The Company did not have any hedging or other arrangement in relation to these currencies.

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

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

Feng Zhen Wen
Chairman

Changchun, the PRC
14th March, 2003