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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)*

**(Stock code: 8067)**

**CONNECTED TRANSACTION  
ACQUISITION OF THE OWNERSHIP OF HEALTHCARE PRODUCTS**

The Board announces that the Company has entered into a sale and purchase agreement with Kuancheng in relation to the acquisition of the ownership of 3 healthcare products on 3 November 2004 for a consideration of RMB7,000,000 financed by internal resources of the Company. After considering the high possibility of completion of the Acquisition and to show the earnest of the Company, together with the avoidance of interference from competitor for the Products, a refundable deposit of RMB6,700,000 was paid to Kuancheng to reserve the exclusive right of negotiation for the Acquisition. The balance of RMB300,000 will be paid to Kuancheng upon the granting of production approval by the relevant government authority in the PRC which is expected to be obtained by the end of December 2004. The Directors (including the independent non-executive Directors) consider that the terms of the Agreement are negotiated on arm's length basis, under normal commercial terms and are fair and reasonable to the interests of the Company and the Shareholders as a whole.

As at the date of the Agreement, Kuancheng held 30.66% of the Company's registered capital and is considered as connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction. As the applicable percentage ratios in respect of the Acquisition are between 2.5% and 25% and the consideration is below HKD10,000,000, the Acquisition is only subject to the reporting and announcement requirements and does not require approval by independent shareholders pursuant to the GEM Listing Rules 20.32(2).

The Company paid the deposit of RMB6,700,000 as mentioned above in June 2004 after conducting preliminary study of the Products and negotiation of terms of the Agreement. After that, the Company commenced in-depth study of the Products. No further discussion of the terms of the Agreement was carried out until early September 2004 when the Company was in the half-way of the in-depth study. It was the misunderstanding of the Directors that no negotiation in relation to the Acquisition was conducted during the above period as no discussion of the terms of the Agreement was carried out during this period. Accordingly, it was stated in the announcement of the Company dated 16 August 2004 that the Directors confirmed that there are no negotiation or agreement relating to intended acquisition which are discloseable under Chapter 19 to 20 of the GEM Listing Rules. The Stock Exchange is looking into this matter and may take appropriate action in respect of this matter.

\* For identification only

## **THE ACQUISITION AGREEMENT**

### **Parties involved**

Vendor: Kuancheng

Purchaser: The Company

### **Date of Agreement**

3 November 2004

### **Assets to be acquired**

According to the Agreement, the Company will acquire from Kuancheng the ownership (including legal title, rights of production and sales) of 3 healthcare products, namely Ping Zhi Jiao Nang (蘋脂膠囊), Ping Tang Jiao Nang (蘋唐膠囊) and Ping Ya Jiao Nang (蘋亞膠囊).

### **Consideration**

The consideration to be payable by the Company to Kuancheng for the Acquisition is RMB7,000,000 financed by the internal resources of the Company. The consideration is determined based on the costs (including consultation fees, various testing fees, material cost packaging design fees and application fees) and time (including labour cost on feasibility study, formulations of product types and monitoring the progress) involved if the Products were developed by the Company, the market conditions of healthcare product and the profit margin to counterpart which is determined based on the experience of the Directors. No independent valuation has been conducted on the Products. After considering the high possibility of completion of the Acquisition after a preliminary study on the Products and to show the earnest of the Company together with the avoidance of interference from competitor for the Products, the Company has paid Kuancheng in June 2004, when the Company has finished conducting preliminary study of the Products and negotiation of terms of the Acquisition, an interest free deposit of RMB6,700,000 in cash to reserve the exclusive right of negotiation for the Acquisition although no terms in relation to the Acquisition have been agreed between the Company and Kuancheng at that moment. A board meeting of the Directors (excluding the independent non-executive Directors) has been held to approve the payment of the deposit. The Directors (including the independent non-executive Directors) consider that the payment of the interest free deposit to reserve the exclusive right of negotiation for the Acquisition is fair and reasonable and in the interests of the Company and Shareholders as a whole. After the payment of deposit, the Company conducted an in-depth understanding on the formulation and production of the Products and the final consideration so that the Agreement was only signed on early November 2004. The balance of RMB300,000 will be paid to Kuancheng in cash upon the granting of production approval by the relevant government authority in the PRC which is expected to be obtained by the end of December 2004. Kuancheng agrees to refund the deposit in full to the Company if the production approval had not been granted by the relevant government authority in the PRC. Although it is not specified in the Agreement under normal practice of the Company, both the Company and Kuancheng realise that there are uncertainties in the granting of production approval by the relevant government authority in the PRC and there is a mutual understanding that Kuancheng will refund the deposit if the production approval is not granted by the relevant government authority by the end of December 2005.

The Directors (including the independent non-executive Directors) consider that the terms of the Agreement (including the consideration, interest free deposit, the refund of the deposit and the timing of the refund) are negotiated on arm's length basis, under normal commercial terms and are fair and reasonable to the interests of the Company and the Shareholders as a whole.

### **Unusual Price Movement Announcement Dated 16 August 2004**

The Company paid the deposit of RMB6,700,000 as mentioned above in June 2004 after conducting preliminary study of the Products and negotiation of terms of the Agreement. After that, the Company commenced in-depth study of the Products. No further discussion of the terms of the Agreement was carried out until early September 2004 when the Company was in the half-way of the in-depth study. It was the misunderstanding of the Directors that no negotiation in relation to the Acquisition was conducted during the above period as no discussion of the terms of the Agreement was carried out during this period. Accordingly, it was stated in the announcement of the Company dated 16 August 2004 that the Directors confirmed that there are no negotiation or agreement relating to intended acquisition which are discloseable under Chapter 19 to 20 of the GEM Listing Rules. The Stock Exchange is looking into this matter and may take appropriate action in respect of this matter.

### **REASON FOR ACQUISITION**

Following the improvement in living standard, the PRC citizens are now more attended to their health. Healthcare products are widely accepted as a supplement to normal diet and are getting popular in the PRC. The Directors therefore consider that this is a high growth business sector in the PRC. It is always the objective of the Company to diversify the product range to enhance the Shareholders' value. Since 2003, the Company has commenced to diversify its pharmaceutical business to the high growth healthcare product market. The Acquisition will enrich the product line of the Company in the healthcare product sector and the Directors believe that the shareholders' value will be increased.

### **INFORMATION ON THE PRODUCTS**

The Products were originally developed by Kuancheng which involve market feasibility study, formulation of product type and various testing. The manufacturing and sales of the Products are governed by the Measures for the Administration of Health Food (保健食品管理辦法) promulated by the Ministry of Health of the PRC. Before the granting of the production approval by the relevant government authority, the Company cannot manufacture or sell the Products. Upon the granting of the production approval by the relevant government authority in the PRC, the legal title of the Products will be formally registered by the government authority and the Company will be protected from faked products. The total cost incurred by Kuancheng in developing the Products was estimated to be approximately RMB5,000,000. Following a study on the market situation and the formulation of the Products conducted by the research and development section of the Company, the Directors consider that the Products have their functions as specified and are marketable to the public. To the Directors' knowledge, there are similar products being sold in the market. The principal functions of the Products are described below:

#### **Ping Zhi Jiao Nang (蘋脂膠囊)**

The major ingredients of Ping Zhi Jiao Nang are Polygonum Multiflorum Thunb (何首烏), Semen Cassiae (決明子) and Auriculria Polytricha (木耳). The principal function of this product is the lowering of lipid. Hyperlipidemia is one of the major causes of blood circulation diseases and is a common symptom for the aged. The three major ingredients can assist in lowering the lipid and cholesterol and as a result assist in the prevention of hyperlipidemia.

### **Ping Tang Jiao Nang (蘋唐膠囊)**

The major ingredients of Ping Tang Jiao Nang are Bitter Gourd (苦瓜) and Chromium Piodinate (吡啉甲酸鉻). The principal function of this product is the lowering of blood glucose. Diabetes is one of the 3 major diseases affecting the health of human being and maybe the mostly affected disease in the 21st century. The major ingredients can assist in lowering the blood glucose and activate secretion of insulin and as a result assist the curing of diabetes.

### **Ping Ya Jiao Nang (蘋亞膠囊)**

The major ingredients of Ping Ya Jiao Nang are Kendyr (羅布麻), Kudzuvine Root (葛根) and Gastriduae Rhizoma (天麻). The principal function of this product is the lowering of blood pressure. High blood pressure is a common symptom which causes coronary heart disease. The major ingredients can assist in lowering the blood pressure and strength the aorta and as a result assist in the prevention of coronary heart disease.

The development of the Products, which involve market feasibility study, formulation of product types and various testing, has been completed by Kuancheng and application for production approval has been made to the relevant government authority in the PRC. The Directors expect that the approval of production will be obtained by the end of December 2004. In order to increase the investment in Zhong Da, the Company is considering to contribute part of its production facilities to Zhong Da. The manufacturing and sales of the Products may then be carried out by Zhong Da. The Company confirms that no agreement has been reached for the above arrangement. Zhong Da is considered as a connected person with the Company and separate announcement will be made upon the finalisation of the arrangement.

## **INFORMATION ON THE COMPANY AND KUANCHENG**

### **The Company**

The Company was incorporated as a joint stock limited company in the PRC on 27 December 1993 and its H shares were listed on GEM on 28 June 2002. The principal activities of the Company are manufacturing and sale of Chinese and western medicines in the PRC. It is also engaged in the research and development of Chinese, western and biochemical medicines. In 2003, the Company commenced to diversify into healthcare product market by setting up Zhong Da which is engaged in the manufacturing and sales of healthcare products.

### **Kuancheng**

Kuancheng is a collectively owned enterprise established in the PRC. The principal activities of Kuancheng are manufacturing and sale of chemical raw medicines and non-prescriptive Chinese medicines. Since the listing of the Company in June 2002, Kuancheng is the controlling shareholder which held 30.66% of the registered capital of the Company.

## CONNECTED TRANSACTION

As at the date of the Agreement, Kuancheng held 30.66% of the Company's registered capital and is considered as a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction. As the applicable percentage ratios in respect of the Acquisition are between 2.5% and 25% and the consideration is below HKD10,000,000, the Acquisition is only subject to the reporting and announcement requirements and does not require approval by independent shareholders pursuant to the GEM Listing Rules 20.32(2).

## DEFINITIONS

“Acquisition”	the acquisition of the ownership of the Products by the Company from Kuancheng
“Agreement”	the sale and purchase agreement dated 3 November 2004 entered into between the Company and Kuancheng in respect of the Acquisition
“Board”	the board of directors of the Company
“Company”	Changchun Da Xing Pharmaceutical Company Limited, a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on GEM
“Directors”	the directors of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“HKD”	Hong Kong Dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“Kuancheng”	Changchun Kuancheng Pharmaceutical Factory, a collectively owned enterprise established in the PRC which held 30.66% of the registered capital of the Company as at the date of the Agreement
“PRC”	the People's Republic of China
“Products”	the 3 healthcare products (Ping Zhi Jiao Nang (蘋脂膠囊), Ping Tang Jiao Nang (蘋唐膠囊) and Ping Ya Jiao Nang (蘋亞膠囊)) developed by Kuancheng
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Zhong Da”

Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司), a 60% owned subsidiary of the Company engaging in the manufacturing and sales of healthcare products

By Order of the Board

**Feng Zhen Wen**

*Director*

Changchun, the PRC, 19 November 2004

*As at the date of this announcement 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.*

*This announcement, for which the directors of the Changchun Da Xing Pharmaceutical Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Changchun Da Xing Pharmaceutical Company Limited. The directors, having made all reasonable enquires, 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.*

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