



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 2004

Annual Report

* For identification purposes

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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.



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Corporate Information

BOARD OF THE DIRECTORS

Executive directors

FENG Zhen Wen (*Chairman*)

YU Cheng Kun

LI Xiu Jie

GUO Bin

LU Yin Hua

Non-executive director

LU De Yi

Independent non-executive directors

YANG Shi Jie

SUN Xiao Bo

ZHANG Zhong Sheng

SUPERVISORS

WANG Ting Jun

XU Feng Yin

GAO Yan

QUALIFIED ACCOUNTANT

YAU Wing Yiu (*CPA, FCCA*)

COMPANY SECRETARY

YAU Wing Yiu (*CPA, FCCA*)

AUDIT COMMITTEE

YANG Shi Jie (*Chairman*)

SUN Xiao Bo

ZHANG Zhong Sheng

COMPLIANCE OFFICER

YU Cheng Kun

AUTHORIZED REPRESENTATIVES

GUO Bin

YAU Wing Yiu

AUDITORS

Horwath Hong Kong CPA Limited

SPONSOR

CSC Asia Limited

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

PRINCIPAL BANKER

Industrial and Commercial Bank of China,
Changchun Branch

H SHARE SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited

LEGAL ADDRESS

No. 655 Chuang Ju Street,
High and New Technology Industrial
Development Zone,
Changchun, Jilin Province,
China

STOCK CODE

8067



Chairman's Statement

I am pleased to present to the shareholders the results of Changchun Da Xing Pharmaceutical Company Limited and its subsidiary (the "Group") for the year ended 31 December 2004.

Year 2004 was a fruitful year. The Group had recovered from the effect of SARS and both the turnover and profit attributable to shareholders recorded a significant increase in comparing with that of year 2003. Following the up-running of the GMP accredited new factory complex in Changchun High and New Technology Industrial Development Zone, the Group entered into a new era of quality production. Being one of the key business areas, the Group has continued the research and development of new medicines which ensure the future growth.

Looking into the future, the Group will continue to explore the new market for existing medicines and developing new medicines according to the market needs.

I would like to take this opportunity to thank all directors, management and staff of the Group for their hard work and dedication. I would also like to express gratitude to our shareholders for their full supports.

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, 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 (苦參碱葡萄糖注射液) were obtained and test production 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 (鹽酸阿扎司瓊氯化鈉注射液), 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 are 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 market 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 these areas to ensure 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.

GEARING RATIO

As at 31 December 2004, the total assets of the Group amounted to RMB339,467,000 (2003: RMB296,277,000) whereas the total liabilities and the minority interests amounted to RMB95,423,000 (2003: RMB88,753,000). The gearing ratio was 28.11% (2003: 29.96%).



Chairman's Statement

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).

PLEDGE OF THE COMPANY'S ASSETS

Details of charges are set out in note 30 to the financial statements.

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.

Feng Zhen Wen

Chairman

Changchun, the PRC
21 March 2005



Statement of Business Objectives

The following compares the actual business progress of the Group as at 31 December 2004 against the business objectives set out in the Prospectus:

RESEARCH AND DEVELOPMENT

Expected progress

Finish the clinical research of Umbro-dinase Enzyme Injection and Lijie Tablets and apply for the relevant government approval for their respective production.

Actual progress

Umbro-dinase Enzyme Injection is in preparation of samples for clinical research.

Lijie Tablets is adjusting the clinical testing application according to the new state approval requirements.

SALES AND MARKETING

Expected progress

1. Organize a Mid-Autumn festive carnival and participate in a national pharmaceutical product fair to promote the Company's products.
2. Launch new promotional activities such as donating products and giving free consultation sessions to the elderly.

Actual progress

Mid-Autumn festive carnival has not been organised.

Participate in 4 national pharmaceutical product fairs.

Sponsor free consultation sessions in hospital in Changchun region.

Organise product enquiry hotline.

PRODUCTION

Expected progress

Commence the production of Lijie Tablets.

Actual progress

Lijie Tablets is adjusting the clinical testing application according to the new state approval requirements.

The directors have pleasure in presenting their report and the audited financial statements of the Company and its subsidiary (the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The Company is principally engaged in the manufacture and sale of chinese medicines and western medicines in the PRC since its incorporation. There were no changes in the nature of the Company's principal activities during the year. It is also engaged in the research and development of chinese medicines, western medicines and biochemical medicines.

The principal activity of the subsidiary is set out in note 16 to the financial statements.

SEGMENTAL INFORMATION

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

RESULTS AND APPROPRIATIONS

The profit for the year ended 31 December 2004 and the state of affairs of the Group at that date are set out in the financial statements on pages 19 to 43.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SUBSIDIARY

Particulars of the Company's subsidiary are set out in note 16 to the financial statements.

BANK LOANS

Details of the bank loans of the Group are set out in note 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Statement of Changes in Equity on page 24 and note 25 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Group's reserves available for cash distribution or distribution in specie, amounted to RMB110,453,000.

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.

DIRECTORS

The directors of the Company during the year and up to date of this report were as follows:

Executive directors

FENG Zhen Wen

LI Xiu Jie

YU Cheng Kun

GUO Bin

LU Yin Hua (appointed on 14 May 2004)

LU De Yi (re-designated as non-executive director on 14 May 2004)

Non-executive director

LU De Yi (re-designated as non-executive director on 14 May 2004)

Independent non-executive directors

YANG Shi Jie

SUN Xiao Bo

ZHANG Zhong Sheng (appointed on 25 May 2004)

SUPERVISORS

The supervisors of the Company during the year and up to date of this report were as follows:

WANG Ting Jun

XU Feng Yin

GAO Yan (appointed on 14 May 2004)

WU Tie Min (resigned on 14 May 2004)

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors' of the Company, supervisors and senior management of the Group are set out on pages 15 to 17 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Company are set out in note 11 to the financial statements.

DIRECTOR'S SERVICE CONTRACTS

Each of the executive directors and supervisors has entered into a service contract with the Company for an initial term of three years, except for Lu Yin Hua and Gao Yan who are appointed until the date of the 2005 annual general meeting which may be renewed upon re-election and re-appointment.

Each of the independent non-executive directors of the Company has entered into a service contract with the Company for an initial term of three years, except for Zhang Zhong Sheng who is appointed until the date of the 2005 annual general meeting which may be renewed upon re-election and re-appointment and subject to a maximum term of six years.

The non-executive director has entered into a service contract with the Company for a period until the date of the 2005 annual general meeting which may be renewed upon re-election and re-appointment.

Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and the Company considers the independent non-executive directors to be independent.

Apart from the foregoing, no directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 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 Rule 5.46 of 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%
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%
Lu Yin Hua	Personal	Beneficial owner	100,000	0.025%	0.018%
Lu De Yi	Personal	Beneficial owner	100,000	0.025%	0.018%
Xu Feng Yin	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 December 2004, none of the Directors and the Supervisors of the Company has any interests and 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 Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 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 position in shares

Name	Capacity	Number of shares held (Note)	Percentage of domestic shares	Percentage of total registered share capital
Changchun Kuancheng 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 December 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.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer and the five largest customers accounted for approximately 17.7% and 31.8% respectively of its turnover.

During the year, the Group's largest supplier and the five largest suppliers accounted for approximately 36.2% and 88.9% respectively of its purchases.

None of the directors, their associates or any shareholders who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and suppliers.

COMPETING INTEREST

None of the directors or the management shareholders (as defined in GEM Listing Rules) of the Company had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Company.

PRE-EMPTIVE RIGHT

There are no provision for pre-emptive rights under the articles of association of the Company or the laws of the PRC, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CONNECTED TRANSACTIONS

Save as the related party transactions disclosed in Note 27 to the financial statements, during the year the Company had no other related party transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Company and the employer's staff retirement costs charged to the profit and loss account for the year are set out in note 12 to the financial statements.

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 December 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 year.



Report of the Directors

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.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the directors (the “Code”). Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in the Code.

AUDITORS

The financial statements have been audited by Horwath Hong Kong CPA Limited who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Feng Zhen Wen

Chairman

Changchun, the PRC

21 March 2005



Report of the Supervisory Committee

To all Shareholders,

Pursuant to the Company Law of the PRC, the relevant laws and regulations in Hong Kong and the Articles of Association of the Company, and in accordance with the principle of protecting the rights and interests of the Group and its shareholders, all members of the Supervisory Committee of Changchun Da Xing Pharmaceutical Company Limited (the "Committee") has duly fulfilled their duties. During the year 2004, the Committee had actively participated in the discussion on the operational management and development strategies of the Group, and effectively supervised the Group's major decisions in compliance with the laws and regulations in the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

The Committee has reviewed and agreed to the accompanying Report of the Directors and the audited financial statements to be presented at the forthcoming annual general meeting. The Committee is of the opinion that all members of the Board of Directors, general manager and other senior management of the Group have made contributions, dedicated to the performance of their respective duties and observed a most exact discipline in accordance with the Articles of Association. Up to now, none of the Director, general manager and other senior management of the Group has either abused their rights with prejudice to the Group's interests or infringement to the interests of the shareholders and staff of the Group, or breached the laws and regulations in the PRC, rules or the Articles of Association.

The Committee is satisfied with the accomplishments and the economic effectiveness made in 2004 and is confident of the Group's future development.

By order of the Committee

Wang Ting Jun

Chairman of the Committee

Changchun, the PRC
21 March 2005



Directors, Supervisors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. FENG Zhen Wen (馮振文), aged 58, is the Chairman and the general manager of the Company. He is a founding member of the Company and is responsible for the strategic planning and overall management of the Company. Mr. Feng completed his tertiary course from the School of Jilin Provincial Communist Party (中共吉林省委黨校). He has about 14 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Feng was named as a Second Annual Outstanding Entrepreneur of the National Pharmaceutical Industry (全國醫藥行業第二屆優秀企業家) in 1994 and was awarded Labour Medal of the Jilin Province (吉林省總工會五一勞動獎章) in 1998. In 1999, Mr. Feng was named the Labour Model of the Jilin Province (吉林省勞動模範). Mr. Feng is also a delegate of the Changchun City People's Congress. Mr. Feng will resign as general manager of the Company with effective from 1 April 2005.

Mr. YU Cheng Kun (于承昆), aged 50, is an executive Director and the deputy general manager of the Company. He is responsible for overseeing the day-to-day operations of the Company, including production and technology management, equipment management, storage and transportation management, sales management. Mr. Yu holds a bachelor's degree in pharmacology from the Shenyang Pharmacy College (瀋陽藥學院) and is a senior engineer. He joined the Company in December 1993 and has about 22 years of experience in the pharmaceutical research and development. Mr. Yu will be appointed as general manager of the Company with effective from 1 April 2005.

Ms. LI Xiu Jie (李秀杰), aged 53, is an executive Director. She is responsible for the financial and accounting management of the Company. Ms. Li graduated from the University of Continuing Education for Changchun Workers (長春職工業餘大學) majoring in industrial accountancy and is a senior accountant in the PRC certified by the PRC Human Resources (中國人事部). She joined the Company in December 1993 and has about 29 years of experience in finance and accounting. She is also an administrative director of the 3rd Council of the China Pharmaceutical Accounting Association (中國醫藥會計學會第三屆理事會).

Mr. GUO Bin (郭斌), aged 46, is an executive Director and the secretary to the Board. He is responsible for the day-to-day operations of the Board. Mr. Guo graduated from the Institute of Fine Machinery of Optical Engineering of Changchun (長春光學精密機械學院) majoring in enterprise management and is an economist. Prior to joining the Company in December 1993, Mr. Guo had over 6 years of experience working in the quality control and production department of Changchun Kuancheng Pharmaceutical Factory (長春市寬城製藥廠) and over 3 years of experience working as the general manager for Changchun Kuancheng Industrial Supply Company (長春市寬城區工業物資供應公司), a company engaged in the supply and sale of raw material resources.

Ms. Lu Yin Hua (呂迎花), aged 37, was the chief engineer of the Company. Ms. Lu is responsible for overseeing quality control, quality assurance and technical improvements. Ms. Lu graduated from the Chinese medicine professional examination of the Jilin Self Education Examination Instruction Committee (吉林省自學考試指導委員會) majoring in biopharmaceutics pharmacy. Prior to joining the Company in December 1993, Ms. Lu had worked in Changchun Chuncheng Pharmaceutical Factory (長春市春城製藥廠) for four years.



Directors, Supervisors and Senior Management Profile

NON-EXECUTIVE DIRECTOR

Mr. LU De Yi (蘆德義), aged 48, is a non-executive Director. Mr. Lu received his tertiary education from the Jilin University (吉林省大學). He joined the Company in December 1993 and re-designated as non-executive director from executive director in May 2004. He has about 10 years of experience in the medical and pharmaceutical industry in the PRC. Mr. Lu is the factory supervisor of Changchun Kuancheng Pharmaceutical Factory.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YANG Shi Jie (楊世杰), aged 60, was appointed as an independent non-executive Director in February 2001. Mr. Yang graduated from the Medical School of Jilin University (吉林醫科大學) in 1970 and has obtained his doctorate degree from the Medical School of the Aichi Gakuin University, Japan. Mr. Yang was once the deputy head of the School of Fundamental Medicines of the Jilin University (吉林大學) which is formerly known as Baiqiuen Medical University (白求恩醫科大學). Mr. Yang is currently the head of the School of Fundamental Medicines of Jilin University and a Chinese medicine expert of the SDA.

Mr. SUN Xiao Bo (孫曉波), aged 47, was appointed as an independent non-executive Director in February 2001. Mr. Sun is currently the general manager of Jilin Tianyao Science and Technology Co., Limited. He is also a Chinese medicine expert of the SDA, a member of the Appraisal Committee of National Fundamental Medicines (國家級基本藥物評審委員會) and an appraiser of the Appraisal Team of the Chinese Medicines of the Appraisal Committee of the National Science Advancement Award (國家科技進步獎評審委員會). Mr. Sun also holds many other public duties in the PRC.

Mr. ZHANG Zhong Sheng (張宗生), aged 34, is a Chinese Certified Public Accountant. Mr. Zhang graduated from Dongbei University of Finance and Economics in 1994 with a bachelor's degree in Economics. Mr. Zhang is currently the president of Huan Certified Public Accountants with approximately 11 years experience in financial auditing including auditing of listed companies.

SUPERVISORS

Mr. WANG Ting Jun (王廷君), aged 50, is the chairman of the Supervisory Committee of the Company. He is responsible for overseeing the Company's union activities. Mr. Wang graduated from the Chinese medicine professional examination of the Jilin Province Self Education Examination Instruction Committee (吉林省自學考試指導委員會). He joined the Company in September 1997 and has 29 years of experience in the operation management.

Ms. XU Feng Yin (徐鳳英), aged 50, is a member of the Supervisory Committee of the Company. She is responsible for production of the Company. Ms. Xu graduated from the Chinese medicine professional examination of the Jilin Province Self Education Examination Instruction Committee (吉林省自學考試指導委員會) majoring in Chinese medicines and is an engineer. She joined the Company in December 1993 and has 28 years of experience in the pharmaceutical industry in the PRC.



Directors, Supervisors and Senior Management Profile

Ms. Gao Yan (高艷), aged 42, is the head of research and development of new medicines. Ms. Gao is responsible for the supervision of the overall research and development process of new medicines, including collation of relevant technical information regarding the new medicines, formulation of strategies for research and development of new medicines and conducting clinical research. Ms. Gao graduated from Shenyang Pharmacy College (瀋陽藥學院) majoring in chemical pharmacy. Prior to joining the Company in January 1997, Ms. Gao had worked in the technical department of Changchun Pharmaceutical Factory (長春製藥廠) for twelve years.

SENIOR MANAGEMENT

Mr. YAU Wing Yiu (邱榮耀), aged 37, is the qualified accountant and company secretary of the Company. Mr. Yau graduated from the Hong Kong Polytechnic University in 1992 with a bachelor's degree in accountancy and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Yau has more than 13 years of experience in the field of finance and accounting including working in international accounting firms.



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**TO THE SHAREHOLDERS OF
CHANGCHUN DAXING PHARMACEUTICAL COMPANY LIMITED**

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

We have audited the financial statements on pages 19 to 43 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Chan Kam Wing, Clement

Practising Certificate number P02038

Hong Kong, 21 March 2005



Consolidated Income Statement

For the year ended 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Turnover	4	95,801	64,730
Cost of sales		(27,320)	(17,921)
Gross profit		68,481	46,809
Other revenue	5	1,000	748
Distribution and selling costs		(15,421)	(10,856)
Administrative expenses		(10,866)	(12,869)
Profit from operations		43,194	23,832
Finance costs		(3,552)	(2,512)
Profit before taxation	6	39,642	21,320
Taxation	7	(317)	–
Profit after taxation		39,325	21,320
Minority interest		–	14
Profit attributable to shareholders	8	39,325	21,334
Dividends – final proposed	9	–	2,805
Earnings per share – Basic (RMB)	10	0.070	0.038

The notes on pages 26 to 43 form part of these financial statements.



Consolidated Balance Sheet

At 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	114,809	28,056
Construction in progress	14	–	88,069
Purchased knowhow and prescription	15	15,558	16,288
		<u>130,367</u>	<u>132,413</u>
Current assets			
Inventories	17	18,312	6,008
Trade receivables	18	71,578	47,792
Other receivables		1,102	500
Deposits paid	27(a)	12,713	6,895
Deferred expenses	19	35,977	13,009
Cash and bank deposits		69,418	89,343
Tax recoverable	20	–	317
		<u>209,100</u>	<u>163,864</u>
Current liabilities			
Trade payables	21	11,202	5,906
Other payables and accruals		5,102	3,934
Deposits received		519	366
Dividend payable	22	2,925	925
Amount due to a shareholder	27(b)	171	171
Short term bank loans (unsecured)	27(c), 28 & 30	55,000	77,000
Long term bank loan (unsecured)			
– current portion	28	3,000	–
Value added tax and other tax payable		118	65
		<u>78,037</u>	<u>88,367</u>
Net current assets		<u>131,063</u>	<u>75,497</u>
Total assets less current liabilities carried forward		<u>261,430</u>	<u>207,910</u>



Consolidated Balance Sheet

At 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Total assets less current liabilities brought forward		261,430	207,910
Non-current liabilities			
Long term bank loan (unsecured)	28	17,000	–
Minority interests		386	386
Net assets		244,044	207,524
Capital and reserves			
Share capital	24	56,100	56,100
Reserves		187,944	151,424
Shareholders' funds		244,044	207,524

These financial statements were approved and authorised for issue by the board of directors on 21 March 2005.

Feng Zhen Wen
Director

Yu Cheng Kun
Director

The notes on pages 26 to 43 form part of these financial statements.



Balance Sheet

At 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	114,809	28,056
Construction in progress	14	–	88,069
Purchased knowhow and prescription	15	15,458	16,188
Investment in a subsidiary	16	600	600
		<u>130,867</u>	<u>132,913</u>
Current assets			
Inventories	17	18,237	5,933
Trade receivables	18	71,535	47,749
Other receivables		1,102	500
Deposits paid	27(a)	12,713	6,895
Deferred expenses	19	35,977	13,009
Cash and bank deposits		69,404	89,329
Tax recoverable	20	–	317
		<u>208,968</u>	<u>163,732</u>
Current liabilities			
Trade payables	21	11,120	5,823
Other payables and accruals		5,102	3,934
Deposits received		519	366
Dividend payable	22	2,925	925
Amount due to a shareholder	27(b)	171	171
Short term bank loans (unsecured)	27(c), 28 & 30	55,000	77,000
Long term bank loan (unsecured)			
– current portion	28	3,000	–
Value added tax and other tax payable		126	73
Amount due to a subsidiary	27(d)	807	807
		<u>78,770</u>	<u>89,099</u>
Net current assets		<u>130,198</u>	<u>74,633</u>
Total assets less current liabilities carried forward		<u>261,065</u>	<u>207,546</u>



Balance Sheet

At 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Total assets less current liabilities brought forward		261,065	207,546
Non-current liabilities			
Long term bank loan (unsecured)	28	<u>17,000</u>	<u>—</u>
Net assets		<u>244,065</u>	<u>207,546</u>
Capital and reserves			
Share capital	24	56,100	56,100
Reserves	25	<u>187,965</u>	<u>151,446</u>
Shareholders' funds		<u>244,065</u>	<u>207,546</u>

These financial statements were approved and authorised for issue by the board of directors on 21 March 2005.

Feng Zhen Wen
Director

Yu Cheng Kun
Director

The notes on pages 26 to 43 form part of these financial statements.



Consolidated Statement of Changes in Equity

For the year ended 31 December 2004
(Expressed in Renminbi)

	Share capital (Note 24) RMB'000	Share premium RMB'000	Retained profits RMB'000	Proposed dividend (Note 9) RMB'000	PRC statutory funds		Total RMB'000
					Statutory surplus reserve (Note 25(a)) RMB'000	Staff public welfare fund (Note 25(b)) 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	<u>56,100</u>	<u>53,581</u>	<u>110,453</u>	<u>–</u>	<u>15,946</u>	<u>7,964</u>	<u>244,044</u>

The notes on pages 26 to 43 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2004
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Net cash (used in)/generated from operating activities	26	(14,539)	3,356
Cash flows from investing activities			
Purchase for property, plant and equipment		(4,069)	(556)
Proceeds from disposal of purchased knowhow and prescription		1,090	–
Payments for purchase of knowhow and prescription		(620)	(3,786)
Expenditure incurred on construction in progress		–	(53,743)
Interest received		718	838
Net cash used in from investing activities		(2,881)	(57,247)
Cash flows from financing activities			
Government subsidies received		300	–
Dividend paid		(805)	–
New bank loans		95,000	77,000
Repayment of bank loans		(97,000)	(20,000)
Contribution from a minority shareholder		–	400
Net cash (used in)/generated from financing activities		(2,505)	57,400
(Decrease)/increase in cash and bank deposits		(19,925)	3,509
Cash and bank deposits at the beginning of the year		89,343	85,834
Cash and bank deposits at the end of the year		69,418	89,343

The notes on pages 26 to 43 form part of these financial statements.



Notes to the Financial Statements

(Expressed in Renminbi)

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. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRS, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRS in the financial statements for the year ended 31 December 2004. The new HKFRS may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

These financial statements have been prepared under the historical cost convention.



Notes to the Financial Statements

(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary made up to 31 December each year.

The results of the subsidiary acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

(d) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhead costs, is charged to income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over their estimated useful lives. The estimated useful lives are as follows:–

Leasehold land and buildings	Over the unexpired lease term
Plant and machinery	10 years
Transportation equipment	8 years
Furniture, fixtures and equipment	5 years

(e) Construction in progress

Construction in progress is stated at cost less provision for diminution in value which includes all construction expenditure and other direct costs attributable to such projects. Cost on completed construction works which are put into operational use are transferred to the appropriate property, plant and equipment category.

(f) Purchased knowhow and prescription

Purchased knowhow and prescription are stated at cost, less amortisation calculated on a straight-line basis over the remaining transfer period since the commencement of the production of the related products. The cost of purchased knowhow and prescription with no transfer period is amortised over 10 years since the commencement of the production of the related products.



Notes to the Financial Statements

(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) **Subsidiary**

A subsidiary is an enterprise in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investment in a subsidiary is included in the Company's balance sheet at cost less any impairment loss. The results of the subsidiary are accounted for by the Company on the basis of dividends received and receivable.

(h) **Impairment of assets**

Fixed assets and development expenditure are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised to the profit and loss account. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the profit and loss account.

(i) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated based on actual or estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

(j) **Receivables**

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

**3. PRINCIPAL ACCOUNTING POLICIES** *(continued)***(k) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the acquisition of purchased knowhow and prescription are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(m) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Renminbi at the rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided for on temporary differences arising on investment in a subsidiary except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



Notes to the Financial Statements

(Expressed in Renminbi)

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Retirement benefits scheme contributions

Contributions payable by the Group to defined contribution retirement benefits scheme in the PRC and to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance are charged to the profit and loss account in the year in which they fall due.

(p) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Company.

Sales revenue is recognised when the merchandise is delivered and title has been passed.

Sub-contracting income is recognised when the services are rendered and the relevant work is completed.

Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rates applicable.

(r) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

4. 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.



Notes to the Financial Statements

(Expressed in Renminbi)

5. OTHER REVENUE

	2004 RMB'000	2003 <i>RMB'000</i>
Interest income	718	838
Government subsidy	300	–
Sundries	37	(22)
Loss on sub-contracting work	(55)	(68)
	1,000	748

6. PROFIT BEFORE TAXATION

	2004 RMB'000	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
and after crediting:–		
Bank interest income	718	838
Write back of provision for bad and doubtful debts	850	–



Notes to the Financial Statements

(Expressed in Renminbi)

7. TAXATION

	2004 RMB'000	2003 RMB'000
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 RMB'000	2003 RMB'000
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>

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of RMB39,324,000 (2003: RMB21,356,000) which has been dealt with in the financial statements of the Company.



Notes to the Financial Statements

(Expressed in Renminbi)

9. DIVIDENDS

Dividend proposed after year end

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

10. 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).

11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of the emoluments paid to directors of the Company are:–

	2004	2003
	RMB'000	RMB'000
Fees	–	–
Other emoluments:–		
Salaries, allowances and other benefits	233	181
Retirement scheme contributions	43	14
	276	195

During the year, no emoluments were paid or payable to the non-executive director and the three independent non-executive directors of the Company.

The number of executive directors whose remuneration falls within the following band is as follows:–

	2004	2003
RMB Nil – RMB1,000,000	6	5

During the year ended 31 December 2004, the six executive directors received individual emoluments of approximately RMB74,000 (2003: RMB64,000), RMB52,000 (2003: RMB44,000), RMB50,000 (2003: RMB44,000), RMB51,000, (2003: RMB43,000), RMB49,000 and RMBnil (2003: Nil).



Notes to the Financial Statements

(Expressed in Renminbi)

11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

(b) Details of the emoluments paid to supervisors of the Company are:-

	2004 RMB'000	2003 RMB'000
Salaries, allowances and other benefits	119	96
Retirement scheme contributions	23	10
	142	106

The number of supervisors whose remuneration falls within the following band is as follows:-

	2004	2003
RMB Nil – RMB1,000,000	4	3

During the year ended 31 December 2004, the four supervisors received individual emoluments of approximately RMB49,000 (2003: RMB43,000), RMB49,000 (2003: RMB43,000), RMB44,000 and RMB Nil (2003: RMB20,000).

None of the Company's directors or supervisors waived or agreed to waive any emoluments. No incentive payment for joining the Company nor compensation for loss of office was paid or payable to any director or supervisors during the year ended 31 December 2004.

(c) Details of the emoluments paid to the five highest paid individuals during the year included three (2003: three) directors and Nil (2003: one) supervisor whose emoluments are set out above. Details of remuneration of the remaining two (2003: one) individuals are as follows:-

	2004 RMB'000	2003 RMB'000
Salaries, allowances and other benefits	514	482
Retirement scheme contributions	10	14
	524	496

The number of individuals whose remuneration falls within the following band is as follows:-

	2004	2003
RMB Nil – RMB1,000,000	2	1

**12. RETIREMENT BENEFITS**

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government, and in the case of employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF scheme") under the Mandatory Provident Fund Scheme Ordinance.

In the PRC, the Group is required to contribute 24% (2003: 24%) of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

In Hong Kong, the assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. The employer's contributions vest fully once they are made. At 31 December 2004, no forfeited contributions were available to reduce the contributions payable in future years.

The Group's contribution to retirement benefits scheme for the year amounted to RMB940,000 (2003: RMB732,000).



Notes to the Financial Statements

(Expressed in Renminbi)

13. PROPERTY, PLANT AND EQUIPMENT

The Group and the Company	Leasehold land and buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Transportation equipment <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1 January 2004	28,695	9,394	3,535	497	42,121
Additions	3,566	67	433	3	4,069
Transfer from construction in progress	47,155	40,499	–	415	88,069
Adjustment to cost	–	(405)	–	–	(405)
Disposals	–	(8)	–	–	(8)
At 31 December 2004	<u>79,416</u>	<u>49,547</u>	<u>3,968</u>	<u>915</u>	<u>133,846</u>
Accumulated depreciation:					
At 1 January 2004	5,025	6,588	2,073	379	14,065
Charge for the year	1,985	2,558	305	132	4,980
Written back on disposal	–	(8)	–	–	(8)
At 31 December 2004	<u>7,010</u>	<u>9,138</u>	<u>2,378</u>	<u>511</u>	<u>19,037</u>
Net book value:					
At 31 December 2004	<u>72,406</u>	<u>40,409</u>	<u>1,590</u>	<u>404</u>	<u>114,809</u>
At 31 December 2003	<u>23,670</u>	<u>2,806</u>	<u>1,462</u>	<u>118</u>	<u>28,056</u>

The leasehold land and buildings are situated in the PRC and held under a medium-term lease.



Notes to the Financial Statements

(Expressed in Renminbi)

14. CONSTRUCTION IN PROGRESS

The Group and the Company

	2004 RMB'000	2003 <i>RMB'000</i>
At 1 January	88,069	24,368
Transfer to property, plant and equipment	(88,069)	63,701
At 31 December	–	88,069

15. PURCHASED KNOWHOW AND PRESCRIPTION

	The Group		The Company	
	2004 RMB'000	2003 <i>RMB'000</i>	2004 RMB'000	2003 <i>RMB'000</i>
Cost:				
Beginning of the year	16,598	12,812	16,498	12,812
Additions	620	3,786	620	3,686
Disposals	(1,090)	–	(1,090)	–
End of the year	16,128	16,598	16,028	16,498
Accumulated amortisation:				
Beginning of the year	310	310	310	310
Charge for the year	260	–	260	–
End of the year	570	310	570	310
Net book value:				
End of the year	15,558	16,288	15,458	16,188
Beginning of the year	16,288	12,502	16,188	12,502



Notes to the Financial Statements

(Expressed in Renminbi)

16. INVESTMENT IN A SUBSIDIARY

	The Company	
	2004 RMB'000	2003 <i>RMB'000</i>
Unlisted shares, at cost	600	600

Particulars of the subsidiary are as follows:–

Name of company	Country of incorporation and operation	Percentage of equity held directly	Principal activity
Changchun Zhong Da Healthcare Product Company Limited (長春中大保健品有限公司)	PRC	60%	Production of healthcare medication products

17. INVENTORIES

	The Group		The Company	
	2004 RMB'000	2003 <i>RMB'000</i>	2004 RMB'000	2003 <i>RMB'000</i>
Inventories comprise:–				
At cost:				
Raw materials	7,766	3,926	7,691	3,851
Work in progress	6,715	526	6,715	526
Finished goods	4,835	2,490	4,835	2,490
Provision for obsolete inventories	(1,004)	(934)	(1,004)	(934)
	18,312	6,008	18,237	5,933

The above provisions represented full provision against obsolete inventories as at 31 December 2004 and 2003.



Notes to the Financial Statements

(Expressed in Renminbi)

18. TRADE RECEIVABLES

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

	The Group		The Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within 1 month	6,283	3,377	6,283	3,377
Between 2 to 3 months	14,520	9,898	14,520	9,898
Between 4 to 6 months	19,720	10,801	19,720	10,801
Between 7 to 12 months	24,840	13,381	24,840	13,338
Between 1 to 2 years	4,893	8,217	4,850	8,217
Between 2 to 3 years	1,322	2,118	1,322	2,118
	71,578	47,792	71,535	47,749

19. DEFERRED EXPENSES

Deferred expenses (the Group and the Company) mainly represent prepaid advertising expenses.

20. TAX RECOVERABLE

The Group and the Company

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Tax recoverable comprises:		
Income tax	–	317

21. TRADE PAYABLES

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

	The Group		The Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within 3 months	978	736	978	736
Between 4 to 6 months	1,629	350	1,629	283
Between 7 to 12 months	3,856	719	3,856	703
Between 1 to 2 years	1,119	508	1,037	508
Between 2 to 3 years	466	795	466	795
Over 3 years	3,154	2,798	3,154	2,798
	11,202	5,906	11,120	5,823



Notes to the Financial Statements

(Expressed in Renminbi)

22. DIVIDEND PAYABLE

Dividend payable was unsecured, interest free and repayable on demand.

23. DEFERRED TAXATION

The Group and the Company had no significant deferred tax assets or liabilities at the balance sheet date.

24. SHARE CAPITAL

	Number of shares <i>'000</i>	Amount <i>RMB'000</i>
Registered, issued and fully paid:		
Domestic shares of RMB0.1 each	400,000	40,000
H shares of RMB0.1 each	<u>161,000</u>	<u>16,100</u>
Total domestic shares and H shares of RMB0.1 each at 31 December 2003 and 2004	<u>561,000</u>	<u>56,100</u>

Domestic shares and H shares are both ordinary shares in the share capital of the Company. However, H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.



Notes to the Financial Statements

(Expressed in Renminbi)

25. RESERVES

The Company	Share capital (Note 24) RMB'000	Share premium RMB'000	Retained profits RMB'000	Proposed dividend (Note 9) RMB'000	PRC statutory funds		Total RMB'000
					Statutory surplus reserve (Note 25(a)) RMB'000	Staff public welfare fund (Note 25(b)) 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	–	–	21,356	–	–	–	21,356
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	76,972	2,805	12,065	6,023	207,546
Net profit for the year	–	–	39,324	–	–	–	39,324
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	110,474	–	15,946	7,964	244,065

(a) Statutory surplus reserve

In accordance with the Company Law and the Company's articles of association, the Company shall appropriate 10 percent of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve reaches 50 percent of the Company's share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve must be maintained at a minimum of 25 percent of share capital after such issuance.

(b) Staff public welfare fund

According to the relevant financial regulations of the PRC and the Company's articles of association, the Company is also required to appropriate 5 percent of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund to be utilised to build or acquire capital items, such as dormitories and other facilities for the Group's employees and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the Group.



Notes to the Financial Statements

(Expressed in Renminbi)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash (used in)/generated from operating activities

	2004 RMB'000	2003 <i>RMB'000</i>
Profit before taxation	39,642	21,320
Interest income	(718)	(838)
Interest expenses	3,552	2,512
Government subsidies received	(300)	–
Depreciation	4,980	1,773
Amortisation of purchased knowhow and prescription	260	–
	<hr/>	<hr/>
Operating profit before working capital changes	47,416	24,767
(Increase)/decrease in inventories	(12,304)	6,527
Increase in trade receivables	(23,786)	(5,597)
Increase in other receivables	(602)	(500)
Increase in deposits paid	(5,818)	(4,171)
Increase in deferred expenses	(22,968)	(13,009)
Increase/(decrease) in trade payables	5,701	(985)
Increase in other payables and accruals	1,168	264
Increase in deposits received	153	309
Increase/(decrease) in value added tax and other tax payable	53	(1,737)
	<hr/>	<hr/>
Cash (used in)/generated from operations	(10,987)	5,868
Interest paid	(3,552)	(2,512)
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(14,539)	3,356

27. RELATED PARTY TRANSACTIONS

- (a) The Company has entered into a sale and purchase agreement with Kuancheng, one of its major shareholders in relation to the acquisition of the ownership of 3 healthcare products on 3 November 2004 for a consideration of RMB7,000,000. Up to 31 December 2004, a refundable deposit of RMB6,700,000 was paid to the Kuancheng. The balance of RMB300,000 will be paid to Kuancheng upon the granting of production approval by the relevant government authority in the PRC. The Directors (including the independent non-executive Directors) consider that the terms of the Agreement are negotiated on arm's length basis and under normal commercial terms.
- (b) The amount due to a shareholder represents an unsecured advance made by Kuancheng. The balance is unsecured, interest free and has no fixed repayment terms.
- (c) The short-term bank loans of RMB35,000,000 are guaranteed by Kuancheng (2003: RMB35,000,000).
- (d) The amount due to a subsidiary is unsecured, interest free and has no fixed repayment terms.



Notes to the Financial Statements

(Expressed in Renminbi)

28. BANK LOANS

The Group and the Company

	2004 RMB'000	2003 <i>RMB'000</i>
Bank loans repayable:–		
Not exceeding 1 year	58,000	77,000
More than 1 year but not exceeding 2 years	4,000	–
More than 2 years but not exceeding 5 years	13,000	–
	<hr/> 75,000	<hr/> 77,000

29. CAPITAL COMMITMENTS

At 31 December 2004, the Group had the following capital commitments:–

	2004 RMB'000	2003 <i>RMB'000</i>
Contracted but not provided for		
– Property, plant and equipment	2,892	3,185
– Purchased knowhow and prescription	15,336	17,802
	<hr/> 18,228	<hr/> 20,987

30. ASSET PLEDGED

At 31 December 2004, leasehold land and buildings with a net book value of RMB Nil (2003: RMB23,670,000) and construction in progress of the new office and factory buildings with a net book value of RMB Nil (2003: RMB47,155,000) were pledged to a bank to secure banking facilities granted to the Group and the Company to the extent of RMB Nil and RMB Nil (2003: RMB22,000,000) respectively. Subsequent to year end, leasehold land and buildings with a net book value of RMB49,452,000 were pledged to a bank to secure banking facilities granted to the Group and the Company to the extent of RMB 35,000,000.



Financial Summary

	Year ended 31 December				
	2004	2003	2002	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Result					
Turnover	95,801	64,730	71,220	63,714	40,128
Profit before taxation	39,642	21,320	39,400	29,235	14,368
Taxation	(317)	–	(4,731)	(4,923)	(2,419)
Profit before minority interest	39,325	21,320	34,669	24,312	11,949
Minority interest	–	14	–	–	–
Profit attributable to shareholders	39,325	21,334	34,669	24,312	11,949
As at 31 December					
Assets and liabilities					
Total assets	339,467	296,277	219,706	116,982	102,389
Total liabilities and minority interest	(95,423)	(88,753)	(33,516)	(27,474)	(37,193)
Net assets	244,044	207,524	186,190	89,508	65,196



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Changchun Da Xing Pharmaceutical Company Limited (the “Company”) will be held at No. 655 Chuang Ju Street, High and New Technology Industrial Development Zone, Changchun, Jilin Province, the PRC on Friday, 20 May 2005 at 9:00 a.m. to consider the following businesses:

1. To review and approve the report of the directors, audited financial statements and auditors’ report for the year 2004.
2. (i) To approve the re-appointment of the following as executive directors:–
 - (a) Mr. Feng Zhen Wen.
 - (b) Mr. Yu Cheng Kun.
 - (c) Ms. Li Xiu Jie.
 - (d) Mr. Guo Bin.
 - (e) Ms. Lu Yin Hua.
- (ii) To approve the re-appointment of Mr. Lu De Yi as non-executive director.
- (iii) To approve the re-appointment of the following as independent non-executive directors:–
 - (a) Mr. Yang Shi Jie.
 - (b) Mr. Sun Xiao Bo.
 - (c) Mr. Zhang Zhong Sheng.
- (iv) To approve the re-appointment of the following as Supervisors:–
 - (a) Ms. Xu Feng Yin.
 - (b) Mr. Wang Ting Jun.
 - (c) Ms. Gao Yan.
3. To review and approve the year-end rewards of directors and supervisors for 2004.



Notice of Annual General Meeting

4. To review and approve the re-appointment of Shu Lun Pan Certified Public Accountants Co., Ltd. and Horwath Hong Kong CPA Limited as the Company's domestic and overseas auditors respectively, for the year 2005 with a term of office until the conclusion of next annual general meeting, whose remunerations are fixed by the board of directors of the Company.

By order of the Board

Feng Zhen Wen

Chairman

Jilin Province, the PRC

21 March 2005

Notes:

1. Any member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the meeting in accordance with the article of association of the Company. A proxy needs not be a member of the Company.
2. To be valid, the form of proxy together with, if the form of proxy is signed by another person on behalf of the appointor under the power of attorney or other authority documents, a copy of the power of attorney or other authority documents certified by the notarial solicitor must be delivered at Hong Kong Registrars Limited on 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (the "Company's Shares Registrar"), no later than 24 hours before the time appointed for holding the meeting or vote.
3. If an individual shareholder appoints a proxy to attend the meeting, such proxy should produce the power of attorney and proof of his/her identity when attending; if a corporate shareholder appoints a proxy to attend the meeting, such proxy should produce proof of his/her identity and legal representative or the copy of the resolution (which is certified by a notary public) of the Board of the corporate shareholder or other decision-making authorities under which he/she is appointed.
4. The register of members of H shares of the Company will be closed from Friday, 15 April 2005 to Friday, 20 May 2005 (both dates inclusive), during which no transfer of shares will be registered.
5. Those shareholders whose names stand on the register on Friday, 15 April 2005 are entitled to attend and vote at the meeting.
6. The shareholders who intend to attend the meeting should complete and lodge the reply slip at the Company's legal address (No. 655 Chuang Ju Street, High and New Technology Industrial Development Zone, Changchun, Jilin Province, the PRC) before Saturday, 30 April 2005. The receipt can be delivered in person or by mail, telegram or fax (fax number: 86-431-5531 036).
7. The annual general meeting will not last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.