



長春達興藥業股份有限公司

Changchun Da Xing Pharmaceutical Company Limited*

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

Changchun Da Xing

Chinese Medicines
Western Medicines



First Quarterly Report **2004**

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This report, for which the directors (“Directors”) of Changchun Da Xing Pharmaceutical Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Changchun Da Xing Pharmaceutical Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONSOLIDATED RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Changchun Da Xing Pharmaceutical Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiary (the “Group”) for the three months ended 31 March 2004 together with unaudited comparative figures for the corresponding period in 2003 as follows:

	Note	Three months ended 31 March	
		2004 RMB'000	2003 RMB'000
Turnover	3	21,521	20,778
Cost of sales		(5,676)	(5,061)
Gross Profit		15,845	15,717
Other revenue		331	213
Distribution and selling costs		(2,668)	(2,508)
Administrative expenses		(2,515)	(2,692)
Profit from operations		10,993	10,730
Finance costs		(1,127)	(302)
Profit before taxation		9,866	10,428
Taxation	4	-	-
Profit after taxation		9,866	10,428
Minority interests		-	-
Profit attributable to shareholders		9,866	10,428
Earnings per share	5	0.018	0.019
– Basic (RMB)		0.018	0.019

NOTES:

1. Organisation and operations

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.

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.

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 Kuangcheng 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.

2. Principal accounting policies

The principal accounting policies adopted in preparing the unaudited consolidated results of the Group conform with the accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

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. 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. Changchun Zhong Da (長春中大) has not commenced business since establishment. Thus it had no assessable profits and hence no PRC income tax was provided for the three months ended 31 March 2004.

5. Earnings per share

The calculation of the basic earnings per share for the three months ended 31 March 2004 is based on the unaudited profit attributable to shareholders for the period of RMB9,866,000 (2003: RMB10,428,000) 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 three months ended 31 March 2004 (2003: Nil).

6. Reserves

	Share premium	Retained profits	PRC statutory funds		Total
			Statutory surplus reserve	Staff public welfare fund	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	53,581	62,833	9,124	4,552	130,090
Profit for the period	-	10,428	-	-	10,428
Transfer to statutory funds	-	(1,655)	1,103	552	-
As at 31 March 2003	<u>53,581</u>	<u>71,606</u>	<u>10,227</u>	<u>5,104</u>	<u>140,518</u>
As at 1 January 2004	53,581	76,950	12,065	6,023	148,619
Profit for the period	-	9,866	-	-	9,866
Transfer to statutory funds	-	(1,480)	987	493	-
As at 31 March 2004	<u>53,581</u>	<u>85,336</u>	<u>13,052</u>	<u>6,516</u>	<u>158,485</u>

7. Dividend

The Board does not recommend the payment of any interim dividend in respect of the three months ended 31 March 2004 (2003: Nil).

BUSINESS REVIEW

Financial review

Following the recovery from SARS and the GMP accreditation exercise in 2003, the Group returned to normal operation in the first quarter of 2004 (the "Quarter") with slight increase of approximately 3% in sales comparing with the corresponding period in 2003. The gross profit margin for the Quarter remained at approximately 74%, flat over the corresponding period in 2003. Profit attributable to shareholders for the Quarter amounted to RMB9,866,000, representing a decrease of 5% over that of the corresponding period in 2003. The decrease in profit attributable to shareholders for the Quarter was mainly due to the increase in interest expenses in the Quarter.

Business progress

The spirit of the Group is to strike for advancement in production technology, research and provide superior products that meet the needs of society and growth of shareholders' wealth. Below are the Group's achievements towards its spirit in the Quarter:

1. *Modernized pharmaceutical base and GMP accreditation*

As mentioned in 2003 annual report, the Group moved into a new factory complex (the "Complex") in early January 2004. The Complex is equipped with advance production plants and the product types are increased from 5 to 8 including bio-chemical product. Except the bio-chemical workshop, the GMP approval of all other workshops in mid-February 2004 brings the Group into a new era. The bio-chemical workshop will seek for GMP approval once the production certificate of the first bio-chemical product is granted by the relevant authority. The production plants installed in the Complex are still under test run in the Quarter and full scale operation is expected to start in second quarter of this year.

2. *Existing medicine*

Same as the corresponding period in 2003, the sales of the Quarter mainly came from the five principal products, namely Jing Tong Ling, Fu Jie Shu, Sodium Chloride Injection, Glucose Injection and Xiedali Calcium Carbonate Tablets.

Among the five principal products, Jing Tong Ling continued to be the major contributor which accounted for approximately 80% (2003: 94%) of total sales of the Group in the Quarter. The decrease in sales compare to that of the corresponding period in 2003 was mainly due to change of sales person in two cities and the increase in sales of other products in the Quarter.

Although the sales of Jing Tong Ling decreased, the other principal products recorded increase in sales ranging from 57% to 300%. This represents the successful adoption of the 4 main product lines as mentioned in section "Prospects" below.

3. *New medicine*

With the production approval granted by the relevant authority last year, the sales of Dan Ting cardiopulmonary tablets ("Dan Ting") has commenced since the start of this year. As it is still in the infant stage, the sales of Dan Ting remains in the low gear. With its breakthrough prescription, promotion campaign and extensive sales force which covers all major cities in the country, the Board is confident in the significant contribution of Dan Ting to the result of the Group in 2004.

4. *International sales*

With the aim of market expansion, the Group is preparing the export of Jing Tong Ling to Russia. Provided that everything runs smoothly, the export to Russia is expected to kick off in second half of this year and the shareholders' wealth will be enhanced.

Research and development progress

Research and development is a vital part of the Group. Due to various holidays in the Quarter, the production approvals of new medicines, including Urinary Trypsin Inhibitor, Matrine and Glucose Injection and Hydrochloric Azasetron Sodium Chloride Injection, by relevant authority have been delayed. The Board expects that the relevant authority will grant the production approvals within the second half of this year. Regarding those medicines under research, such as Umbro-dinase Enzyme Injection and Xin Ning Ling for Injection, they proceed as scheduled.

PROSPECTS

If 2003 was a hard year, 2004 shall be a fruitful year. As mentioned in 2003 annual report, the Group will lay down 4 main product lines, representing conventional medicine, OTC, prescription and international sales. Equipped with an aggressive and energetic sales force which covers all major cities in the country, the sales of the Group shall be increased significantly.

In addition, the Complex and GMP accredited production workshops will increase the production capacity of the Group and ensure the production of high quality medicine in order to fulfill the increasing market needs.

The Board satisfies with the progress in the research, development and launch of new medicines and will accelerate the activities in the rest of 2004 in order to secure a high market share and returns to the Group.

Following the first step in Russia, the Group is considering the feasibility of registering the medicines in Hong Kong. If the registration is successful, Hong Kong will be the center and stepping stone of the Group to the Far East Asia market.

With the internal growth mentioned above, the Group will consider external growth through merger and acquisition of potential and compatible pharmaceutical companies.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

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

Note: All are domestic shares

Save as disclosed above, as at 31 March 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.

COMPETING INTERESTS

As at 31 March 2004, none of the directors or management shareholders (as defined in GEM Listing Rules) of the Company had any interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

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 (date of listing) to 31 December 2004.

As at 31 March 2004, neither CSC Asia, its directors, employees or their respective associates had any interest in the Company's securities nor has any rights to subscribe for or to nominate persons to subscribe for securities of the Company.

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

Except Rule 5.28 of the GEM Listing Rules which is subject to certain transitional arrangement, the Company has 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 three months ended 31 March 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 May 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 De Yi and two independent non-executive directors, being Yang Shi Jie and Sun Xiao Bo.