



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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website (www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, 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 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 only

ANNUAL RESULTS

The Board is pleased to announce the audited results of the Company and its subsidiary (the “Group”) for the year ended 31 December 2004 together with comparative figures for the corresponding period in last financial year as follows:

Consolidated Income Statement

For the year ended 31 December 2004

(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Turnover	2	95,801	64,730
Cost of sales		<u>(27,320)</u>	<u>(17,921)</u>
Gross profit		68,481	46,809
Other revenue		1,000	748
Distribution and selling costs		(15,421)	(10,856)
Administrative expenses		<u>(10,866)</u>	<u>(12,869)</u>
Profit from operations		43,194	23,832
Finance costs		<u>(3,552)</u>	<u>(2,512)</u>
Profit before taxation	3	39,642	21,320
Taxation	4	<u>(317)</u>	<u>–</u>
Profit after taxation		39,325	21,320
Minority interest		<u>–</u>	<u>14</u>
Profit attributable to shareholders		<u>39,325</u>	<u>21,334</u>
Dividends – final proposed	5	<u>–</u>	<u>2,805</u>
Earnings per share – Basic (RMB)	6	<u>0.070</u>	<u>0.038</u>

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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) on 28 June 2002. On 19 July 2002, the over-allotment option was exercised and the new H shares were listed on the GEM on 23 July 2002.

The Company is principally engaged in the manufacture and sale of chinese medicines and western medicines in the PRC. It is also engaged in the research and development of chinese medicines, western medicines and bio-chemical medicines.

On 17 January 2003, the Company set up a new company in the PRC, Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司) (“Zhong Da”) with one of its major shareholders, Changchun Kuancheng Pharmaceutical Factory (長春市寬城制藥廠) (“Kuancheng”). Zhong Da is 60% owned by the Company and 40% by Kuancheng. The principal activity of Zhong Da is production of healthcare medication products.

2. 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.

3. Profit before taxation

	2004 <i>RMB’000</i>	2003 <i>RMB’000</i>
Profit before taxation is arrived at after charging:–		
Interest expenses on bank loans repayable within five years	3,552	2,512
Auditors’ remuneration:–		
Current year	438	403
Under provision in prior year	150	150
Depreciation	4,980	1,773
Provision for bad and doubtful debts	–	3,412
Cost of inventories	27,250	17,725
Provision for obsolete inventories	70	196
Amortisation of purchased knowhow and prescription	260	–
Staff costs (excluding directors’ emoluments):–		
Salaries and allowance	4,889	4,375
Pension fund contributions	896	717
	<u>4,889</u>	<u>4,375</u>
and after crediting:–		
Bank interest income	718	838
Write back of provision for bad and doubtful debts	850	–
	<u>850</u>	<u>–</u>

4. Taxation

	2004 <i>RMB’000</i>	2003 <i>RMB’000</i>
Write-off of tax recoverable	<u>317</u>	<u>–</u>

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, Zhong Da, had not commenced business during the year. Thus, it had no assessable profits and hence no PRC income tax was provided for the year ended 31 December 2004.

The taxation charge for the year can be reconciled to the profit as stated in the financial statements as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	<u>39,642</u>	<u>21,320</u>
Taxation calculated at PRC profits tax of 33% (2003: 33%)	13,082	7,036
Tax effect of tax exemption/reduction of income tax under preferential tax treatment	(12,725)	(8,227)
Tax effect of non-taxable items	(380)	–
Tax effect of expenses not deductible for taxation purposes	23	1,191
Write-off of tax recoverable	<u>317</u>	<u>–</u>
Taxation for the year	<u>317</u>	<u>–</u>

5. Dividends

Dividend proposed after year end

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
– Final dividend of RMB Nil (2003: RMB0.5 cent) per domestic and H share	<u>–</u>	<u>2,805</u>

6. Earnings per share

The calculation of the earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of approximately RMB39,325,000 (2003: RMB21,334,000) on the weighted average number of approximately 561,000,000 shares (2003: 561,000,000 shares). Diluted earnings per share is not presented as there were no dilutive potential shares in existence during the year ended 31 December 2004 (2003: Nil).

7. Reserves

	Share capital RMB'000	Share premium RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	PRC statutory funds		Total RMB'000
					Statutory surplus reserve RMB'000	Staff public welfare fund RMB'000	
Balance as at 31 December 2002	56,100	53,581	62,833	–	9,124	4,552	186,190
Net profit for the year	–	–	21,334	–	–	–	21,334
Transfer to statutory funds	–	–	(4,412)	–	2,941	1,471	–
Proposed dividend	–	–	(2,805)	2,805	–	–	–
Balance as at 31 December 2003	56,100	53,581	76,950	2,805	12,065	6,023	207,524
Net profit for the year	–	–	39,325	–	–	–	39,325
Transfer to statutory funds	–	–	(5,822)	–	3,881	1,941	–
Dividend paid and payable	–	–	–	(2,805)	–	–	(2,805)
Balance as at 31 December 2004	56,100	53,581	110,453	–	15,946	7,964	244,044

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2004, the Group's turnover and profit attributable to shareholders were RMB95,801,000 and RMB39,325,000 respectively, representing 48% and 84% higher than that of last year respectively.

Reasons for the remarkable results were follows:

a. Increase in sales volume of the major products

Being in the market for years, the major products of the Group are widely recognized for their function and quality by the users. Together with the efforts of the marketing staff, the sales volume of the major products had increased.

b. Increase in selling price of major product

The well recognized products by the users enable the Group to increase the selling price of the major product.

c. Increase in sales volume of medicinal infusion products (療效型大輸液產品)

With the increasing need for medicinal infusion products in China market, the Group successfully launched a few products through existing sales network which increase the sales volume of medicinal infusion products.

Similar to last year, Jing Tong Ling was the major product of the Group which accounted for approximately 74% (2003: 77%) of the total turnover for the year. The minor decrease was due to the increase in sales of other products (e.g. Sodium Chloride Injection (鹽水大輸液), Glucose Injection (葡萄糖大輸液) and medicinal infusion products).

The distribution and selling costs for the year increased by approximately RMB4,600,000 in order to strengthen the market for existing products and launch of new products.

Business Review

New factory complex

The new factory complex (the “Complex”) is situated in the Changchun High and New Technology Industrial Development Zone. Except the freeze-dry powder for injection workshop, all other workshops were GMP accredited in February 2004 and full scale operation commenced in July 2004.

The newly equipped freeze-dry powder for injection workshop represents the enhancement on the product type and the future revenue generation ability. The GMP accreditation exercise is expected to commence and finish within year 2005. Upon accreditation, the Group will enter into another new era on the production ability of bio-chemical medicines.

The Medicine

Jing Tong Ling (頸痛靈), Fu Jie Shu (復皆舒), Sodium Chloride Injection (鹽水大輸液), Glucose Injection (葡萄糖大輸液) and Xiedali (協達利), continued to dominate the product profile of the Group. The Group has kept on enhancing the product profile by introduction of difference products.

Due to quality consideration, the medicinal infusion market is dominated by foreign pharmaceutical companies. There is a strong need for locally produced good quality medicinal infusion products to fill the gap. The Group, through its experience in infusion product and existing sales network, has preliminary succeeded in entering into the market. The market demand for medicinal infusion products is getting stronger and the Group expects their increasing importance in future revenue.

Two new medicines, Dan Ting Cardiopulmonary Tablet (丹葶肺心顆粒) and Metronidazole Injection (單硝酸異山梨酯注射液) were launched during the year. As they were in the startup stage, sales for the year is still minimal and the Group expects their increasing importance in future revenue.

The new medicine certificate and production approval for Matrine and Glucose Injection (苦參葡萄糖注射液) were obtained and test production was commenced in last quarter of this year. It will be launched to the market in year 2005.

Government support

During the year, the government continue its support on the Group by granting a subsidy of RMB300,000. In addition, the Group is looking into the government policy on Enhancing the North-East Industrial Zone (振興老東北工業地區) for any opportunities in developing the Group’s business.

Research and Development

The Group continued the research and development of new medicine in order to enhance its product profile and future earning capability. Below is the progress of major medicines under development:

Umbro-dinase Enzyme Injection (注射用蚓激酶), preparing samples for clinical research.

Urinary Trypsin Inhibitor (注射用尿胰蛋白酶抑制劑), pending for the issuance of the new medicine certificate and production approval from relevant government authority.

Lijie Tablets (歷節片), adjusting the clinical testing application according to the new state approval requirements.

Xueshuantong Luhua Zhusheye (血栓通氯化鈉注射液), pending for clinical research approval from relevant government authority.

Xuesaitong Luhua Zhusheye (血塞通氯化鈉注射液), clinical research approval was obtained.

Hydrochloric Azasetron Sodium Chloride Injection (鹽酸阿扎司琼氯化鈉注射液), pending for the issuance of the new medicine certificate and production approval from relevant government authority.

During the year, the Group had acquired three healthcare products, namely Ping Zhi Jiao Nang (苹旨膠囊), Ping Tang Jiao Nang (苹唐膠囊) and Ping Ya Jiao Nang (苹亞膠囊). The functions of these three healthcare products are assisting in lowering the lipid, blood glucose and blood pressure respectively. Healthcare products are widely accepted as a supplement to normal diet and are getting popular in China. It is considered as a high growth sector and the acquisition will enrich the product line of the Group and enhance the shareholders' value.

The Future

Over 1.3 billion population in China represents an enormous pharmaceutical market with unlimited opportunities. Citizen in China is paying more attention to the quality of medicine and the government is tightening pharmaceutical regulations. The Group is prepared to accept such new challenge. With the well equipped Complex and experienced production and sales staff, the Group is confident to provide the market with quality products and hence increase shareholders' value.

The management of the Group will keep on monitoring the development and needs of the markets to ensure the Group's medicines are marketable upon launching.

Being one of the core businesses of the Group, research and development of new medicines cannot be ignored and sufficient resources will be engaged in this area to ensure the sustained growth in the future.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's source of fund was cash generated from operating activities, proceeds of placing new shares in 2002 and bank loans. As at 31 December 2004, the Group's bank balances and cash in hand were RMB69,418,000 (2003: RMB89,343,000) whereas the short-term and long-term bank loans were RMB55,000,000 (2003: RMB77,000,000) and RMB20,000,000 (2003: Nil) respectively. The short-term bank loans are interest bearing at market rate and repayable within one year. The long-term bank loans are interest bearing at market rate and repayable within five years.

FOREIGN EXCHANGE EXPOSURE

All the operations of the Company are 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 31 December 2004, the exchange rate of these currencies remained stable. The Company did not have any hedging or other arrangement in relation to these currencies.

DIVIDEND

The directors do not recommend the payment of a dividend (2003: RMB0.5 cent per share).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, the Company had 290 employees (2003: 289). With the continued growth of the enterprise, it is expected that more professionals will be recruited. Staff remuneration is paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses are paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing fund, etc. The remuneration of directors is from time to time determined by the board of directors of the Company by reference to their duties and responsibilities.

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 year.

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 year.

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) with written terms of reference in compliance with Rules 5.28 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Company. The Committee has three members comprising the three independent non-executive directors, Mr. Yang Shi Jie, Mr. Sun Xiao Bo and Mr. Zhang Zhong Sheng. Four meetings were held by the Committee for the year ended 31 December 2004. The Committee has reviewed the audited financial results of the Group for the year ended 31 December 2004.

By order of the Board
Changchun Da Xing Pharmaceutical Company Limited
Feng Zhen Wen
Chairman

Jilin Province, the PRC
21 March 2005

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 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.