



長春達興藥業股份有限公司  
**Changchun Da Xing Pharmaceutical Company Limited\***

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

**INTERIM RESULTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2003**

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

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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 Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to Changchun Da Xing Pharmaceutical Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this 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 purposes only

The unaudited results of the Group for the three and six months ended 30th June, 2003 together with the comparative unaudited figures for the corresponding periods in 2002 are as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**

	<i>Notes</i>	<b>Six months ended 30th June</b>		<b>Three months ended 30th June</b>	
		<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		<b><i>RMB('000)</i></b>	<b><i>RMB('000)</i></b>	<b><i>RMB('000)</i></b>	<b><i>RMB('000)</i></b>
Turnover	3	<b>35,883</b>	38,493	<b>15,105</b>	18,340
Cost of Sales		<b>(9,167)</b>	(8,788)	<b>(4,106)</b>	(4,497)
Gross Profit		<b>26,716</b>	29,705	<b>10,999</b>	13,843
Other revenue/(expenses)	4	<b>152</b>	1,839	<b>(61)</b>	1,831
Distribution and selling expenses		<b>(5,967)</b>	(4,735)	<b>(3,459)</b>	(2,246)
Administrative expenses		<b>(4,864)</b>	(3,308)	<b>(2,172)</b>	(1,083)
Profit from operations		<b>16,037</b>	23,501	<b>5,307</b>	12,345
Finance costs		<b>(603)</b>	(223)	<b>(301)</b>	(96)
Profit before taxation	5	<b>15,434</b>	23,278	<b>5,006</b>	12,249
Taxation	6	<b>–</b>	(3,203)	<b>–</b>	(1,634)
Profit before minority interests		<b>15,434</b>	20,075	<b>5,006</b>	10,615
Minority interests		<b>30</b>	–	<b>–</b>	–
Net profit for the period		<b><u>15,464</u></b>	<u>20,075</u>	<b><u>5,006</u></b>	<u>10,615</u>
Earnings per share	7				
– Basic		<b><u>2.8 cents</u></b>	<u>5.0 cents</u>	<b><u>0.9 cents</u></b>	<u>2.6 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th June, 2003 <i>RMB('000)</i> (Unaudited)	As at 31st December, 2002 <i>RMB('000)</i> (Audited)
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	28,503	29,273
Construction in progress	9	31,521	24,368
Purchased know-how and prescription	10	14,802	12,502
		<u>74,826</u>	<u>66,143</u>
<b>Current assets</b>			
Inventories	11	8,579	12,535
Trade receivables, net	12	42,160	42,195
Other receivables		98	–
Prepayments		35,525	9,958
Deposits paid		7,275	2,724
Deferred expenses		11,975	–
Cash and bank deposits		70,687	85,834
Tax recoverable		250	317
		<u>176,549</u>	<u>153,563</u>
<b>Current liabilities</b>			
Trade payables	13	5,321	6,891
Other payables and accruals		2,904	3,670
Deposits received		30	57
Dividend payable	14	925	925
Amount due to a shareholder	15	171	171
Short term bank loans	16	40,000	20,000
Provision for taxation		–	1,802
		<u>49,351</u>	<u>33,516</u>
<b>Net current assets</b>		<u>127,198</u>	<u>120,047</u>
<b>Non-current liabilities</b>			
Minority interests		370	–
<b>Net assets</b>		<u>201,654</u>	<u>186,190</u>
<b>Capital and reserves</b>			
Share capital	17	56,100	56,100
Reserves	18	145,554	130,090
<b>Shareholders' funds</b>		<u>201,654</u>	<u>186,190</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	<b>Six months ended 30th June</b>	
	<b>2003</b>	<b>2002</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(659)</b>	<b>19,132</b>
<b>Net cash outflow from investing activities</b>	<b>(34,888)</b>	<b>(90)</b>
<b>Net cash (outflow)/inflow before financing</b>	<b>(35,547)</b>	<b>19,042</b>
<b>Net cash inflow from financing</b>	<b>20,400</b>	<b>55,919</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(15,147)</b>	<b>74,961</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>85,834</b>	<b>18,034</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>70,687</b>	<b>92,995</b>
<b>Analysis of the balance of cash and cash equivalents</b>		
Cash and bank deposits	<b>70,687</b>	<b>92,995</b>

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

	PRC statutory funds					
	Share capital	Share premium	Retained profits	Statutory surplus reserve	Staff public welfare 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 1st January, 2002	40,000	7,668	32,192	6,439	3,209	89,508
New issue of H shares upon public listing	14,000	–	–	–	–	14,000
Profit for the period	–	–	20,075	–	–	20,075
Increase in share premium	–	52,780	–	–	–	52,780
Share issuing costs	–	(14,432)	–	–	–	(14,432)
Transfer to statutory funds	–	–	(3,011)	2,008	1,003	–
	<u>54,000</u>	<u>46,016</u>	<u>49,256</u>	<u>8,447</u>	<u>4,212</u>	<u>161,931</u>
Balance as at 30th June, 2002						
Balance as at 1st 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	–
	<u>56,100</u>	<u>53,581</u>	<u>75,561</u>	<u>10,948</u>	<u>5,464</u>	<u>201,654</u>
<b>Balance as at 30th June, 2003</b>						

## 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.

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

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

On 17th January, 2003, the Company and its major shareholder, Changchun Kuangcheng Pharmaceutical Factory (長春市寬城製藥廠) invested RMB600,000 and RMB400,000, representing 60% and 40% of the registered capital respectively, to co-found Changchun Zhong Da Healthcare Product Company (長春中大保健品公司).

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 31st December, 2002.

### 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 ended 30th June		Three months ended 30th June	
	2003 RMB('000)	2002 RMB('000)	2003 RMB('000)	2002 RMB('000)
Loss from sub-contracting work	(70)	(75)	(30)	(2)
Stock gain	–	25	–	25
Written back on provision for bad debts	–	1,736	–	1,736
Interest income	217	106	100	72
Others	5	47	(131)	–
	<u>152</u>	<u>1,839</u>	<u>(61)</u>	<u>1,831</u>

## 5. Profit before taxation

	Six months ended 30th June		Three months ended 30th June	
	2003 RMB('000)	2002 RMB('000)	2003 RMB('000)	2002 RMB('000)
<b>Profit before taxation is arrived at after charging:</b>				
Interest expenses on bank loans	603	223	301	96
Loss on disposal of property, plant and equipment	–	77	–	–
Depreciation	856	944	428	472
	<u>856</u>	<u>944</u>	<u>428</u>	<u>472</u>

## 6. Taxation

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

## 7. Earnings per share

The calculation of the basic earnings per share for the three months ended 30th June, 2003 is based on the unaudited net profit for the period of RMB5,006,000 (2002: RMB10,615,000) and on the weighted average number of shares of approximately 561,000,000 shares (2002: 404,615,385 shares) in issue during the period.

The calculation of the basic earnings per share for the six months ended 30th June, 2003 is based on the unaudited net profit for the period of RMB15,464,000 (2002: 20,075,000) and on the weighted average number of shares of approximately 561,000,000 shares (2002: 402,320,442 shares) in issue during the period.

## 8. Property, plant and equipment

	Leasehold land and buildings RMB('000)	Furniture, fixtures and equipment RMB('000)	Plant and machinery RMB('000)	Transportation equipment RMB('000)	Total RMB('000)
<b>Cost</b>					
As at 1st January, 2003	28,695	464	9,328	3,078	41,565
Additions	–	16	70	–	86
<b>As at 30th June, 2003</b>	<u>28,695</u>	<u>480</u>	<u>9,398</u>	<u>3,078</u>	<u>41,651</u>
<b>Accumulated depreciation</b>					
As at 1st January, 2003	4,307	320	5,917	1,748	12,292
Charge for the period	359	27	324	146	856
<b>As at 30th June, 2003</b>	<u>4,666</u>	<u>347</u>	<u>6,241</u>	<u>1,894</u>	<u>13,148</u>
<b>Net book value</b>					
<b>As at 30th June, 2003</b>	<u>24,029</u>	<u>133</u>	<u>3,157</u>	<u>1,184</u>	<u>28,503</u>
As at 1st January, 2003	24,388	144	3,411	1,330	29,273

## 9. Construction in progress

	As at 30th June, 2003 <i>RMB('000)</i> (Unaudited)	As at 31st December, 2002 <i>RMB('000)</i> (Audited)
As at 1st January, 2003	24,368	–
Additions	7,153	24,368
As at 30th June, 2003	<u>31,521</u>	<u>24,368</u>

## 10. Purchased know-how and prescription

	As at 30th June, 2003 <i>RMB('000)</i> (Unaudited)	As at 31st December, 2002 <i>RMB('000)</i> (Audited)
Cost	15,112	12,812
<i>Less: Amortisation</i>	<u>(310)</u>	<u>(310)</u>
	<u>14,802</u>	<u>12,502</u>

## 11. Inventories

	As at 30th June, 2003 <i>RMB('000)</i> (Unaudited)	As at 31st December, 2002 <i>RMB('000)</i> (Audited)
Raw materials	3,088	3,709
Work-in-progress	1,126	3,604
Finished goods	5,103	543
Goods-in-transit	–	5,417
	9,317	13,273
<i>Less: Provision for obsolete inventories</i>	<u>(738)</u>	<u>(738)</u>
	<u>8,579</u>	<u>12,535</u>



## 12. Trade receivables, net

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

	As at 30th June, 2003 <i>RMB('000)</i> (Unaudited)	As at 31st December, 2002 <i>RMB('000)</i> (Audited)
Within 1 month	5,083	5,440
Between 2 to 3 months	8,858	10,643
Between 4 to 6 months	10,740	10,426
Between 7 to 12 months	9,873	11,911
Between 1 to 2 years	6,829	3,118
Between 2 to 3 years	777	657
	<u>42,160</u>	<u>42,195</u>

## 13. Trade payables

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

	As at 30th June, 2003 <i>RMB('000)</i> (Unaudited)	As at 31st December, 2002 <i>RMB('000)</i> (Audited)
Within 3 months	1,163	1,304
Between 4-6 months	124	277
Between 7-12 months	322	638
Between 1 to 2 years	1,466	1,943
Between 2 to 3 years	65	66
Over 3 years	2,181	2,663
	<u>5,321</u>	<u>6,891</u>

## 14. Dividend payable

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

## 15. Amount due to a shareholder

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

## 16. Bank loans

	As at 30th June, 2003 <i>RMB('000)</i> (Unaudited)	As at 31st December, 2002 <i>RMB('000)</i> (Audited)
Bank loan repayable within one year	<u>40,000</u>	<u>20,000</u>

## 17. Share capital

	Number of shares ( '000)	Value RMB( '000)
<b>Registered, issue and fully paid:</b>		
<b>As at 1st January, 2003 and 30th June, 2003</b>		
Domestic shares of RMB 0.1 each	400,000	40,000
H shares of RMB 0.1 each	161,000	16,100
	<u>561,000</u>	<u>56,100</u>

## 18. Reserves

	Retained profits RMB( '000)	Share premium RMB( '000)	PRC statutory funds		Total RMB( '000)
			Statutory surplus reserve RMB( '000)	Staff public welfare fund RMB( '000)	
As at 1st January, 2003	62,833	53,581	9,124	4,552	130,090
Profit for the period	15,464	–	–	–	15,464
Transfer to statutory fund	(2,736)	–	1,824	912	–
<b>As at 30th June, 2003</b>	<u><b>75,561</b></u>	<u><b>53,581</b></u>	<u><b>10,948</b></u>	<u><b>5,464</b></u>	<u><b>145,554</b></u>

## 19. Capital commitment

	As at 30th June, 2003 RMB( '000) (Unaudited)	As at 31st December, 2002 RMB( '000) (Audited)
<b>Contracted but not provided for:</b>		
– Construction in progress	5,753	12,338
– Property, plant and equipment	1,000	14,153
– Purchased know-how and prescription	11,538	13,888
	<u><b>18,291</b></u>	<u><b>40,379</b></u>

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30th June, 2003 (2002: Nil).

## **OPERATING RESULTS**

For the six months ended 30th June, 2003, the Group recorded a turnover of RMB 35,883,000, an approximately 6.8% decrease as compared with that for the corresponding period in 2002. The net profit for the period was 15,464,000, an approximately 23.0% decrease as compared with that for the corresponding period in 2002. Basic earnings per share were RMB 2.8 cents.

## **BUSINESS REVIEW**

For the six months ended 30th June, 2003, the turnover and the net profit for the period of the Group decreased by RMB2,610,000 and RMB4,611,000 respectively. This is because:

- (i) a number of arranged sales and promotional activities could not be carried out as scheduled due to the outbreak of Severe Acute Respiratory Syndrome (“SARS”);
- (ii) the sales of the flagship product-Jing Tong Ling (頸痛靈) for the period from April to June, 2003 could not meet target as a result of the spread of SARS.
- (iii) in order to widen the existing market share, the Group had placed a large number of advertisement in various media, which made an increase in distribution and selling expenses as compared with that for the corresponding period in 2002.

## **Market development**

During the period under review, all staff had strove for good results as before. In January 2003, the Group had provided a series of training courses for the sales staff to improve their personality and marketing skill. Meanwhile, six more sales staff possess tertiary education background or above and with medical and sales profession were employed to further strengthen the Group’s sales team. For the product promotion, advertisement was continued to be placed in various provinces, such as Guangdong, Shandong, Hubei, Jilin and Heilongjiang, etc, to consolidate the Group’s brandname.

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

All the projects under research, which included Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑), Umbro-dinase enzyme injection (注射用蚓激酶) and Lijie tablets (歷節片), Xueshuantong Luhua Zhusheye (血栓通氯化鈉注射液), Xuesaitong Luhua Zhusheye (血塞通氯化鈉注射液), 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), raw materials and pharmaceuticals of Astragaloside (黃芪皂苷原料及制劑) and Hydrochloric Azasetron sodium chloride injection (鹽酸阿扎司琼氯化鈉注射液) were proceeded and the progress was on schedule. The clinical approval for Umbro-dinase enzyme injection (注射用蚓激酶) had been obtained and the production approval of Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑) was being processed. The Directors believe that all the projects will give a beneficial result to the Group.

## **GMP reorganisation project**

The GMP reorganisation project for the new plant in the Changchun High and New Technology Industrial Development Zone (“Hi-Tech Zone”) had been having the interior and exterior decoration. It is expected that the project will be completed at the end of October 2003 and attain GMP certification at the end of December 2003.

## **Liquidity and Financial Resources**

For the six months ended 30th June 2003, the Group's primary source of funds was cash provided by the operating activities and the balance of cash proceeds from the issue of new H shares pursuant to a placing exercise of the Company in June 2002. As at 30th June 2003, the Group had cash and bank balances amounted to RMB70,687,000 and short term bank loans of RMB 40,000,000. The Board believes that the current financial position is adequate for the Group's continual operation and development.

## **Prospects**

On the strength of possessing an outstanding management team, strong sales and marketing team, the famous brandname "Chunyan", the expected fruitful results of the new projects and the new plant located at Hi-Tech Zone, which will bring to the Group different kinds of taxation benefit, the Directors have confidence that the Group's result will have a substantial improvement in the years ahead. Besides, obtaining the GMP certificate will lay a solid foundation for tapping the overseas markets and also, giving a quality guarantee of the products to the consumers.

## **Material investment**

For the six months ended 30th June, 2003, the Group did not have any material investment.

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

For the six months ended 30th June, 2003, the Group did not made any major acquisition and disposal. Except as stated in the prospectus dated 21st June, 2002, there is no plan for major investment or acquisition of capital assets. Update on the progress of this area has been dealt with under the section "Comparison of Business Plan and Actual Business Progress".

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

For the six months ended 30th June, 2003, the Group did not have any material pledge of assets and contingent liabilities.

## **Gearing ratio**

For the six months ended 30th June, 2003, the total assets of the Group was approximately RMB251,375,000 whereas the total liabilities was approximately RMB49,721,000. The gearing ratio (total liabilities divided by total assets) is 19.8%.

## **Staff information**

As at 30th June, 2002, the Company employed an aggregate of 295 staff in the PRC and in Hong Kong. For the six months under review, the salaries were approximately RMB2,248,000. The salary of staff was determined according to the performance of staff and the market trend.

Each of the executive Directors and supervisors has entered into a service agreement with the Company, pursuant to which, executive Directors may be granted cash bonus with reference to the Company's profitability at the Board's discretion, but shall subject to shareholders' approval (the interested Directors shall abstain from voting in the Board meeting during which his/her entitlement and the amount of bonus is considered). In any financial year, the discretionary bonus payable to all executive Directors shall not

exceed 2% of the Company's profit after tax, minority interest and extraordinary loss (extraordinary profit not included). According to the service contract, each Directors and supervisors is entitled to receive an annual salary as specified. Subject to approval by the shareholders, such annual salary may be increased annually at the discretion of the Board at not more than 15% of the annual salary in the previous year.

### Foreign exchange exposure

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

### Disclosure of Directors' and supervisors' interest in shares

As at 30th June 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 (Note)	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 30th June 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 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 GEM Listing Rules.

## Substantial Shareholders

As at 30th June 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 position in shares

Name	Capacity	Number of shares held (Note)	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 30th June 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.

## COMPARISON OF BUSINESS PLAN AND ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress of the Group as at 30th June, 2003 to the business objectives set out in the Prospectus:

### RESEARCH AND DEVELOPMENT

#### Expected progress

1. Commence and thereafter 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)
3. Select prescription for a new form of Jing Tong Ling (頸痛靈)

#### Actual progress

The clinical approval was obtained on 7th April, 2003 and the preparation work for the clinical research was being conducted.

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

According to different pharmacy experiment, the result shown that other prescription for a new form of Jing Tong Ling (頸痛靈) was inferior to the original one and so, this plan was abandoned.

## SALES AND MARKETING

### Expected progress

1. Provide training to sales and marketing staff
2. Conduct feasibility study in respect of the formation of strategic alliances
3. Launch promotional activities for Clindamycin phosphate injection (克林霉素磷酸酯注射液)
4. Launch promotional activities in various cities for Xiedali calcium carbonate tablets (協達利碳酸鈣片)
5. Devise marketing plans to increase market share and coverage including expansion of sales channel and thereafter implement them.
6. Organise a seminar on the topic of further development of the Company's more developed market such as Shanghai and the Anhui Province
7. Devise marketing plans for further development of the Company's more developed markets such as Shanghai and the Anhui Province and thereafter implement them

### Actual progress

- Training courses had been held for the sales and marketing staff from 3rd January, 2003 to 7th January, 2003, in which the Chief Marketing Officer of Nanjing Pharmaceutical Company Limited (南京醫藥股份有限公司) was invited for teaching.
- The feasibility study in respect of the formation of strategic alliances with other enterprise and media was being conducted.
- Due to its complicate production process and inappropriateness for scale production, Clindamycin phosphate injection (克林霉素磷酸酯注射液) project was returned to the research institute.
- Due to the outbreak of SARS, the promotional activities could not be held and was planning to launch them in September 2003.
1. Six more sales staff possess tertiary education background, or above and with medical and sales profession were employed.
  2. A 5-day training course was held to improve the sales staff's personality and marketing skill.
  3. Advertisement was continued to be placed in various provinces, such as Guangdong, Shandong, Hubei, Jilin and Heilongjiang, etc, to consolidate the Group's brandname.
- Due to the outbreak of SARS, the seminar could not be convened and was planning to organise it in October 2003.
- Keeping to employ sales staff according to the market and will also to recruit the part-time sales staff from the distributors and hospital so as to strengthen the sales team and expand the market.

## PRODUCTION

### Expected progress

1. Conduct self-inspection on the workshop for capsules, tablets and granules, in accordance with the Appraisal Standard for Pharmaceutical GMP Accreditation Inspection (藥品GMP認證檢查評定標準)
2. Implement and complete the upgrade and renovation work on the Jing Tong Ling (頸痛靈) workshop
3. Increase the number of auxiliary facilities for freeze-dry powder for injection workshop.

### Actual progress

The interior and exterior decoration for the workshop for capsules, tablets and granules were being conducted in accordance with the Appraisal Standard for Pharmaceutical GMP Accreditation Inspection (藥品GMP認證檢查評定標準)

The interior and exterior decoration for the workshop for Jing Tong Ling (頸痛靈) workshop was being conducted.

24 units of auxiliary facilities for freeze-dry powder for injection workshop were purchased during the period.



## COMPARSION OF USE OF PROCEEDS

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

	From 28th June, 2002 to 30th June, 2003	
	Planned amount utilized as stated in the Prospectus HK\$(million)	Actual amount utilized HK\$(million)
<b>Research and development</b>		
– Umbro-dinase enzyme injection (注射用蚓激酶)	7	2
– Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑)	5	–
– Other new medicine	4	4
	<hr/>	<hr/>
	16	6
Investments in production facilities for freeze-dry powder for injection	13	13
Strengthening sales and marketing network	8	11
	<hr/>	<hr/>
	37	30
	<hr/> <hr/>	<hr/> <hr/>

As at 30th June 2003, the Company only utilized approximately HK\$ 30,000,000 of the proceeds from placing. The remaining balance is unused due to the following reasons:

### **Umbro-dinase enzyme injection (注射用蚓激酶) and Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑)**

As the State Drugs Administration revised its examination and approval measures on new medicines in the second half of 2002, the time needed for drugs examination and approval had been extended for half a year and the clinical approval for Umbro-dinase enzyme injection (注射用蚓激酶) could only be obtained in April 2003. Furthermore, the production approval for Urinary trypsin inhibitor (注射用尿胰蛋白酶抑制劑) was being processed, thus the Company had not applied the related proceed to the relevant clinical research fee and know-how and prescription transfer fee.

## COMPETITING INTERESTS

As at 30th June, 2003, none of the director or management shareholders (as defined in GEM Listing Rules) of the Company or their respective associates had interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Company.

## SPONSORS' INTERESTS

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

As at 30th June, 2003, neither CSC Asia, its directors, employees or their respective associates has any interest in the Company's securities nor has any rights to subscribe for or to nominate persons to subscribe for securities of the Company.

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

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

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

For the period ended 30th June, 2003, the Company did not purchase, dispose of or redeem any of the its listed shares.

#### **AUDIT COMMITTEE**

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

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

Jilin Province, the PRC, 13th August, 2003

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the day of its posting.*