



上海復旦張江生物醫藥股份有限公司

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

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



2002

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This report, for which the directors of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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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BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Wang Hai Bo (*Chairman*)
Su Yong
Zhao Da Jun

NON-EXECUTIVE DIRECTORS

Yu Qing Hua (*Vice Chairman*)
Zhang Li Qiang
Fang Jing
Jiang Guo Xing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Feng Zheng Quan
Cheng Lin
Pei Gang (*resigned on 13 March 2003*)

SUPERVISORS

Sun Xiao Min
Dai Yan Ling
Zhuang Xian Han
Wei Dong Zhi
Wong De Zhang

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Xu Yun Lan, ACCA

COMPLIANCE OFFICER

Zhao Da Jun

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Xu Yun Lan, ACCA

QUALIFIED ACCOUNTANT

Xu Yun Lan, ACCA

MEMBERS OF AUDIT COMMITTEE

Feng Zheng Quan
Cheng Lin
Pei Gang (*resigned on 13 March 2003*)

INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers
Shu Lun Pan Certified Public Accountants Co., Ltd.

SPONSORS

Guotai Junan Capital Limited
Barits Securities (Hong Kong) Limited

LEGAL ADVISERS TO THE COMPANY

Baker & McKenzie (As to Hong Kong Law)
Fangda Partners (As to PRC Law)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Zhangjiang Branch
Bank of Communications, Pudong Branch
Shanghai Pudong Development Bank, Xinchuan Branch
Industrial Bank, Changning Branch

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East, Hong Kong

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 308 Cailun Road
Zhangjiang Hi-tech Park
Pudong, Shanghai
The PRC PC: 201203

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15/F, The Bank of East Asia Building
10 Des Voeux Road Central, Hong Kong

AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

Or, Ng & Chan, solicitors

INVESTOR RELATIONSHIP CONSULTANT

Porda International (Finance) PR Co., Ltd.

LISTING INFORMATION

H Share
The Growth Enterprise Market of
The Stock Exchange of Hong Kong Limited
GEM Stock Code: 8231

WEBSITE

www.fd-zj.com

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") has been successfully listed on the GEM of The Stock Exchange of Hong Kong Limited on 13 August 2002, and has relocated its place of business to the newly built office and complex building in May of the same year, which are milestones in the development history of the Group's business. I present herewith on behalf of the Board of the Group, the first annual report of the Group for the year ended 31 December 2002.

BUSINESS REVIEW

It is the Group's objective that "the harder we work, the healthier human beings will be". The Group is committed to becoming a pioneer in the bio-pharmaceutical industry focusing on R&D of genetic technology and the commercialization of patent drugs.

On 25 March 2002, the Group entered into a "Technology transfer contract on recombinant tissue plasminogen activator" with Shandong Dong-E E-jiao Co., Ltd., an independent third party, and transferred the recombinant tissue plasminogen activator (r-tPA), a drug for cure of acute heart infarction, for a total consideration of RMB15,000,000. On 31 December 2002, the Group completed all the steps as agreed under the contract, subsequent to which, the Group is entitled to a profit sharing of 2%-5% on the total annual sales of the product from Shandong Dong-E E-jiao Co., Ltd. for a term of eight years (five years, if the new drug protection period is cancelled).

In September 2002, the State Drug Administration of the PRC ("SDA") issued the "Notice of the SDA in respect of the administration of the classification of in-vitro diagnostic reagents", which, as a result of the change in regulations, the HLA genotyping chips of the Group have to obtain the SDA's permit prior to the sale to medical institutions. Such a requirement has affected the production, and sale and permit of the HLA genotyping chips of the Group, and has accordingly led to the postponement to its development in overseas markets. The Group will make an application to the SDA in accordance with the Notice and comply with the related requirements.

To further strengthen the management and to facilitate the progress of the Group's internal designated R&D projects as well as to enhance the proactiveness of its R&D staff, the Group has implemented the "Management system on designated research and development projects" since September 2002. The aims of the new management system are to implement a reviewing system by the R&D committee members to make the project supervisor accountable for the implementation of R&D. Each project supervisor is specially tasked to oversee the system throughout the course of a R&D project and has the discretion to grant such reward or impose such penalty as he determines. It is the Group's belief that by implementing such a system, the Group will grow more steadily with better project management, which will generate more profit for the Group.

In addition, after years of research, the effort of the staff has ultimately achieved results. On 28 October 2002, the Group's research on lymphotoxin, a category I drug, entered the phase of clinical tests, being the first in the world to have obtained clinical permit.

For the Group's long-term development, on 27 November 2002, the Group has formed a company with Shanghai Institute, Shanghai Pharmaceutical, Mr. Jiang Hualiang and Shanghai Technology Investment by establishing a company with limited liability under the name of "Lead Discovery Limited Company" ("Lead Discovery") to replace the former Joint Laboratory. At the end of 2002, the company received considerable support and encouragement from Shanghai Science and Technology Committee, with a non-repayable project subsidy fund amounting to RMB10,000,000.

I believe that Lead Discovery can capitalize on the expertise of the Shanghai Institute on the research of micro-molecular compounds, the strengths of Shanghai Pharmaceutical on marketing and sales, the expertise of Mr. Jiang Hualiang on the research of bio-pharmaceuticals and the funding support from Shanghai Technology Investment, as well as the Group's strengths in genetic engineering and highly effective screening capability. I believe that with this strategic move and by combining the strengths of the parties, the Group will achieve a higher return.

The Group has been working on innovative drugs as its core technology, and it places great emphasis on the legal protection of its proprietary technology and patent technology. In addition to 1 new registered practical patent which it owns and 13 invention patent applications which are pending approval, the Group has applied to the State Intellectual Property Bureau for registration of another new invention patent (Patent name: Chinese medicine extraction with active α -glucosidase inhibitor, its preparation and applications). Also, the Group's invention patents on various genomes/genetic chips, which had passed the patent review at the end of 2002, was formally awarded a patent certificate on 19 February 2003.

Moreover, in order to further cope with the marketing of the Group's diagnostic reagent products, and to ensure the competitiveness of the Group's superior brand-name in the market, the Group has made applications to the State Intellectual Property Bureau for 58 appearance design patents on the packaging boxes of the relevant diagnostic reagents in 2002. The Group believes that not only can these patents effectively snuff out copyright infringement, but can also enhance the market image of the Group.

Since its establishment, with its strong capability of developing new drugs independently and its direction of development going along with the State's policies on industries, the Group has won grants and subsidies from various reputable funds and from medical and pharmaceutical institutions of provincial and State levels in the PRC.

During the year, material progress has been made on the "863" key topics put forward by the Group to the Ministry of Science and Technology. On 18 November 2002, the "Clinical research on new generation lymphotoxin" put forward by the Group and the new K⁺ Channel inhibitor (belonging to Lead Discovery) jointly put forward by the Company and Shanghai Institute have been determined as "National Major and Special-purpose Technological Projects for the Tenth Five-year Plan" by the Ministry of Science and Technology, and non-repayable State subsidies amounting to RMB2,000,000 and RMB2,400,000 respectively have been granted.

Further, the Group has obtained subsidy from the Science and Technology Bureau of Shanghai Pudong new district in the form of non-repayable subsidies amounting to RMB400,000 in July 2002. In November 2002, a non-repayable subsidy amounting to RMB200,000 was granted by the Science and Technology Bureau of Shanghai Pudong new district for the research on mycophenolic acid (霉酚酸酯), an immunity inhibitor, and has been recommended by the Shanghai Science and Technology Committee to apply for special item fund for National Major Technology Project from the Ministry of Science and Technology. The management is confident that the application will receive considerable support and subsidy from the State will be granted.

The Group has made smooth progress on various R&D projects. However, delays have been experienced in some special projects due to adjustments made to the R&D focus of those projects and changes made by the SDA on the procedures for clinical applications. On balance, most of the R&D projects are proceeding as scheduled. The original plans and the actual progress are as follows :

Project name and description	Anticipated progress of R&D in 2002 as set out in the prospectus	Actual progress as at 31 December 2002
Recombinant human lymphotoxin- α derivatives (rhLT) for the treatment of lung cancer	Stage I clinical tests completed	Approval for human body clinical tests has been obtained, and commenced Stage I clinical tests on 28 October. The Stage I clinical tests are anticipated to be completed by the end of 2003
Recombinant human parathyroid hormone derivatives (rhPTH) for the treatment of osteoporosis	Pre-clinical research completed	The Company has completed all the pre-clinical steps, and will apply to the SDA for clinical tests in 2003
Recombinant tissue type plasminogen activator (r-tPA) for the treatment of acute heart infarction	The SDA has approved the clinical tests, and an agreement to transfer the technology to an independent third party was made in March 2002	The Company has completed all the steps as agreed under the project transfer contract, and Shandong Dong-E E-jiao Co., Ltd., an independent third party, has paid the balance of the project transfer money of RMB10,000,000 to the Company as agreed
Hemporfin, a photodynamic therapy drug	Pre-clinical research completed, and application for clinical tests completed	Part of the pre-clinical steps has not been completed. It is anticipated that application for clinical tests will be made to the SDA in the second half of 2003

Project name and description	Anticipated progress of R&D in 2002 as set out in the prospectus	Actual progress as at 31 December 2002
Deuteroporphyrin, a photodynamic therapy drug	Pre-clinical research commenced	Most of the pre-clinical steps have been completed. It is anticipated that application for clinical tests will be made to the SDA in the second half of 2003
Human leukocyte antigen (HLA) genotyping chips	Clinical tests completed Production equipment purchased	Application will be made according to the new requirements Part of the equipment added
Lymphotoxin mutants	Screening process completed	Completed
New type of erythropoietin	Initial research completed	Research suspended due to other considerations of the Company
α -1,4 glucosidase inhibitor	Initial research completed	Completed

FUTURE PROSPECTS

With China's accession to the WTO, it is anticipated that market competition in the pharmaceutical industry of the PRC will be more intense. However, with China's huge population and people's awareness of medical and healthcare products, the pharmaceutical industry is still very promising. The Group will continue to develop or manufacture innovative drugs independently and to take more stringent measures to protect its intellectual property rights by applying for patent protection of its R&D technologies and products. Therefore, I remain fully confident and optimistic about the development prospects of the Group.

In order to maintain its competitiveness in the market, the Group will make more efforts to expand its established market share in order to generate higher return to the shareholders. In the future, the Group will focus its resources in research and development, project transfers, commercialization, clinical tests and strategic alliances.

- Research and development

R&D platform for genetic engineering drugs - is the major research platform of the Group. As the R&D on protein engineering and antibody engineering drugs are the general direction of research in the area of bio-pharmaceutical, focus of the platform has now strategically moved to the R&D of phage high flux screening and high expression technology of animal cells, which are requisite for the protein building engineering and antibody engineering, with significant progress. As for the platform construction for other R&D purposes and for special R&D items, they are proceeding as originally planned.

In addition, the Group is looking forward to the completion of all the pre-clinical steps in respect of PTH for the treatment of osteoporosis, the photodynamic therapy drug Hemporfin for the treatment of port wine stain, a photodynamic therapy drug 五氨基酮戊酸 for the treatment of rigid condyloma, genetic engineering drug soluble TNF receptor fusion protein for the treatment of arthritis, a Chinese medicine, the light sugar (淡糖) for the treatment of diabetes and super low molecule heparin calcium for the prevention of blood clots within this year. It is anticipated that applications for clinical tests of 4-5 of these drugs will be made to the SDA, and clinical approvals will be obtained from the SDA one after another in the year to come.

Other than the active efforts with projects under research, the Group is also commencing other new projects. An example is the new generation lymphotoxin project, which is targeting mainly at tumours, will commence large-scale screening process and limited testing on animals on partial target points in 2003, and it is anticipated that application for an international patent will be completed by the end of 2003. Human antibody Anti-Her-2 oncogene humanized project, which is mainly targeting at breast cancer, is planned to have its high expression cell line developed by the first half of 2003, and small sample quantities can be prepared by the end of October. Testing on animals is expected to commence by the end of the year.

- Project transfer

As the Group will apply to the SDA for clinical tests for a number of its projects in this year, the overall value of such projects will increase upon obtaining the approvals which will significantly enhance the chances for their successful transfer. Therefore, it is the Group's intention that in addition to actively participating in trade fairs for the exchange of technological property rights in China, the Group will also send designated staff to actively liaise with various drug producers in order to identify suitable targets of transfer for the R&D projects of the Group. The management believes that growth in income derived from technological transfer in 2003 over 2002 is foreseeable.

- Commercialization

In order to strengthen and develop the Group's business more steadily in the long term and in addition to its continued and active efforts in R&D projects, the Group also plans to focus on achieving the commercialization of the antenatal screening system for the Down's Syndrome, thereby transforming the commercialization of the Group's business step by step. Down's Syndrome, also known as mongolism, is the most commonly seen non-hereditary congenital defect with morbidity of 1/750. In the PRC, there are about 30,000 out of 20,000,000 new born babies suffering from Down's Syndrome every year, bringing tremendous economic and social burden to the State. Therefore, screening and diagnosis of Down's Syndrome has become an important target of the State for the enhancement of population quality and to achieve "Birth defects interference engineering". The Down's Syndrome screening system developed by the Group includes quantitative ELISA kit and risk index calculation software and has been developed basing on substantial clinical information of the public in the PRC. The product has passed the technical assessment by the SDA, and it is anticipated that the production permit can be obtained, and the diagnostic reagent can be marketed by the second half of 2003. The project is probably the first product to be approved for production and clinical application since the commencement of the "Birth defects interference engineering"

three years ago, and has a large market potential. The Group plans to establish a solid collaboration relationship with the related entities of the Scientific Research Institute of the National Birth Planning Committee, and to actively participate in the regional promotion of the "Birth defects interference engineering". It is anticipated that this special item will become an important source of profit for the Company.

In order to strengthen the competitiveness of the Group's product in the medical diagnosis sector, the Group has established a collaboration relationship with Luminex, a company listed on the Nasdaq, for the exclusive promotion in China of the use of Luminex's liquid chip technology (XMAP) on the development of instruments for scientific researches and diagnosis. The Group is further authorised by Luminex to develop the second generation screening reagent with the high flux and quantitative, rapid technical characteristics of its XMAP technology for the detection of Down's Syndrome at early stages of pregnancy and to develop diagnostic reagent on the identification of 15 tumour targets. Unlike other technology transfer projects of the Group, the two diagnostic reagent technologies are planned to be commercialized within the Group upon their successful development.

- Clinical tests

On the R&D platforms of the Group, a number of projects which are undergoing research and development will enter into the clinical stage one after another in the future, and a large amount of assessment on the tests of pharmacodynamics and toxicology, tests of pharmacology and clinical researches will commence. Therefore, the Group will continue to recruit professional expertise and create an accountability mechanism for a designated supervisor on clinical researches, with a view to carrying them out more professionally. The management is confident that the bottleneck arising from the clinical researches will be overcome.

- Strategic alliance

Apart from conducting R&D on new drugs by its in-house professional R&D team, the Group will continue to maintain the strategic alliances with various reputable universities, institutes and hospitals, thereby combining the expertise, R&D equipment and resources of the various parties to help the Group in strengthening its independent R&D capability and to enhance its competitiveness.

During the year 2003, the Group will make cash contributions of RMB9,750,000 for the establishment of a joint venture limited company with Shanghai Life Science Research Institute of the Academy of Science (中科院上海生命科學研究院), Shanghai Organic Chemistry Research Institute of the Academy of Science (中科院上海有機化學研究所), academician of Pei Gang (裴鋼院士) researchers of Madawei (馬大為研究員), to engage mainly in the development of new drugs and to be named "Shanghai Badian Pharmaceutical Co., Ltd. (上海靶點藥物有限公司)". The company will rely on the Pei Gang Laboratory of Shanghai Life Science Research Institute of the Chinese Academy of Sciences (中科院上海生命科學研究院裴鋼實驗室) and the Madawei Laboratory of Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences (中科院上海有機化學研究所馬大為實驗室), which are of first rate in the PRC, in the joint research and development in pharmacology which includes molecular pharmacology, design and synthesis of small molecular drugs, and combined and overall pharmacology.

ACKNOWLEDGEMENT

Lastly, I would like to express my gratitude to the shareholders and business partners of the Group for their unreserved support and encouragement, and at the same time, my most sincere thanks to the Directors and all the staff of the Group for their dedication and contribution.

Wang Hai Bo

Chairman

Shanghai, the PRC, 21 March 2003

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial condition and results of operation should be read in conjunction with the consolidated financial statements and the related notes to the consolidated financial statements.

TURNOVER

The Group's consolidated turnover for the year ended 31 December 2002 amounted to RMB22,518,000, compared to RMB27,909,000 for the previous year.

Of the total turnover, RMB14,560,000 or 65% was derived from technology transfer revenue, and the rest RMB7,958,000 or 35% was derived from the sales of diagnostic reagent and the provision of related ancillary services.

TECHNOLOGY TRANSFER REVENUE

Revenue from technology transfer decreased RMB7,440,000 or 34% compared with RMB22,000,000 recognised in 2001.

On 25 March 2002, the Company signed a sales contract with Shangdong Dong-E E-Jiao Co., Ltd. for a total consideration of RMB15,000,000. RMB10,000,000 was recognized as revenue in the year after the Company completed respective milestones as specified in the contract and the economic benefits associated with the completion have flown to the Company. Pursuant to the sales contract, the Company is entitled to receive royalty payments from Shandong Dong-E E-jiao Co., Ltd. equal to a percentage ranging from 2% to 5% of the future gross annual sales over the new drug protection period stipulated by the SDA, or a period of five years if such protection period is cancelled.

On 27 November 2002, Lead Discovery Limited Company ("Lead Discovery"), an associate of the Company, was established to replace the Joint Laboratory. On 5 December 2002, pursuant to the agreement for the establishment of Lead Discovery, the Company transferred its PPAR γ activator to Lead discovery at a price of RMB6,000,000. The transaction was completed by the year ended 31 December 2002. The Company has recognized RMB4,560,000 as revenue after elimination of the unrealized profit to the extent of the Group's interest in Lead Discovery.

The decrease in the technology transfer revenue is mainly due to the change in the Group's strategy on the R&D activities. The Group used to sell those projects that are expected to face huge competition upon commercial launch or which are "me-too" drugs during the R&D process in return for a cash flow and funding for other R&D programs. After the successful placing of new shares in August 2002, the Group has more financial resources to be devoted to its research and development activities. The Directors believe that it would be more profitable to the Group to transfer its projects at a later stage than seeking upfront return. In addition, the long-term strategy of the Group is to focus on the R&D and commercialisation of its self-developed category I bio-pharmaceutical drugs. Therefore, although technology transfer would still remain as one of the Group's alternatives to realise short-term profits and maintain cash flow position, the Group will focus more on project commercialisation to seek long term business success.

SALES OF DIAGNOSTIC REAGENT AND THE PROVISION OF RELATED ANCILLARY SERVICES

Despite tough market competition, the sales revenue of diagnostic reagent and the provision of related ancillary services for the year ended 31 December 2002 has increased by 34% to RMB7,958,000 from RMB5,909,000 for the previous year. The segment profit shows a ninefold increase to RMB723,000. The improvement is principally due to enhanced marketing efforts of the Group's sales agents.

COSTS AND EXPENSES

The total costs and expenses of the Group for the year ended 31 December 2002 were RMB29,340,000, compared with RMB22,346,000 for the previous year.

The increase in total costs and expenses is mainly attributed to the increase of cost of sales to RMB9,828,000, compared with RMB4,869,000 for the previous year. The costs of sales include the production costs of diagnostic reagent and the costs of technology transfer subsequent to entering into sales contract which are variable according to the different projects under transfer.

In addition, as more resources have been devoted to research and development activities than the previous year, the R&D costs for the year ended 31 December 2002 amounted to RMB10,095,000, representing 11% or RMB1,033,000 increase over the previous year's figure.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

A profit attributable to shareholders of RMB807,000 was recorded for the year ended 31 December 2002, compared with RMB11,826,000 for the previous year. The decrease is mainly due to the decrease of technology transfer revenue and the increase of relevant costs as mentioned above. However, the Directors are of the opinion that with the commercialization of the Group's self-developed category I bio-pharmaceutical drugs and other R&D projects in progress, the revenue and the operating result will grow substantially.

IMPAIRMENT OF ASSETS

No impairment of assets is noted as at 31 December 2002 after the assessment of the fair value of the Group's fixed assets, technical know-how, deferred development costs and other non-current assets.

SIGNIFICANT INVESTMENTS

As at 31 December 2002, the Group invested RMB5,305,000 in listed shares and funds, compared with RMB5,863,000 as at 31 December 2001. Such decrease was principally due to the redemption of shares and funds investment by the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Company entered into an agreement on 21 November 2002 to invest RMB7,200,000 in exchange of 24% share of Lead Discovery. The Company had injected RMB6,000,000 into Lead Discovery as at 31 December 2002. The rest RMB1,200,000 is planned to be injected in early 2003.

Save as above, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the year.

CONTINGENT LIABILITIES

As at 31 December 2002, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2002, the Group did not have any charge on its assets.

BANKING FACILITIES

As at 31 December 2002, the Group had not applied for any banking facilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 13 March 2003, the Group entered into an agreement for the establishment of Shanghai Ba Dian Medicine Co., Ltd. on the research and development of bio-pharmaceutical products. The registered capital of the new subsidiary is about RMB15,000,000. The Group will contribute RMB9,750,000 for a 65% interest in the subsidiary.

Save as above and disclosed in the Prospectus dated 31 July 2002, there are no future plans for material investments or capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated financial resources, proceeds from the placing of shares in August 2002 by the Company and loans from municipal government authorities. As at 31 December 2002, the Group had outstanding loans from municipal government authorities of RMB2,050,000 which are unsecured, interest free and repayable within one year.

As at 31 December 2002, the Group had a net cash and cash equivalent position of approximately RMB138,439,000. Following the listing of the H shares of the Company on the GEM of the Stock Exchange on 13 August 2002, the liquidity position of the Group has been strengthened with the proceeds from the placing of H shares, which amounts to approximately HK\$125,386,000 after deducting all relevant expenses. The Group is applying these proceeds in the manner as disclosed in the Supplementary Prospectus of the Company.

The Group's gearing ratio at 31 December 2002 was 0.11(31 December 2001: 0.32) which is calculated based on the Group's total liabilities of RMB22,140,000 (31 December 2001: RMB21,591,000) and shareholders' funds of RMB192,897,000 (31 December 2001: RMB67,031,000).

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and minimize cost of funds, the Group's treasury activities are centralized. The Group's liquidity and financing arrangements are reviewed regularly.

FOREIGN EXCHANGE EXPOSURE

The Group operates mainly in domestic market. Cash proceeds from the placing of H shares in August 2002 were in HK dollar and majority of the cash has not been converted to RMB. The official exchange rate for HK dollar and RMB has generally been stable, however, the results of operations and the financial position of the Group may be affected by the changes in the exchange rates.

On the other hand, the conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

EMPLOYEES

As at 31 December 2002, the Group had a total of 106 employees, as compared to 96 employees as at 31 December 2001. Staff costs including directors' remuneration for the year ended 31 December 2002 and 2001 were RMB8,355,000 and RMB6,628,000, respectively. The Group's employment and remuneration policies remained unchanged with those described in the Prospectus of the Company. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis with general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory compulsory welfare plans, are also provided to employees. The turnover rate of the employees is very low.

The Board of Directors present the annual report for 2002 and the audited financial statements of the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research and development of innovative drugs.

The major income from technological transfer of the Group was RMB14,560,000, representing approximately 65% of total revenue for the year 2002 was as follows:

Technological Projects	Income from technological transfer (RMB)
Recombinant tissue type Plasminogen activator (r-tPA)	10,000,000
Treatment of metabolic diseases II-PPAR γ activator	4,560,000

MAJOR CUSTOMERS AND SUPPLIERS OF DIAGNOSTIC REAGENT

During the period of report, the respective proportions of the major customers and suppliers of the Group in the Group's total sales and purchases of diagnostic reagent are as follows :

	Proportion in the Group's diagnostic reagent total	
	Sales	Purchases
Largest customer, a wholly-owned subsidiary of China General	11%	
Sum of the five largest customers	41%	
Largest supplier		21%
Sum of the five largest suppliers		41%

Save as disclosed in the above, none of the Directors, their respective associates or any shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the share capital of the Company) has any beneficial interest in any of the Group's five largest customers.

RESULTS

The results and financial position of the Group for the year ended 31 December 2002 are set out on pages 35 to 70.

DIVIDENDS

At the meeting on 21 March 2003, the Board of Directors do not propose the declaration of dividends in respect of the year ended 31 December 2002.

At the Annual General Meeting dated 23 June 2002, it was resolved to distribute a dividend in respect of the year ended 31 December 2001 amounting to a total of RMB7,950,000. Such dividend was paid on 29 September 2002.

SHARE CAPITAL AND SHARE OPTIONS

Movements in the share capital and share options of the Group during the year are set out in note 32 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Consolidated Statement of Changes in Shareholders' Equity and note 33 to the financial statements. On 31 December 2002, the distributable profit attributable to shareholders of the Company was RMB3,232,000.

RETIREMENT BENEFIT COSTS

Details of the retirement benefit costs of the Group are set out in notes 2(n) and 7 to the financial statements.

STAFF COSTS

During the year, the Group has not provided staff quarters to its staff. Details of the housing subsidies provided to staff are set out in note 6 to the financial statements.

DIRECTORS AND SUPERVISORS

Directors of the Group during the year and as at the date hereof are as follows:

Executive directors:

Wang Hai Bo (*Chairman*)

Su Yong

Zhao Da Jun

Non-executive directors:

Yu Qing Hua (*Vice Chairman*)

Zhang Li Qiang

Fang Jing

Jiang Guo Xing

Independent non-executive directors:

Feng Zheng Quan

Cheng Lin

Pei Gang (*resigned on 13 March 2003*)

Supervisors:

Sun Xiao Min

Dai Yan Ling

Zhuang Xian Han

Wei Dong Zhi

Wong De Zhang

DIRECTORS’ AND SUPERVISORS’ SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service agreement with the Group for a term of 3 years commencing from 20 January 2002, except for Cheng Lin, whose term commenced on 10 July 2002 until the annual general meeting for the year. The term of service thereafter for each of the Directors and Supervisors is renewable subject to approval of the shareholders’ general meeting.

PROFILE OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profile of the Directors, Supervisors and senior Management is set out on pages 27 to 29.

EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

Details of emoluments of Directors and highest paid individuals are set out in note 11 to the financial statements.

DIRECTORS’, CHIEF EXECUTIVE’S AND SUPERVISORS’ INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2002, the interests of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name of directors	Class of shares	Number of ordinary shares of RMB0.10 each		Total
		Personal interests	Corporate/ family/other interests	
Wang Hai Bo	Domestic Shares	51,886,430	—	51,886,430
Su Yong	Domestic Shares	18,312,860	—	18,312,860
Zhao Da Jun	Domestic Shares	15,260,710	—	15,260,710
Fang Jing	Domestic Shares	5,654,600	—	5,654,600

Save as mentioned above, none of the Directors, the Chief Executive and the Supervisors and their respective associates had any interests in the shares or debentures of the Company and its associated corporations, if any, as recorded in the register under Section 29 of the SDI Ordinance upon the listing of the Company.

SUBSTANTIAL SHAREHOLDERS

To the best knowledge of the Directors, as at 31 December 2002, shareholders having an interest of 10% or more in the respective class of share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance are listed as follows:

Name of shareholders	Class of shares	Number of shares held	Percentage in the respective class of share capital	Percentage in total issued share capital
Shanghai Pharmaceutical Co., Ltd. "Shanghai Pharmaceutical"	Domestic Shares	139,578,560	27.26%	19.66%
China General Technology (Group) Holding, Ltd. "China General"	Domestic Shares	130,977,816	25.58%	18.45%
Shanghai Zhangjiang Hi-Tech Park Development Co. "ZJ Hi-Tech Park Co."	Domestic Shares	105,915,096	20.69%	14.92%
Wang Hai Bo	Domestic Shares	51,886,430	10.13%	7.31%
S.I. Pharmaceutical Holdings Ltd. <i>(note)</i>	H Shares	70,856,000	35.79%	9.98%

Note: Including the 5,000,000 H Shares held by SII Medical Science and Technology Group Limited, a subsidiary of S.I. Pharmaceutical Holdings Ltd.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Group was a party and in which a Director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the financial year 2002 or at any time during that financial year.

USE OF PROCEEDS

During the period from September 2002 to 31 December 2002, the Group has applied the net proceeds as follows :

Item	Anticipated use of the net proceeds as at 31 December 2002 as set out in the prospectus (RMB'000)	Actual amount used as at 31 December 2002 (RMB'000)
Research and commercialization of genetic engineering drugs		
Recombinant human pymphotoxin- α derivatives (rhLT)	4,000	1,760
Recombinant human parathyroid hormone derivatives (rhPTH)	3,000	90
Purchase of production and quality control facilities	0	0
Research and commercialization of photodynamic therapy drugs		
Hemporfin	2,000	323
Deuteroporphyrin	1,000	162
Research and commercialization of medical diagnosis products		
HLA genotyping chips	2,000	618
Purchase of production facilities	14,500	1,577
Enhancement of the Company's capabilities in R&D and new drug screening	4,000	3,762
	<hr/>	<hr/>
Total	<u>30,500</u>	<u>8,292</u>

SPONSORS' INTERESTS

Pursuant to a sponsors agreement dated 12 August 2002 between the Company, Guotai Junan Capital Limited ("Guotai Junan") and Barits Securities (Hong Kong) Limited ("Barits"), Guotai Junan and Barits have been appointed as the joint sponsors of the Company pursuant to the GEM Listing Rules for a fee from 13 August 2002 to 31 December 2004.

As at 31 December 2002, one fellow subsidiary of Guotai Junan held 1,324,000 H Shares of the Company. Save as mentioned above, Guotai Junan, Barits, their directors, employees nor any of their respective associates has any interest in any securities of the Company or any of its associated corporations.

CONNECTED TRANSACTIONS

During the year ended 31 December 2002, the Company had the following connected transactions:

REVENUE

Transactions	Amount	Annual limit (in RMB '000,000)
Shanghai Pharmaceutical		
Balance of transfer fee received upon the technology transfer of new α -glucosidase inhibitor	Note 1	1
Morgan-Tan		
Fees received for use of premises and sharing of facilities	0.28	2

EXPENDITURE

Transactions	Amount	Annual limit (in RMB '000,000)
Shanghai Pharmaceutical		
Shanghai Pharmaceutical's share of the technology transfer fee for the technology transfer of r-tPA to Shandong Dong-E E-jiao Co., Ltd.	3.0	3
Fudan University		
Morgan-Tan		
Technological service fees prepaid to Morgan-Tan as stage payment for services provided in the rhLT project	4.5	7.4
OTHERS		
Joint Lab	Note 3	2.25

Notes:

1. No payment has been received by the Company as the new drug, new α -glucosidase inhibitor, has not yet obtained approval from the SDA to proceed to clinical trial.
2. During the year 2002, there was no transaction with Fudan University under the Technological Cooperation Agreement dated 18 April 2002 and supplemented by a Supplemental Agreement dated 17 July 2002.
3. The Joint Lab has been replaced by Lead Discovery Limited Company (上海先導藥業有限公司) upon its establishment as a limited liability company on 27 November 2002. An announcement relating to its establishment together with other relevant details was made by the Company on 25 November 2002 pursuant to Rule 20.24 of the GEM Listing Rules.

The Hong Kong Stock Exchange has granted a waiver to the Company from strict compliance with the requirement of the connected transaction rules of the GEM Listing Rules in respect of the connected transaction set out above.

The independent non-executive Directors have reviewed and confirmed that:

1. the transactions have been entered into by the Company and its subsidiary in the ordinary and usual course of their businesses;
2. the transactions are entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
3. the transactions have been entered into on normal commercial terms, or where there is no available comparison, on terms no less favourable to the Company than those available to or from independent third parties; and
4. in accordance with the terms of the agreement governing such transactions.

The auditors of the Company have reviewed such transactions and have provided a letter to the Company stating that:

1. the transactions had been approved by the Directors;
2. the transactions have been entered into in accordance with the pricing policies of the Company and its subsidiary;
3. the transactions have been entered into in accordance with the terms of the agreements governing such transactions; and
4. the transactions have not exceeded the relevant annual limits as agreed with The Stock Exchange of Hong Kong Limited.

FINANCIAL DATA HIGHLIGHT

A summary of the consolidated results of the Group for three years ended 31 December 2002, which have been extracted from the audited accounts of the Group, is as follows:

	Year ended 31 December		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
Total revenues	23,236	27,983	17,730
Operating profit	704	13,922	8,704
Finance costs	—	—	(118)
Share of results of associate before taxation	—	—	—
Profit before taxation	704	13,922	8,586
Taxation	(255)	(2,166)	(1,575)
Profit after taxation	449	11,756	7,011
Minority interests	358	70	588
Profit attributable to shareholders	807	11,826	7,599

ASSETS AND LIABILITIES

A summary of consolidated balance sheets of the Group for the three years ended 31 December 2002, which has been extracted from the audited accounts of the Group, is as follows:

	As at 31 December		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
Total assets	216,389	90,332	69,096
Total liabilities excluding minority interests	22,140	21,591	12,111
Minority Interests	1,352	1,710	1,780
Balance of shareholders' funds	192,897	67,031	55,205

AUDIT COMMITTEE

The Company has established an audit committee on 30 January 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive directors of the Company, namely Feng Zheng Quan, who is the Chairman of such committee, and Pei Gang. As Pei Gang, the independent non-executive director of the Company, resigned on 13 March 2003, Cheng Lin, an independent non-executive director of the Company, has been appointed as a member of the audit committee.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group and discussed with the Directors on the internal controls and financial reporting matters including a review of the 2002 annual report.

COMPETING INTERESTS

Save as disclosed in the following table, none of the Directors, the management shareholders of the Company and their respective associates had any interest in a business which competes or may compete with the businesses of the Group.

SHANGHAI PHARMACEUTICAL

Investee company	Nature of business	Shareholding interests
Shanghai Tongyong Pharmaceutical Co., Ltd. (上海通用藥業股份有限公司)	Drug manufacturing	40%
Jiangxi Nanhua Pharmaceutical Co., Ltd. (江西南華醫藥有限公司)	Drug retailing	50%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海製藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐製藥有限公司)	Drug manufacturing	50%
Shanghai No. 9 Pharmaceutical (上海第九製藥廠)	Drug manufacturing	100%
Shanghai Changzheng Fuming Pharmaceutical Co., Ltd. (上海長征富民藥業有限公司)	Drug manufacturing	51%
Shanghai Changzheng Jinshan Pharmaceutical Co., Ltd. (上海長征富民金山製藥有限公司)	Drug manufacturing	65%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達製藥有限公司)	Drug manufacturing	70%
Anhui Huashi Pharmaceutical Co., Ltd. (安徽華氏醫藥有限公司)	Drug manufacturing	67%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏製藥有限公司) (Note 1)	Drug manufacturing	100%
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%
Shanghai Jiufu Pharmaceutical Co., Ltd. (上海九福藥業有限公司)	Drug manufacturing	50%
Maanshan City Huashi Pharmaceutical Co., Ltd. (馬鞍山市華氏醫藥有限公司)	Drug trading	50%
Anhui Province Huajinshi Wuhu Pharmaceutical Co., Ltd. (安徽省華金氏蕪湖醫藥有限公司)	Drug trading	80%

CHINA GENERAL

Investee company	Nature of business	Shareholding interests
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司) (Note 2)	Drug manufacturing	65%
China Pharmaceutical Health Accessories Import and Export Corporation (中國醫藥保健品進出口總公司)	Drug trading	100%
Yunnan Tongyong Shanmei Pharmecautical Co.,Ltd. (雲南通用善美製藥有限公司)	Drug manufacturing	51%

ZJ HI-TECH PARK CO.

Investee company	Nature of business	Shareholding interests
Meilian Biotechnology Company (美聯生物技術公司)	R&D of genetic pattern	49.47%
Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd. (上海國家生物醫藥基地醫藥銷售有限公司)	Sales of drugs	75%
Shanghai Zhangjiang Desano Science and Technology Co., Ltd. (上海張江迪賽諾科技實業有限公司)	Manufacturing and sales of intermediate products of drugs	51%

Notes:

1. Yu Qing Hua, a non-executive Director and director of Shanghai Pharmaceutical, was nominated and appointed by Shanghai Pharmaceutical as the chairman of the board of Shanghai Huashi Pharmaceutical Co., Ltd..
2. Zhang Li Qiang, a non-executive Director and a deputy general manager of China General Industry Company, was nominated and appointed by China General to be the chairman of the board of Hainan Sanyang Pharmaceutical Co., Ltd..
3. Fang Jin, a non-executive Director, was nominated and appointed by ZJ Hi-Tech Park Co. as the director of the board of Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd..
4. Save for notes (1), (2) and (3) above, the above Initial Management Shareholders have no board representation in the investee companies listed above.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor its subsidiary purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2002.

PRE-EMPTIVE RIGHTS

There are no provision for the pre-emptive rights under the articles of association of the Company or the laws of the People's Republic of China ('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.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the H Shares on GEM on 13 August 2002.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Wang Hai Bo

Chairman

Shanghai, the PRC, 21 March 2003

In accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, the Supervisory Committee of 2002 performed its duties to convene two supervisory committee meetings in January and June respectively. During the meetings, issues such as the Company's profit appropriation, aggregate company wages, staff housing allowance, listing of the Company on the Hong Kong Growth Enterprise Market were discussed and the relevant resolutions were arrived at. The Supervisors attended all board meetings. They reviewed the Company's relevant financial statements and gave advice and recommendations on the related issues reflected in the Company's operations and management.

The Supervisory Committee duly supervised the Directors and Senior Management's compliance with the State's laws and regulations as well as the Articles of Association in carrying out their duties, and the legal procedures on the change of directorship. The Supervisory Committee determined that there have not been any violations of the State's laws and regulations as well as the Articles of Association by the Directors and management during the year 2002.

The Supervisory Committee considered that the resolutions passed in all board meetings and Annual and Extraordinary General Meetings for the year 2002 had been made with a view to protecting the Company's interests. They were not aware of any insider dealings, nor anything which was prejudicial to the interests of the Company, nor loss of Company's assets incurred.

The report of international auditors issued by PricewaterhouseCoopers and report of statutory auditors issued by Shu Lun Pan Certified Public Accountants Co., Ltd. have truly, objectively and accurately reflected the Company's financial position.

By order of the Supervisory Committee
Sun Xiao Min
Chairman

Shanghai, the PRC, 21 March 2003

DIRECTORS

EXECUTIVE DIRECTORS

Wang Hai Bo, aged 42, is an executive Director, the chairman of the board of Directors and general manager of the Company. He founded the Company in November 1996. He graduated from Fudan University with a master's degree in biology and was an assistant professor there. He has published numerous articles, earning him awards such as the State Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) to Technology Advancement Award of the Shanghai Province (上海市科技進步獎). He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd., a listed company in the PRC. He was appointed as an executive Director in November 1996.

Su Yong, aged 39, is an executive Director and deputy general manager of the Company. He joined the Company in April 1997. He graduated from Zhejiang University with a Ph.D. in Tumorigenesis and from Fudan University with a master's degree in Biochemistry. He has been working in the field of genetic engineering for over nine years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd.. He was appointed as an executive Director in January 2002.

Zhao Da Jun, aged 32, is an executive Director, deputy general manager, compliance officer and an authorized representative of the Company. He founded the Company in November 1996. He graduated from Fudan University with a master's degree in biology. Besides, he also holds a master's degree in Business Administration from the University of Hong Kong. Mr. Zhao has been awarded the National Education Committee on Technology Advancement Grade II Award (國家教委科技進步二等獎) in 1997. He was appointed as an executive Director in January 2002.

NON-EXECUTIVE DIRECTORS

Yu Qing Hua, aged 57, is the vice chairman of the board of Directors and an associate director of Shanghai Pharmaceutical. He studied Chemical Pharmacology in East China University of Science and Technology. He was the general manager of Shanghai Pharmaceutical and was formerly a supervisor of Shanghai Pharmaceutical (Group) Co., Ltd. In charge of its strategic development, production and marketing functions. He was appointed as a non-executive Director in January 2002.

Zhang Li Qiang, aged 39, is the deputy general manager of China General Industry Company. He has a master's degree in Industrial Economic Management from Renmin University of China. He was appointed as a non-executive Director in September 2000.

Fang Jing, aged 34, is the vice president of the investment department of ZJ Hi-tech Park Co.. She graduated from Shanghai Finance College majoring in finance. She was the former financial controller of the Company and was previously the assistant division head in the finance department of Shanghai Steel Cord Factory. She was appointed as a non-executive Director in January 2002.

Jiang Guo Xing, aged 50, is the Chairman of Shanghai Fudan Microelectronics Company Limited, a company listed on GEM. Mr. Jiang is a senior economist and graduated from Fudan University. He is the general manager of Fudan Enterprise Development Company Limited, a wholly owned legal entity of Fudan university, and was previously the deputy general manager of Shanghai Fuhwa Industrial Joint Stock Company Limited in the PRC. Mr. Jiang has also been the managing director of Huayue Science and Technology Company Limited in Hong Kong. He was appointed as non-executive Director in November 1996.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Feng Zheng Quan, aged 59, is a professor at Shanghai University of Finance and Economics. He graduated from Shanghai University of Finance and Economics with a master's degree in Accounting. He also held a Certified Public Accountants license in the PRC and was previously employed by Price Waterhouse in Canada and two other accounting firms Da Hua Certified Public Accountants and Price Waterhouse Da Hua Certified Public Accountants in the PRC. He was appointed as an independent non-executive Director in January 2002. He is considering resignation after the annual general meeting.

Cheng Lin, aged 40, is a professor in the Shanghai University of Finance and Economics. Mr. Cheng holds a bachelor's degree from Northwestern Normal University, a master's degree from Ningxia University (寧夏大學) and a doctorate degree in economics from Shanghai University of Finance and Economics (上海財經大學). He has published numerous articles in various financial and economics publications in the PRC. Mr. Cheng was appointed as an independent non-executive Director in July 2002.

Pei Gang, aged 50, is a member of Chinese Academy of Sciences and the director of the Shanghai Institute for Biological Sciences, China Academy of Sciences. In 1991, he graduated from the University of Northern Carolina in the United States with a Ph.D. in Biochemistry and Biophysics. He was a researcher with the Shanghai Cell Biology Research Laboratory of the Chinese Academy of Sciences (中科院上海細胞生物學研究所) between 1995 and 2000. He was appointed as an independent non-executive Director in February 2001. He resigned on 13 March 2003.

SUPERVISORS

Sun Xiao Min, aged 49, is a shareholder representative on the chairman of the supervisory committee. He is the executive director, deputy general manager and chief legal advisor of China General. He holds a master's degree in law from Beijing University. He was previously the general manager of the legal department of a PRC Company.

Dai Yan Ling, aged 50, is shareholder representative on the supervisory committee. She is the chairman of Pudong Technology Investment and the general manager of Shanghai Zhangjiang Venture Capital Co. Ltd. since 1999. She was formerly the vice director of Pudong New Area Economic and Trade Bureau and then moved to Pudong New Area Science and Technology Bureau and has worked as the vice director of the Pudong representative office of the Shanghai Municipal Government.

Zhuang Xian Han, aged 35, is an employee representative on the supervisory committee. He graduated from Zhejiang University with a Ph.D. in Molecular Oncology Studies (分子腫瘤學). Mr. Zhuang was previously engaged in external clinical work and was responsible for the studies of pre-clinical pharmacology in respect of the State Category I drug.

Wei Dong Zhi, aged 38, is an independent representative on the supervisory committee. He graduated from East China University of Science and Technology and holds a bachelor's degree and a Ph.D. in engineering. He was a director in East China University of Science and Technology.

Wong De Zhang, aged 40, is an independent representative on the supervisory committee. He is the assistant manager of the Pudong branch of Industrial Bank (formerly known as Fujian Industrial Bank). He graduated from Remin University of China and obtained a master's degree in business administration from the Asia International Open University (Macau). He was the chief accountant of Shanghai Chengke Real Estate Development Company Limited and the Planning and Finance division of the Shanghai Electricity College. Later, he became an assistant director of audit and the financial controller of the Shanghai Electricity Hi-Tech United Company. He is being considered for appointments as independent non-executive Director and vice chairman of the audit committee after the annual general meeting.

SENIOR MANAGEMENT

Liu Yan Jun, aged 38, is the vice general manager of the company. He obtained a bachelor's degree from the Navy medical department, Second Military Medical University, a master's degree from Hepatobiliary Surgery, Second Military Medical University and a Ph.D. from Eastern hospital of Hepatobiliary Surgery, Second Military Medical University. Mr. Liu was formerly a visiting scholar at the Sidney Kimmel Tumor Centre of California University in the United States. He was employed as an officer and associate professor of the research department within the Molecular Biology department, Cancer Institute, Second Military Medical University.

Zhou Ai Guo, aged 34, is the secretary to the board of Directors of the company. He graduated from the Transportation Management Engineering Faculty of Northern Jiaotong University in 1992 with a bachelor's degree in Engineering and obtained a master's degree in Business Administration from the University of Hong Kong in 2001. He worked as an analyst in the Shanghai representative office of ABN Amro Asset Management (Taiwan) Limited during which time he was responsible for preparing financial reports on companies listed on the Shanghai Stock Exchange. He is currently working in the investment department of the company. Mr. Zhou joined the company in January 2001.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Xu Yun Lan, aged 27, is the chief financial officer, Qualified Accountant, Company Secretary and an authorized representative of the company. She joined the Company in January 2002. She graduated from the Shanghai University of Finance and Economics (上海財經大學) with a bachelor's degree in Economics. She is a member of The Chinese Institute of Certified Public Accounts and an associate member of The Association for Chartered Certified Accountants. She worked in PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. as a senior auditor before joining the company in January 2002.

NOTICE IS HEREBY GIVEN THAT the annual general meeting of 上海復旦張江生物醫藥股份有限公司 (Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.) (the "Company") for the year ended 31 December 2002 (the "AGM") will be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-tech Park, Pudong, Shanghai, the PRC on Friday, 20 June 2003 at 10:00 a.m. for the following purposes:-

1. To consider and approve the report of the Directors for the year ended 31 December 2002.
2. To consider and approve the report of the Supervisory Committee for the year ended 31 December 2002.
3. To consider and approve the audited accounts and the report of the auditor for the year ended 31 December 2002.
4. To consider and approve the profit distribution plan for the year ended 31 December 2002, and the final dividend distribution plan for the year ended 31 December 2002 (if any), and to authorize the Board for the distribution of the final dividends (if any) to the Company's shareholders.
5. To consider and confirm the remunerations of the Independent Directors and Supervisors of the Company.
6. To consider and approve the appointment of auditors for the year ending 31 December 2003 and to authorize the Board to fix their remunerations.
7. To agree the reappointment of Mr. Cheng Lin as an Independent Director, to agree the resignation of Mr. Feng Zheng Quan as an Independent Director and the resignation of Mr. Wong De Zhang as a Supervisor, and to consider the appointment of Mr. Wong De Zhang and Mr. Pan Fei as Independent Directors and the appointment of Mr. Ji Nuo as a Supervisor.
8. To consider and, if thought fit, pass the following resolutions as Special Resolutions:

THAT:

- (1) the relevant Articles in the Articles of Association of the Company be amended to reflect the total number of shares in the share capital of the Company and the nature of the Company in compliance with laws of the PRC upon completion of the Company's Offering on the GEM.
- (2) the Board be authorized to proceed with the application procedures to the relevant government authorities for approval and registration of the changes referred to in item (1) above, and to prepare and submit the relevant documents as may be required.
- (3) there be granted to the Board of Directors of the Company an unconditional general mandate to issue, allot and deal with additional shares in the capital of the Company (whether Domestic Shares or H Shares) and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
 - (a) such mandate shall not extend beyond the Relevant Period save that the Board of Directors of the Company may during the Relevant Period make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;

- (b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of Directors of the Company otherwise than pursuant to the share option scheme adopted by the Company for the grant or issue of shares of the Company, shall not exceed:
 - (i) 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and
 - (ii) 20 per cent of the aggregate nominal amount of H Shares of the Company in issue, in each case as at the date of this Resolution; and
- (c) the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained;

For the purposes of this Resolution:

“Domestic Shares” mean the domestic invested shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are subscribed for by PRC investors and held in RMB;

“H Shares” mean the overseas-listed foreign invested shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are held and traded in Hong Kong dollars;

“Relevant Period” means the period from the date of passing this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or
 - (b) the expiry date of the 12-month period following the passing of this Resolution; or
 - (c) the passing of a special resolution of the Company in general meeting revoking or varying the authority set out in this Resolution.
- (4) contingent on the Board of Directors resolving to issue shares pursuant to paragraph 8(3) of this Resolution, the Board of Directors be authorized:
- (a) to approve, enter into, procure to enter into and issuance of all documents and matters which it deems to be in connection with the issue of such new Shares, including but not limited to the time and place for such issue, to make all necessary applications to the relevant authorities, to enter into underwriting agreement (or any other agreements);
 - (b) to determine the application of the proceeds and to make necessary filing and registration with the PRC, Hong Kong and other relevant authorities;

NOTICE OF THE ANNUAL GENERAL MEETING

- (c) to make amendments to the Articles of Association as it may deem appropriate for the increase of the Company's registered capital and to reflect the new share capital structure of the Company under the intended allotment and issue of the Shares of the Company pursuant to the resolution under paragraph 8(3) of this resolution.
9. To consider and approve any resolution (if any) raised by shareholders having voting rights of 5% or more at the meeting.

By Order of the Board

上海復旦張江生物醫藥股份有限公司

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

Wang Hai Bo

Chairman

Shanghai, the PRC, 21 March 2003

Notes:

- (A) The register of holders of H Shares of the Company will be closed from 20 May 2003 to 20 June 2003 (both days inclusive) during which period no transfer of H Shares will be registered. Any holder of the H Shares of the Company and whose name appearing in the Company's register of holders of H Shares with Computershare Hong Kong Investor Services Limited at the close of business hours on 19 May 2003 and have completed the registration process, will be entitled to attend the Annual General Meeting.

Address of Computershare Hong Kong Investor Services Limited is as follows:

Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

- (B) Holders of H Shares, who intend to attend the Annual General Meeting, must complete and return the reply slip to the Secretary to the Board of the Company not later than 20 days before the date of the Annual General Meeting, that is, before 31 May 2003.

Details of the Office of the Secretary to the Board of the Company is as follows:

No. 308 Cailun Road
Zhangjiang Hi-tech Park
Pudong District
Shanghai
The PRC
Post Code: 201203
Tel: 86-21-58553809
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- (C) Holders of H Shares entitled to attend the Annual General Meeting and having voting rights are entitled to appoint in writing one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. For shareholders appointing more than one proxy, its proxy may exercise its voting right by polling only. Shareholders who intend to appoint one or more proxies should first read the 2002 Annual Report of the Company.
- (D) The instrument appointing a proxy shall be in writing, under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing such attorney or other authorization documents must be notarized.
- (E) To be valid, holders of H Shares must lodge the notarially certified copy of that power of attorney or other authorization document and the proxy form with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, the address of which is listed in Note (A) above, not less than 24 hours before the time of holding the Annual General Meeting.
- (F) Holders of Domestic Shares entitled to attend the Annual General Meeting and having voting rights are entitled to appoint one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. Notes (C) and (D) are also applicable to holders of Domestic Shares. In order to be valid, their proxy forms and authorization documents which must be returned to the Secretary to the Board of the Company 24 hours before the time of holding of the Annual General Meeting, the address of which is as indicated in Note (B) above.
- (G) If an attorney is appointed to attend the Annual General Meeting, such attorney must present its identity document and power of attorney or authorisation document signed by the appointor or its legal representative, specifying the issue date of the document. If a holder of legal person shares appoint a company representative to attend the Annual General Meeting, such representative must present its identity document and notarially certified copy of the resolution passed by the board or other authority or notarially certified copy of the licence issued by the holder of the legal person shares.
- (H) The Annual General Meeting is anticipated to last for half a day. Shareholders attending in the meeting should be responsible for their own transportation and accommodation expenses.



羅兵咸永道會計師事務所

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**REPORT OF INTERNATIONAL AUDITORS
TO THE SHAREHOLDERS OF
SHANGHAI FUDAN-ZHANGJIANG BIO-PHARMACEUTICAL CO., LTD.**

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

We have audited the accompanying balance sheets of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and its subsidiary (the "Group") as of 31 December 2002 and the consolidated income and cash flow statements of the Group for the year then ended. These financial statements set out on pages 35 to 70 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Hong Kong Statements of Auditing Standards issued by the Hong Kong Society of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2002 and of the results of operations and cash flows of the Group for the year then ended in accordance with the International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2003

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2002	2001
Revenues			
Turnover		22,518	27,909
Other revenues		718	74
Total revenues	3	23,236	27,983
Costs and expenses			
Cost of sales		(9,828)	(4,869)
Research and development costs		(10,095)	(9,062)
Distribution costs		(1,679)	(1,262)
Administrative expenses		(6,916)	(5,718)
Other operating expenses		(822)	(1,435)
Total costs and expenses		(29,340)	(22,346)
Other income	4	6,808	8,285
Operating profit	5	704	13,922
Finance costs		—	—
Share of results of associate before taxation		—	—
Profit before taxation		704	13,922
Taxation	8	(255)	(2,166)
Profit after taxation		449	11,756
Minority interests		358	70
Profit attributable to shareholders		807	11,826
Dividends	10	—	7,950
Earnings per share (RMB)	12	0.0013	0.0223

CONSOLIDATED BALANCE SHEET OF THE GROUP AND BALANCE SHEET OF THE COMPANY

For the year ended 31 December 2002

(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Group		Company	
		As at 31 December		As at 31 December	
		2002	2001	2002	2001
Non-current assets					
Leasehold land payments	13	5,235	5,256	5,235	5,256
Fixed assets	14	37,760	21,919	37,260	21,330
Technical know-how	15	4,766	1,479	4,766	1,479
Deferred development costs	16	11,228	6,870	2,469	1,986
Investment in a subsidiary	17	—	—	2,253	2,850
Investment in an associate	18	4,560	—	4,560	—
Available-for-sale investments	19	828	856	828	856
		<u>64,377</u>	<u>36,380</u>	<u>57,371</u>	<u>33,757</u>
Current assets					
Deferred taxation assets	20	425	242	425	242
Inventories	21	1,534	1,211	1,534	1,211
Trade receivables	22	2,169	2,224	2,169	2,224
Other receivables, deposits and prepayments		483	1,142	481	1,137
Amounts due from related companies	23	2,064	4,000	2,064	4,000
Amount due from a shareholder	24	250	—	250	—
Amount due from a subsidiary	25	—	—	4,779	—
Amount due from an associate	26	1,343	—	1,343	—
Available-for-sale investments	19	5,305	5,863	5,305	5,863
Deposits in other financial institutions		598	911	598	911
Cash and bank balances		137,841	38,359	137,619	38,211
		<u>152,012</u>	<u>53,952</u>	<u>156,567</u>	<u>53,799</u>

CONSOLIDATED BALANCE SHEET OF THE GROUP AND BALANCE SHEET OF THE COMPANY

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Group		Company	
		As at 31 December		As at 31 December	
		2002	2001	2002	2001
Current liabilities					
Trade payables	27	1,631	623	1,631	623
Other payables and accruals		12,144	9,554	12,144	9,554
Deferred revenue	28	4,908	7,072	4,209	6,406
Current taxation liabilities		407	51	407	51
Loans from municipal government authorities	29	2,050	1,450	1,650	1,050
Amount due to a shareholder	30	1,000	2,441	1,000	2,441
		<u>22,140</u>	<u>21,191</u>	<u>21,041</u>	<u>20,125</u>
Net current assets		<u>129,872</u>	<u>32,761</u>	<u>135,526</u>	<u>33,674</u>
Total assets less current liabilities		<u>194,249</u>	<u>69,141</u>	<u>192,897</u>	<u>67,431</u>
Loans from municipal government authorities	29	—	400	—	400
Minority interests	31	<u>1,352</u>	<u>1,710</u>	<u>—</u>	<u>—</u>
Net assets		<u>192,897</u>	<u>67,031</u>	<u>192,897</u>	<u>67,031</u>
Financed by:					
Share capital	32	71,000	53,000	71,000	53,000
Reserves	33	121,897	14,031	121,897	14,031
Shareholders' funds		<u>192,897</u>	<u>67,031</u>	<u>192,897</u>	<u>67,031</u>

Wang Hai Bo
Director

21 March 2003

Zhao Da Jun
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2002	2001
Operating activities			
Cash generated from operations	34(a)	1,884	15,355
Interest received		403	47
Tax paid		(82)	(3,251)
Net cash from operating activities		2,205	12,151
Investing activities			
Payment for leasehold land		—	(3,889)
Purchase of fixed assets		(16,771)	(10,598)
Acquisition of investment in an associate		(4,560)	—
Additions in deferred development costs		(4,423)	(846)
Acquisitions of technical know-how		(2,610)	—
Investments in term deposits		(84,888)	—
Proceeds from disposal of fixed assets		—	790
Proceeds from disposal and purchase of available-for-sale investments		69	(2,186)
Dividends received from available-for-sale Investments		—	27
Net cash used in investing activities		(113,183)	(16,702)
Financing activities			
Proceeds from issuance of ordinary shares		133,009	—
Additions in loans from municipal government authorities	34(b)	500	400
Repayments of loans from municipal government authorities	34(b)	(300)	—
Dividends paid to group shareholders	33	(7,950)	—
Net cash received in financing activities		125,259	400
Increase/(decrease) in cash and cash equivalents		14,281	(4,151)
Movement in cash and cash equivalents			
At beginning of the year		39,270	43,421
Increase/(decrease)		14,281	(4,151)
At end of the year		53,551	39,270
Analysis of balances of cash and cash equivalents			
Cash and bank balances		137,841	38,359
Deposits in other financial institutions		598	911
Less: term deposits in bank with maturities over three months		(84,888)	—
		53,551	39,270

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

	Share Capital (Note 32)	Capital accumulation reserve (Note 33)	Statutory common reserve fund (Note 33)	Statutory common welfare fund (Note 33)	Retained earnings (Note 33)	Total
At 1 January 2001	53,000	5	531	531	1,138	55,205
Profit for the year	—	—	—	—	11,826	11,826
Appropriation to statutory reserves	—	—	1,144	572	(1,716)	—
At 31 December 2001	53,000	5	1,675	1,103	11,248	67,031
Issuance of ordinary shares (Note 32)	18,000	115,009	—	—	—	133,009
Dividend paid in respect of 2001 (Note 10)	—	—	—	—	(7,950)	(7,950)
Profit for the year	—	—	—	—	807	807
Appropriation to statutory reserves	—	—	34	17	(51)	—
At 31 December 2002	71,000	115,014	1,709	1,120	4,054	192,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

1 BACKGROUND INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000, and 12 September 2000 from the existing or the then existing shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB5,295,000 to RMB53,000,000.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability.

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares with a par value of RMB0.10 each.

On 13 August 2002, the Company commenced the trading of the newly issued 198,000,000 ordinary shares ("H Shares") of RMB0.10 each on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the registered capital of the Company was increased to RMB71,000,000.

As at the date of this report, the Company has a direct interest of 62.5% in a subsidiary, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd.

The Company and its subsidiary (the "Group") are principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of diagnostic reagent and the provision of related ancillary services in the PRC.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of consolidated financial statements of the Group and financial statements of the Company, which conform with the International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), are set out below. The consolidated results and consolidated net assets of the Group and the net assets of the Company are prepared under the historical cost convention, except that the available-for-sale investments are shown at fair value.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary. A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(a) Basis of consolidation (Cont'd)

Investment in subsidiary is accounted for using the equity method in the Company's balance sheet. Equity accounting involves recognising in the income statement the Company's share of the subsidiary's profit or loss for the year. The Company's interest in the subsidiary is carried in the balance sheet at amount that reflects its share of the net assets of the subsidiary and includes goodwill on acquisition.

(b) Investments in associates

Investments in associates are accounted for by the equity method of accounting. These are undertakings over which the Group has between 20% and 50% of the voting rights, or over which the Group exercises significant influence, but which it does not control and is not a subsidiary of the Group. Provisions are recorded for long-term impairment in value.

Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

(c) Foreign currency transactions

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the measurement currency of the Company.

Transactions in foreign currencies are translated into RMB at the rates of exchange stipulated by People's Bank of China at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the rates of exchange stipulated by People's Bank of China at the balance sheet date. Exchange differences arising from these translations are taken to the income statement, except for when they are attributable to foreign currency borrowings that have been taken out specifically for construction of fixed assets and are accordingly capitalized as part of the fixed asset costs.

(d) Financial instruments

Financial assets and liabilities carried on the balance sheet include cash and bank balances, trade and other receivables and trade and other payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Disclosures about financial instruments to which the Group is a party are provided in note 37 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) 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. Currently enacted tax rates are used to determine deferred taxation.

Deferred taxation 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.

(f) Fixed assets and depreciation

Fixed assets include plant and machinery, furniture, fixtures and computer equipment and motor vehicles are stated at historical cost less depreciation.

Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Plant and machinery	5 to 20 years
Furniture, fixtures and computer equipment	5 to 8 years
Motor vehicles	5 years

Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Research and development

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects relating to the design and testing of the products for sales by the Group are recognised as deferred development costs to the extent that such expenditure is expected to generate future economic benefits. Development costs that have been capitalized are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The amortisation periods adopted do not exceed five years.

Costs incurred on development projects with an intention of outright sales as technology transfer are recognized as deferred development costs to the extent that such expenditure is expected to generate future economic benefits. Upon entering into sales contracts, development costs that have been capitalized are transferred to contracted work-in-progress and recognized as costs of sales in accordance with the performance requirements and contractual terms as stated in the contracts.

Where an indication of impairment exists, the carrying amount of the deferred development costs is assessed and written down immediately to its recoverable amount.

Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(h) Impairment of long lived assets

Fixed assets and other non-current assets, including leasehold land payments, technical know-how and deferred development costs are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(i) Leases

Leasehold land payments are up-front payments to acquire long-term interests in the usage of land in the PRC. These payments are stated at cost and are amortised over the period of the lease.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002

(All amounts are shown in RMB thousands unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses, and taking into account the related amortisation of deferred development costs charged during the year.

(k) Trade receivables

Trade receivables are carried at original invoiced amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and bank balances and short-term deposits in bank and other financial institutions with maturities of three months or less from the time of purchase.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(n) Retirement benefit costs

Contributions to retirement schemes for employees in accordance with local rules and regulations are expensed as incurred. Once the contributions have been paid, the Group has no further legal or constructive obligations to pay further contributions.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the expressed intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the consolidated income statement in the year in which they arise. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investments.

(p) Deferred revenue

Deferred revenue represents the proportion of contract revenues received from technology transfer that is related to future performance and the proportion of income relating to the unexpired period of the government grants and other non-refundable grants. The government grants and other non-refundable grants are recognized as income on a systematic basis necessary to match them with the related costs that they are intended to compensate.

(q) Technical know-how

Expenditure on acquired technical know-how is capitalised and amortised using the straight-line method over its estimated useful life, ranging from 5 years to 10 years. Where an indication of impairment exists, the carrying amount of the acquired technical know-how is assessed and written down immediately to its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002

(All amounts are shown in RMB thousands unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(r) Revenue recognition

- (i) Sales of diagnostic reagent are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed. The provision of related ancillary services for the sales of diagnostic reagent, if any, are recognized upon customer acceptance of the performance of services. Sales are shown net of sales taxes and discounts, and after eliminating sales within the Group.
- (ii) Contract revenues from technology transfer are recognized over the fixed term of the contract or, where appropriate, as the related costs are incurred. Milestone payments in connection with research and development or commercialization agreements are recognized when they are earned in accordance with the applicable performance requirements and contractual terms. Payments received that are related to future performance are deferred and recorded as revenues as they are earned over the specified future performance periods.

Subject to the terms as stated in the technology transfer agreements and the buyers' success in commercialization of the technology being transferred, the Company may receive additional royalty income or profit sharing income in the future. Should there be any royalty income or sharing of profit, they will be recognized when the right to receive the income is established.

- (iii) Other revenues earned by the Group are recognised on the following bases:

Interest income — as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

Dividend income — when the shareholder's right to receive payment is established.

(s) Dividends

Dividends are recorded in the Group's financial statements in the year in which they are approved by the Group's shareholders.

(t) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

3 REVENUES AND TURNOVER

The Group is principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and selling of diagnostic reagent and the provision of related ancillary services in the PRC. Revenues recognized during the year are as follows:

	2002	2001
Turnover		
Technology transfer revenue	14,560	22,000
Sales of diagnostic reagent and the provision of related ancillary services	7,958	5,909
	<hr/> 22,518 <hr/>	<hr/> 27,909 <hr/>
Other revenue		
Interest income	718	47
Dividend income	—	27
	<hr/> 718 <hr/>	<hr/> 74 <hr/>
	<hr/> 23,236 <hr/> <hr/>	<hr/> 27,983 <hr/> <hr/>

On 25 March 2002, the Company signed a sales contract with Shandong Dong-E E-jiao Co., Ltd. for a total consideration of RMB15,000,000. Revenue was recognised when the Company completed respective milestones as specified in the contract and the economic benefits associated with the completion have flown to the Company. Pursuant to the sales contract, the Company is entitled to receive royalty payments from Shandong Dong-E E-jiao Co., Ltd. equal to a percentage ranging from 2% to 5% of the future gross annual sales over the new drug protection period stipulated by the State Drug Administration of the PRC ("SDA"), or a period of five years if such protection period is cancelled.

On 5 December 2002, the Company entered into an agreement with Lead Discovery Limited Company ("Lead Discovery" 上海先導藥業有限公司), an associate of the Company, to transfer its PPAR γ activator at a price of RMB6,000,000. The transfer was completed by 31 December 2002. According to Standing Interpretations Committee (SIC)-3, Elimination of Unrealised Profits and Losses on Transactions with Associates issued by the IASB, the unrealised profit from the transfer has been eliminated from revenue to the extent of the Group's interest in Lead Discovery (notes 18 and 35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

4 OTHER INCOME

	2002	2001
Amortisation of government grants and other non-refundable grants	6,015	6,250
Business tax rebate income	750	1,200
Realised profit on disposal of available-for-sale investments	—	772
Surtaxes rebate income	43	63
	<u>6,808</u>	<u>8,285</u>

5 OPERATING PROFIT

Operating profit is arrived at after (crediting)/charging the following items:

	2002	2001
Amortisation of leasehold land payments	21	33
Amortisation of deferred development costs	556	556
Amortisation of technical know-how	323	215
Auditors' remuneration	736	30
Provision for bad debts	827	318
Cost of inventories sold	5,587	4,065
Depreciation of fixed assets	2,172	1,096
Less: amount capitalized in deferred development costs	(491)	(70)
	1,681	1,026
Loss on disposal of fixed assets	315	199
Operating lease rentals in respect of land and buildings	202	395
Research and development expenditure (note (a))	10,095	9,062
Unrealised (profit)/loss on available-for-sale investments	(98)	1,180
Realised loss on disposal of available-for-sale investments	616	—
Written off and provision for inventories	—	7
	<u>—</u>	<u>7</u>

Note (a): Research and development expenditure mainly represent the salary costs of technical staff involved and the consumables used in the research and development activities which did not satisfy the criteria for capitalization as an asset. The salary costs of technical staff are also included in the staff costs disclosed in Note 6 below.

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

6 STAFF COSTS

	2002	2001
Housing subsidies	1,126	942
Social security costs	636	178
Wages and salaries	5,998	5,011
Retirement benefit costs	595	497
	<hr/>	<hr/>
Staff costs including directors' and supervisors' emoluments	8,355	6,628
Less: amount capitalized in the deferred development costs	(1,873)	(327)
	<hr/>	<hr/>
	6,482	6,301
	<hr/> <hr/>	<hr/> <hr/>
The number of employees at the end of the year	106	96
	<hr/> <hr/>	<hr/> <hr/>

7 RETIREMENT BENEFIT COSTS

The employees of the Group participate in a retirement benefit plan organized by the municipal government whereby the Group is required to make monthly contributions to the plan at a rate of 22.5% of the employees' basic salary for the year, up to a maximum fixed monetary amount, as stipulated by the municipal government. The Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plan were RMB595,000 and RMB497,000 for the years ended 31 December 2002 and 31 December 2001 respectively.

8 TAXATION

	2002	2001
Current taxation	438	2,368
Deferred tax credit	(183)	(202)
	<hr/>	<hr/>
	255	2,166
	<hr/> <hr/>	<hr/> <hr/>

The Company is subject to the Income Tax Law of the PRC and the normal income tax rate applicable is 33%. As the Company is recognized as a New and High Technology Enterprise and is operating and registered in the State level New and High Technology Development Zone, it is entitled to a reduced Income Tax rate of 15%. Accordingly, the Company is subject to Income Tax at a rate of 15%.

The subsidiary is subject to the Income Tax Law of the PRC and the income tax rate applicable is 33%. No provision for income tax has been made for the subsidiary as it has no taxable income for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

8 TAXATION (Cont'd)

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate in the PRC applicable to the Group as follows:

	2002	2001
Profit before taxation	<u>704</u>	<u>13,922</u>
Tax calculated at a tax rate of 15%	106	2,088
Effect of different tax rate in the subsidiary	89	28
Income not subject to tax	—	(4)
Expenses not deductible for tax purpose	<u>60</u>	<u>54</u>
Tax charge	<u><u>255</u></u>	<u><u>2,166</u></u>

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB807,000 and RMB11,826,000 for the years ended 31 December 2002 and 31 December 2001 respectively.

10 DIVIDENDS

At the meeting on 21 March 2003, the Board of Directors do not propose the declaration of dividends in respect of the year ended 31 December 2002.

At the Annual General Meeting dated 23 June 2002, it was resolved to distribute a dividend in respect of the year ended 31 December 2001 amounting to a total of RMB7,950,000. Such dividend was paid on 29 September 2002.

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS

(i) Details of emoluments paid to the executive directors and supervisors of the Company are as follows:

	2002	2001
Fees	—	—
Basic salaries and allowance	1,017	368
Bonus	333	61
Retirement scheme contributions	<u>70</u>	<u>37</u>
	<u><u>1,420</u></u>	<u><u>466</u></u>

RMB50,000 fees were paid to the non-executive directors during the year (2001: nil).

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS (Cont'd)

All of the directors' and supervisors' emoluments are within the band of nil to RMB1,000,000 during the year. The emoluments were paid to executive directors, supervisors and non-executive directors as follows:

	2002	2001
Executive director A	490	261
Executive director B	341	—
Executive director C	333	—
Supervisor A	216	148
Supervisor B	20	—
Supervisor C	20	—
Supervisor D	—	57
Non-executive director A	20	—
Non-executive director B	20	—
Non-executive director C	10	—
	1,470	466

(ii) The five individuals whose emoluments were the highest in the Group are as follows:

	2002	2001
Directors	3	1
Non-directors	2	4
	5	5

(iii) Details of the emoluments of the non-directors as mentioned above are as follows:

	2002	2001
Basic salaries and allowances	313	790
Bonus	567	108
Retirement scheme contributions	40	52
	920	950

The emoluments of each of the non-directors during the year were below RMB1,000,000.

(iv) During the year, no directors or any of the five highest paid individuals of the Company waived any emoluments and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, taking into account of the subdivision of the Company's shares from 53,000,000 ordinary shares to 530,000,000 ordinary shares on 20 January 2002 (see Note 32).

	2002	2001
Profit attributable to shareholders	807	11,826
Weighted average number of ordinary shares in issue (thousands)	599,534	530,000
Basic earnings per share	<u>0.0013</u>	<u>0.0223</u>

Diluted earnings per share has not been calculated for the year ended 31 December 2002 and 31 December 2001 as there were no dilutive potential ordinary share during the years then ended.

13 LEASEHOLD LAND PAYMENTS – GROUP AND COMPANY

Leasehold land payments represent the land use rights granted by the PRC government authority on the use of land within the pre-approved lease period.

	2002	2001
Net book value at 1 January	5,256	—
Addition	—	5,289
Amortisation	<u>(21)</u>	<u>(33)</u>
Net book value at 31 December	<u>5,235</u>	<u>5,256</u>

The remaining lease period of the land use rights of the Group held outside Hong Kong is 49 years.

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

14 FIXED ASSETS

(i) The fixed assets of the Group for the year ended 31 December 2002 and 31 December 2001 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2001	—	4,428	708	996	6,132
Additions	10,733	7,117	311	913	19,074
Disposals	—	(20)	—	(1,154)	(1,174)
At 31 December 2001	10,733	11,525	1,019	755	24,032
Additions	16,483	854	633	500	18,470
Transfers	(27,216)	26,729	487	—	—
Disposals	—	(145)	(89)	(280)	(514)
At 31 December 2002	—	38,963	2,050	975	41,988
Accumulated depreciation					
At 1 January 2001	—	941	115	146	1,202
Charge for the year	—	785	102	209	1,096
Disposals	—	(1)	—	(184)	(185)
At 31 December 2001	—	1,725	217	171	2,113
Charge for the year	—	1,840	170	162	2,172
Disposals	—	(22)	(35)	—	(57)
At 31 December 2002	—	3,543	352	333	4,228
Net book value					
At 31 December 2002	—	35,420	1,698	642	37,760
At 31 December 2001	10,733	9,800	802	584	21,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

14 FIXED ASSETS (Cont'd)

- (ii) The fixed assets of the Company for the year ended 31 December 2002 and 31 December 2001 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
Cost					
At 1 January 2001	—	3,930	552	829	5,311
Additions	10,733	7,117	311	955	19,116
Disposals	—	(20)	—	(1,154)	(1,174)
At 31 December 2001	10,733	11,027	863	630	23,253
Additions	16,483	854	633	500	18,470
Transfers	(27,216)	26,729	487	—	—
Disposals	—	(145)	(89)	(280)	(514)
At 31 December 2002	—	38,465	1,894	850	41,209
Accumulated depreciation					
At 1 January 2001	—	844	91	110	1,045
Charge for the year	—	773	84	206	1,063
Disposals	—	(1)	—	(184)	(185)
At 31 December 2001	—	1,616	175	132	1,923
Charge for the year	—	1,792	153	138	2,083
Disposals	—	(22)	(35)	—	(57)
At 31 December 2002	—	3,386	293	270	3,949
Net book value					
At 31 December 2002	—	35,079	1,601	580	37,260
At 31 December 2001	10,733	9,411	688	498	21,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

15 TECHNICAL KNOW-HOW – GROUP AND COMPANY

	2002	2001
Cost		
At beginning of the year	2,464	2,464
Acquisitions	3,610	—
	<hr/>	<hr/>
At end of the year	6,074	2,464
	<hr/>	<hr/>
Accumulated amortisation		
At beginning of the year	985	770
Charge for the year	323	215
	<hr/>	<hr/>
At end of the year	1,308	985
	<hr/>	<hr/>
Net book value		
At end of the year	4,766	1,479
	<hr/> <hr/>	<hr/> <hr/>

16 DEFERRED DEVELOPMENT COST

	Group		Company	
	2002	2001	2002	2001
Cost				
At beginning of the year	8,260	7,344	3,376	2,780
Capitalisation of cost	4,914	916	1,039	596
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	13,174	8,260	4,415	3,376
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated amortisation				
At beginning of the year	1,390	834	1,390	834
Charge for the year	556	556	556	556
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	1,946	1,390	1,946	1,390
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At end of the year	11,228	6,870	2,469	1,986
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

17 INVESTMENT IN A SUBSIDIARY – COMPANY

	2002	2001
Unlisted shares, at cost	5,000	5,000
Share of reserves of subsidiary	<u>(2,747)</u>	<u>(2,150)</u>
Share of net assets of subsidiary	<u><u>2,253</u></u>	<u><u>2,850</u></u>

During the year, the Company held the following investment in a subsidiary:

Name	Country and date of establishment	Registered Capital	Attributable equity interest %	Principal activities and place of operation
Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (上海摩根談國際生命 科學中心有限公司)	PRC 31 August 1998	RMB8,000,000	62.5	Research and development of a specialized bio- pharmaceutical project known as recombinant human lymphotoxin derivatives in the PRC

18 INVESTMENT IN AN ASSOCIATE – GROUP AND COMPANY

	2002	2001
Unlisted shares, at cost	6,000	—
Elimination of the unrealised profit from technology transfer (note 3)	<u>(1,440)</u>	<u>—</u>
	<u><u>4,560</u></u>	<u><u>—</u></u>

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

18 INVESTMENT IN AN ASSOCIATE – GROUP AND COMPANY (Cont'd)

During the year, the Company held the following investment in an associate:

Name	Country and date of establishment	Registered Capital	Attributable equity interest %	Principal activities and place of operation
Lead Discovery Limited Company (上海先導藥業有限公司)	PRC 27 November 2002	RMB30,000,000	24	High throughput screening of new drugs, R&D of "me-too" and natural drug technologies in the PRC

19 AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

	2002	2001
Listed shares and funds in the PRC	5,305	5,863
Unlisted shares in the PRC	828	856
Available-for-sale investments at fair values	<u>6,133</u>	<u>6,719</u>
Current	5,305	5,863
Non-current	828	856
	<u>6,133</u>	<u>6,719</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

20 DEFERRED TAXATION ASSETS – GROUP AND COMPANY

	2002	2001
Deferred taxation assets (on net basis)		
At beginning of the year	242	40
Credit to the income statement for the year	183	202
	<hr/>	<hr/>
At end of the year	425	242
	<hr/> <hr/>	<hr/> <hr/>

A potential deferred taxation asset, which represents mainly temporary difference arising from tax losses carried forward, has not been recognised in the financial statements as, in the opinion of the directors, it is uncertain that such asset will be realised in the foreseeable future. The Group has unrecognised tax losses of RMB954,000 and RMB187,000 for the year ended 31 December 2002 and 31 December 2001 to carry forward against future taxable income.

The movement in deferred taxation assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred taxation liabilities (on gross basis)

	Deferred revenue
At 1 January 2001	(558)
Credit to the income statement	258
	<hr/>
At 31 December 2001	(300)
Charge to the income statement	(122)
	<hr/>
At 31 December 2002	(422)
	<hr/> <hr/>

Deferred taxation assets (on gross basis)

	Provisions	Deferred development costs	Total
At 1 January 2001	156	442	598
Credit/(charge) to the income statement	179	(235)	(56)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	335	207	542
Credit/(charge) to the income statement	401	(96)	305
	<hr/>	<hr/>	<hr/>
At 31 December 2002	736	111	847
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

21 INVENTORIES – GROUP AND COMPANY

	2002	2001
Raw materials	1,120	717
Production supplies and consumables	150	114
Finished goods	264	380
	<hr/>	<hr/>
	1,534	1,211
	<hr/> <hr/>	<hr/> <hr/>

No inventories are carried at net realisable value.

22 TRADE RECEIVABLES – GROUP AND COMPANY

Details of the aging analysis are as follows:

	2002	2001
Current to 30 days	639	1,136
31 days to 60 days	468	—
61 days to 90 days	324	114
Over 90 days but less than one year	1,187	494
Over one year	1,535	1,637
	<hr/>	<hr/>
	4,153	3,381
Provision	(1,984)	(1,157)
	<hr/>	<hr/>
	2,169	2,224
	<hr/> <hr/>	<hr/> <hr/>

Customers are generally granted credit term of 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

23 AMOUNTS DUE FROM RELATED COMPANIES – GROUP AND COMPANY

	2002	2001
Amount due from Shanghai HuaShi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. <i>(note(a))</i>	1,000	4,000
Amount due from International Advertisement and Exhibition of China General Technology Co., Ltd. <i>(note(b))</i>	1,064	—
	<u>2,064</u>	<u>4,000</u>

- (a) The amount represents a trade balance due from Shanghai HuaShi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. ("Shanghai HuaShi"), a wholly-owned subsidiary of Shanghai Pharmaceutical Co., Ltd. ("SPCL"), a major shareholder of the Company. The amount is unsecured and will be settled after obtaining approval for clinical trial on α -glucosidase inhibitor from the SDA.
- (b) The amount represents a trade balance due from International Advertisement and Exhibition of China General Technology Co., Ltd. ("IAAE"), a wholly-owned subsidiary of China General Technology (Group) Holding, Limited, a major shareholder of the Company. The amount is unsecured and repayable under normal trading terms, and has been fully settled subsequently in January 2003.

24 AMOUNT DUE FROM A SHAREHOLDER – GROUP AND COMPANY

The balance represents an amount due from SPCL, a major shareholder of the Company and is unsecured and interest free.

25 AMOUNT DUE FROM A SUBSIDIARY – COMPANY

The balance represents an amount due from Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd., a subsidiary of the Company and is unsecured and interest free.

26 AMOUNT DUE FROM AN ASSOCIATE – GROUP AND COMPANY

The balance represents an amount due from Lead Discovery, an associate of the Company and is unsecured and interest free.

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

27 TRADE PAYABLES – GROUP AND COMPANY

Details of the aging analysis are as follows:

	2002	2001
Current to 30 days	1,255	297
31 days to 60 days	190	—
61 days to 90 days	42	—
Over 90 days but less than one year	18	170
Over one year	126	156
	1,631	623
	1,631	623

28 DEFERRED REVENUE

	Group		Company	
	2002	2001	2002	2001
Government grants <i>(note (a))</i>	4,436	4,438	3,737	3,772
Non-refundable grants <i>(note (b))</i>	472	2,634	472	2,634
	4,908	7,072	4,209	6,406
	4,908	7,072	4,209	6,406

(a) Government grants

	Group		Company	
	2002	2001	2002	2001
At beginning of the year	4,438	1,486	3,772	598
Additions	3,851	5,012	2,410	5,012
Transfer to the income statement	(3,853)	(2,060)	(2,445)	(1,838)
At end of the year	4,436	4,438	3,737	3,772
	4,436	4,438	3,737	3,772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

28 DEFERRED REVENUE (Cont'd)

(b) Non-refundable grants – Group and Company

	2002	2001
At beginning of the year	2,634	6,824
Transfer to the income statement	(2,162)	(4,190)
At end of the year	472	2,634

On 2 November 1999, the Group entered into an agreement with SPCL and pursuant to the agreement, the Group received non-refundable grants from SPCL amounting to RMB10,000,000 as funding for two separately identifiable projects. As a consideration, certain rights for these two projects will be granted, upon their successful completion, in favour of SPCL, as follows:

- (i) Preferential right of acquisition of these two projects if the terms and conditions offered by SPCL are no less favourable than those offered by other third parties;
- (ii) 30% of the net outright sales proceeds are rebated to SPCL if SPCL is not able to offer a price comparable to those offered by other third parties;
- (iii) Other benefits as specified in the agreement in relation to distribution and manufacturing of pharmaceutical products if the Group decides to further develop the completed projects into products itself.

29 LOANS FROM MUNICIPAL GOVERNMENT AUTHORITIES

The loans from municipal government authorities are repayable as follows:

	Group		Company	
	2002	2001	2002	2001
Within one year	2,050	1,450	1,650	1,050
In the second year	—	400	—	400
	2,050	1,850	1,650	1,450

The loans represent government assistance from several PRC municipal government authorities and are unsecured and interest free. All of the loans at 31 December 2002 are repayable within one year.

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

30 AMOUNT DUE TO A SHAREHOLDER – GROUP AND COMPANY

The amount represents an unpaid balance of 30% rebate to SPCL arising from the transfer of technology related to one of the funded project to a third party (note 28(b)), and is unsecured and interest free.

31 MINORITY INTERESTS – GROUP

Minority interests include a holding of 31.25% equity interest by Shanghai Zhangjiang Hi-Tech Park Development Corp., the holding company of Shanghai Zhangjiang Hi-Tech Park Development Co. ("ZJ Hi-Tech Park Co."), in Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd.. ZJ Hi-Tech Park Co. is a major shareholder of the Company.

	2002	2001
At 1 January	1,710	1,780
Share of net loss of subsidiary	(358)	(70)
	<hr/>	<hr/>
At 31 December	1,352	1,710
	<hr/> <hr/>	<hr/> <hr/>

32 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	Share capital
At 1 January 2001	53,000	53,000
Subdivision <i>(note (a))</i>	477,000	—
	<hr/>	<hr/>
At 31 December 2001	530,000	53,000
	<hr/>	<hr/>
Issuance of ordinary shares <i>(note (b))</i>	180,000	18,000
	<hr/>	<hr/>
At 31 December 2002	710,000	71,000
	<hr/> <hr/>	<hr/> <hr/>

All authorised shares are issued and fully paid.

- (a) On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares with a par value of RMB0.10 each.
- (b) On 12 August 2002, the Company completed a placing of newly issued 198,000,000 ordinary shares (H share) of RMB0.10 each at a price of HK dollar 0.80. The 198,000,000 H shares comprise 180,000,000 shares offered by the Company, and 18,000,000 shares converted from Domestic Shares held by the then existing shareholders pursuant to an approval from China Securities Regulatory Commission. The H shares commenced the trading on the GEM of the Stock Exchange on 13 August 2002. Therefore, the registered capital of the Company was increased to RMB71,000,000.
- (c) For the year ended 31 December 2002, no share options were granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

33 RESERVES – GROUP AND COMPANY

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Retained earnings	Total
At 1 January 2001	5	531	531	1,138	2,205
Profit for the year	—	—	—	11,826	11,826
Appropriation to statutory reserves	—	1,144	572	(1,716)	—
At 31 December 2001	5	1,675	1,103	11,248	14,031
Issuance of ordinary shares <i>(note 32(b))</i>	115,009	—	—	—	115,009
Dividend paid in respect of year 2001 <i>(note 10)</i>	—	—	—	(7,950)	(7,950)
Profit for the year	—	—	—	807	807
Appropriation to statutory reserves	—	34	17	(51)	—
At 31 December 2002	115,014	1,709	1,120	4,054	121,897

- (a) The balance in the capital accumulation reserve represents share premium arising from the issue of shares at a price in excess of their par value.
- (b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may transform its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.
- (c) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.
- (d) In accordance with the Company's Articles of Association, the Company declares dividend based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS after deduction of current year's appropriations to the reserves. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, the distributable reserves as at 31 December 2002 amounted to approximately RMB3,232,000 and RMB4,054,000 respectively. Hence, the distributable reserves as at 31 December 2002 was approximately RMB3,232,000.

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before taxation to cash generated from operations:

	2002	2001
Profit before taxation	704	13,922
Adjustments for:		
Amortisation of leasehold land payments	21	33
Depreciation of fixed assets	1,681	1,026
Amortisation of government grants and other non-refundable grants received	(6,015)	(6,250)
Amortisation of technical know-how	323	215
Amortisation of deferred development costs	556	556
Realised loss/(profit) on disposal of available-for-sale investments	616	(772)
Unrealised (profit)/loss on available-for-sale investments	(98)	1,180
Loss on disposal of fixed assets	315	199
Interest income	(718)	(47)
Dividend income	—	(27)
Changes in working capital:		
— trade and other receivables and amounts due from a shareholder, related companies and an associate	1,514	(3,800)
— inventories	(323)	259
— trade and other payables	898	1,408
— amount due to a shareholder	(1,441)	2,441
— deferred revenue	3,851	5,012
Cash generated from operations	1,884	15,355

(b) Analysis of changes in financing during the year:

	2002	2001
Loans from municipal government authorities		
At beginning of the year	1,850	1,450
Additions	500	400
Repayments	(300)	—
At end of the year	2,050	1,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

35 RELATED PARTY TRANSACTIONS

Related parties include companies in which the directors of the Company (the "Directors") have beneficial interests or parties which are subject to common control or common significant influence in making financial and operating decisions.

Apart from the transactions or balances as disclosed in note 3, 23, 24, 25, 26, 28(b), 30 and 31, the Group had the following significant transactions with related companies during the year:

		2002	2001
Rental expense paid to Shanghai Zhangjiang Hi-Tech Service Centre Co., Ltd., a fellow subsidiary of a major shareholder of the Company, and Shanghai Zhangjiang Hi-Tech Park Development Corp., the holding company of a major shareholder of the Company	(a)	103	235
Rebate to SPCL, a major shareholder of the Company	(b)	3,000	—
Technology transfer revenue from Lead Discovery, an associate of the Company	(c)	4,560	—
Sales of diagnostic reagent to IAAE, a subsidiary of China General Technology (Group) Holding, Limited, a major shareholder of the Company	(d)	909	—
Technology transfer revenue received from China General Technology (Group) Holding, Limited, a major shareholder of the Company	(e)	—	17,000
Technology transfer revenue received from Shanghai HuaShi, a wholly-owned subsidiary of SPCL, a major shareholder of the Company	(f)	—	5,000
Proceeds from disposal of motor vehicles to the Directors and shareholders of the Company	(g)	—	488

- (a) In the opinion of the Directors, the rental expenses charged by Shanghai Zhangjiang Hi-Tech Service Centre Co., Ltd., a subsidiary of Shanghai Zhangjiang Hi-Tech Park Development Corp., and Shanghai Zhangjiang Hi-Tech Park Development Corp., the holding company of ZJ Hi-Tech Park Co., were incurred in the normal course of business of the Group and were charged at prices and terms comparable with those charged to and contracted with independent third parties. Such transactions were made before the Group moved all of its operations to its new office premises and research centre in late May 2002.

35 RELATED PARTY TRANSACTIONS (Cont'd)

- (b) As described in note 28(b), the Company is obliged to rebate 30% of the net outright sales proceeds to SPCL if the two specific projects are sold to customers. On 25 March 2002, the Company entered into a technology transfer agreement with Shandong Dong-E E-jiao Co., Ltd. for the transfer of one of these two projects, namely r-tPA. 30% of the revenue recognised to date, which also coincides with the cash receipt to date, has been paid and payable to SPCL. The amount due to SPCL is disclosed in note 30.
- (c) On 5 December 2002, the Group entered into an agreement with Lead Discovery to transfer its PPARγ activator at a price of RMB6,000,000 (note 3). The unrealised profit of RMB1,440,000 from the transfer has been eliminated based on the Group's interest in Lead Discovery (note 18). In the opinion of the Directors, such sales were carried out on the arm's length basis.
- (d) In the opinion of the Directors, the sales made to IAAE were carried out in the normal course of business of the Group and were conducted at prices and terms comparable with sales to independent third parties. The amount due from IAAE is disclosed in note 23(b).
- (e) A sales contract was entered into with China General Technology (Group) Holding, Limited ("China General") at the time when China General was an independent third party of the Group. Subsequent to the signing of the sales contract, China General became a shareholder of the Company. Technology transfer revenue for 2001 represented sales to China General, in accordance with the sales contract, after it became a shareholder of the Company.

In the opinion of the Directors, the sales made to China General were carried out in the normal course of business of the Group.

The sales contracts state that the Company is entitled in future to receive royalty payments, being equivalent to 10% on the net profit, from China General for its sale of any products derived from the know-how transferred. The sales contracts did not specify the period for such payments and China General and the Company consider that the payments is valid as long as there is product sales derived from the know-how being transferred.

- (f) In the opinion of the Directors, the sales made in 2001 to Shanghai HuaShi, a wholly-owned subsidiary of SPCL were carried out in the normal course of business of the Group. SPCL is one of the major shareholders of the Company.

The sales contracts state that the Company is entitled in future to receive royalty payments, being equivalent to a percentage ranging from 2% to 5% of the gross annual sales for a period of eight years, from Shanghai HuaShi for its sale of any products derived from the know-how being transferred.

- (g) In the opinion of the Directors, the proceeds received from Zhao Da Jun and Su Yong, shareholders of the Company, on the disposal of motor vehicles in 2001 was carried out on the arm's length basis and was conducted at prices and terms comparable with those charged to and contracted with independent third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

36 SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating profit by principal activities is as follows:

	Year ended 31 December 2002			Year ended 31 December 2001		
	Sales of diagnostic reagent and the Research and development activities	provision of related ancillary services	Total	Sales of diagnostic reagent and the Research and development activities	provision of related ancillary services	Total
Turnover	<u>14,560</u>	<u>7,958</u>	<u>22,518</u>	<u>22,000</u>	<u>5,909</u>	<u>27,909</u>
Segment profit	5,908	723	6,631	18,664	80	18,744
Unallocated income			1,811			1,354
Unallocated costs			(7,738)			(6,176)
Profit before taxation			704			13,922
Taxation			(255)			(2,166)
Profit after taxation			449			11,756
Minority interests			358			70
Profit attributable to shareholders			807			11,826

Note: Unallocated income and unallocated costs mainly represented other income received and general and administrative expenses incurred by the Group during the year that are not directly attributable to the principal activities.

There are no sales or other transactions between the business segments.

The Group derived all of its revenue and profit from customers who are located in the PRC. Hence, no separate geographical analysis of the segment information is presented.

For the year ended 31 December 2002

(All amounts are shown in RMB thousands unless otherwise stated)

36 SEGMENTAL INFORMATION (Cont'd)

	Research and development activities	Sales of diagnostic reagent and the provision of related ancillary services	Unallocated activities	Total
31 December 2002				
Segment assets	44,439	11,332	160,618	216,389
Segment liabilities	(8,310)	(2,613)	(12,569)	(23,492)
Net	<u>36,129</u>	<u>8,719</u>	<u>148,049</u>	<u>192,897</u>
Other segment items				
Capital expenditure	11,072	2,177	5,221	18,470
Depreciation	1,451	238	483	2,172
Amortisation	121	735	44	900
Impairment charge	—	827	—	827
Restructuring costs	—	—	—	—
Other non-cash expenses	—	—	931	931
Net	<u>11,072</u>	<u>2,177</u>	<u>5,221</u>	<u>18,470</u>
31 December 2001				
Segment assets	21,499	5,584	63,249	90,332
Segment liabilities	(13,423)	(712)	(9,166)	(23,301)
Net	<u>8,076</u>	<u>4,872</u>	<u>54,083</u>	<u>67,031</u>
Other segment items				
Capital expenditure	17,324	2,612	4,427	24,363
Depreciation	801	43	252	1,096
Amortisation	32	735	37	804
Impairment charge	—	325	—	325
Restructuring costs	—	—	—	—
Other non-cash expenses	—	—	1,379	1,379
Net	<u>17,324</u>	<u>2,612</u>	<u>4,427</u>	<u>24,363</u>

Note: Unallocated activities mainly represented the holding of cash and bank deposits and available-for-sales securities by the Group during the year that cannot be allocated to the principal activities specifically.

The Group derived all of its revenue and profit from customers who are located in the PRC. Hence, no separate geographical analysis on the net operating assets is presented.

For the year ended 31 December 2002
(All amounts are shown in RMB thousands unless otherwise stated)

37 FINANCIAL INSTRUMENTS

(a) Fair values

The fair value of publicly traded available-for-sale investments is based on quoted market prices at the year end date of the year. In assessing the fair value of non-traded available-for-sale investments and the remaining financial instruments, the Group uses the estimated discounted value of future cash flows and makes assumptions that are based on market conditions existing at year end date.

The carrying amounts of the Group's cash and bank balances, trade receivables and trade payables approximate their fair values because of the short maturity of these instruments. The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

(b) Credit risk

The carrying amount of cash and bank, trade receivables, other receivables, deposits and prepayments represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash is placed with banks and other financial institutions and the weighted average effective interest rate on deposits ranged from 0.72% to 4% per annum.

The majority of the Group's trade receivables relate to contracted revenues entered into with related parties of the Group and the sales of diagnostic reagent and the provision of related ancillary services to third parties customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

(c) Liquidity risk

The Group adopts prudent liquidity risk management which implies maintaining sufficient cash and marketable securities and the ability to apply for bank loan facilities if necessary.

(d) Foreign exchange risk

The Group operates mainly in domestic market. Cash proceeds from the issue of H shares were in HK dollar and majority of the cash has not been converted to RMB. The official exchange rate for HK dollar and RMB has generally been stable, however, the results of operations and the financial position of the Group may be affected by the changes in the exchange rates.

On the other hand, the conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2003.