



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)*

**annual**  
report  
**2003**



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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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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

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

## NON-EXECUTIVE DIRECTOR

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

## INDEPENDENT NON-EXECUTIVE DIRECTOR

Pan Fei  
Cheng Lin  
Weng De Zhang

## SUPERVISORS

Sun Xiao Min  
Dai Yan Ling  
Zhuang Xian Han  
Wei Dong Zhi  
Ji Nuo

## LEGAL REPRESENTATIVE

Wang Hai Bo

## COMPANY SECRETARY

Wang Rui, ACCA

## COMPLIANCE OFFICER

Zhao Da Jun

## AUTHORISED REPRESENTATIVES

Zhao Da Jun  
Wang Rui, ACCA

## QUALIFIED ACCOUNTANT

Wang Rui, ACCA

## MEMBERS OF AUDIT COMMITTEE

Pan Fei  
Cheng Lin  
Weng De Zhang

## INTERNATIONAL AND STATUTORY AUDITORS

PricewaterhouseCoopers  
PricewaterhouseCoopers Zhong Tian CPAs 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  
(Sub-Branch)  
China Construction Bank, Gaoke Road Sub-Branch  
Shanghai Pudong Development Bank,  
Xinchuan Sub-Branch  
Industrial Bank, Changning Branch

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## REGISTER 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](http://www.fd-zj.com)

On behalf of the board of directors of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company"), I am pleased to present the annual report of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2003 for consideration by the shareholders.

### BUSINESS REVIEW

Committed to the principle: "The harder we work, the healthier human beings will be", the Group aims to become a pioneer in the bio-pharmaceutical industry by focusing on R&D of genetic engineering, new drugs screening, and the commercialization of patent drugs and special drugs that suit the PRC market.

To promote its development, the Group established Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司) ("Ba Dian") on 4 June 2003 with a registered capital of RMB15,000,000. Ba Dian is a company established by the Company with, among others, The Shanghai Life Science Research Institute of The Chinese Academy of Sciences (中科院上海生命科學研究院), and The Shanghai Organic Chemistry Research Institute of The Chinese Academy of Sciences (中科院上海有機化學研究所), with the Company holding a 65% equity interest. The business area of Ba Dian covers drug design, including drug particle design and design based on GPCR (G蛋白偶聯受體), and screening platform technology, a technology for the screening of lead chemical compound. In addition, it also conducts R&D on innovative drugs with proprietary intellectual property and "me-too" drugs that combine imitation and innovation. The Directors believe that the establishment of Ba Dian will further enhance the Group's R&D capabilities, and effectively pushing forward the overall progress of the Group in the research and commercialization of new drugs.

The Group's core technology is the development of innovative drugs. The Group places a lot of emphasis on the legal protection of its proprietary technology and patent technology. During the year, the Company has applied for a total of five patents, one patent transfer, and has registered five patents. In addition, Ba Dian (a company in which the Group has a controlling interest) and Lead Discovery Limited Company (上海先導藥業有限公司) ("Lead Discovery"), an associated company of the Group) have applied for registration of one invention patent and six patents, respectively. Up to the end of 2003, the Company had made a total of 113 patent applications, of which 25 were invention patents, 2 were new registered practical patents and 86 were appearance design patents. Among the 93 patents of the Group for which registration has been approved, 6 of them are invention patents, 1 of them is newly registered practical patents and 86 of them are appearance design patents. To facilitate the promotion of the Group's diagnostic reagent products, the Group has applied for registration of the appearance design of such products. This will prevent copyright infringement and protect the reputation and image of the Group and hence, enhancing its competitiveness.

## CHAIRMAN'S STATEMENT

Since its establishment, the principal development direction of the Group is to strengthen its independent research capabilities in the development of new drugs in compliance with the State's policies on the industry and the Group has received generous support from the State. The Group has won grants from a number of reputable foundations as well as medical and pharmaceutical institutions at the provincial and State levels in the PRC. During the year under review, the following projects of the Company, namely, the "Research on New Generation Lymphotoxin", "Pre-clinical Trial on Recombinant Human Interleukin-1 Receptor Antagonist" and "Pre-clinical Trial on Hemporfin for the Treatment of New Blood Vessels in Choroidea", received various grants totalling at RMB3,090,000. A research project of Ba Dian, the "New Drug Development of CCR5 for HIV Treatment", has obtained a grant of RMB1,000,000 as a Major Technological Topic from the Shanghai Science and Technology Committee. Projects of Lead Discovery, namely, the "Findings in PPAR Receptor Activator" and "Innovative Technology Platform for Chinese Medicine and Natural Products", have received a total grant of RMB2,310,000. These grants witnessed the achievements of the Group in research and development.

The Group's various R&D projects have progressed smoothly. Due to adjustment in focus on R&D and changes made by the State Food and Drug Administration of the PRC ("SFDA") on the procedures for clinical applications, some projects, however, have experienced delay. Overall, most of the R&D projects are proceeding as scheduled, with some projects which were not initially included in the prospectus of the Company completed ahead of schedule. The original plans and the actual progress for these projects are as follows:

Project name and description	Anticipated progress of R&D in 2003 as set out in prospectus	Actual progress as at 31 December 2003
Recombinant human lymphotoxin- $\alpha$ derivatives (rhLT) (淋巴毒素- $\alpha$ 衍生物重組體) for the treatment of lung cancer	To conduct stage III clinical test	Stage I clinical test was completed; pending approval by SFDA to enter stage II clinical test
Recombinant human parathyroid hormone derivatives (rhPTH) (甲狀旁腺激素衍生物重組體) for the treatment of osteoporosis	To conduct stage II clinical test	Applied to SFDA for clinical test; clinical test will commence after approval
Construction of GMP factory (興建 GMP 廠房)	To obtain land use right and commence construction	Construction of GMP factory for reagents of Down's syndrome has been completed.
		The Company entered into a land resumption contract on 25 February 2004 for the resumption of land use rights of about 15 hectares of land. A GMP factory is intended to be built thereon for the commercialization of successive projects.

Project name and description	Anticipated progress of R&D in 2003 as set out in prospectus	Actual progress as at 31 December 2003
Hemporfin, a photodynamic therapy drug (光動力治療藥物海姆泊芬)	To complete Stage I clinical tests	Pre-clinical trial completed; application for clinical tests will be made to SFDA soon
Deuteroporphyrin, a photodynamic therapy drug (光動力治療藥物次卟啉)	To complete Stage I clinical tests	Pre-clinical trial basically completed; application for clinical tests will be made to SFDA during this year
Human leukocyte antigen (HLA) genotyping chips (人白細胞抗原 (HLA)基因芯片)	To commence Commercialization	Completed preparatory work for the commercialization; entered into sales agreements about 3000 pieces in February 2004
Lymphotoxin mutants (淋巴毒素突變體)	To conduct assessment on the initial biological activity	Completed
New type of erythropoietin (新型血紅素)	To conduct assessment on initial biological activity	Research suspended due to other considerations of the Company
$\alpha$ -1, 4 glucosidase inhibitor ( $\alpha$ -1,4 糖苷酶抑制劑)	To conduct assessment on initial biological activity	Completed ahead of schedule; application for clinical tests has been made to SFDA
Others	To set up a multi-structural composite database for drug	Completed (by Lead Discovery)
Recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑)	Nil	Application for clinical tests has been made to SFDA
Recombinant human soluble TNFR75 fusion protein (Etanercept) (重組人可溶性 TNFR75 融合蛋白) for the treatment of arthritis	Nil	Application for clinical tests has been made to SFDA
ALA (5-氨基酮戊酸鹽), a new photodynamic therapy drug (bulk drug)	Nil	Application for clinical tests has been made to SFDA
ALA (5-氨基酮戊酸鹽), a new photodynamic therapy drug (formulation)	Nil	Application for clinical tests has been made to SFDA

## FUTURE PROSPECTS

With the increasing awareness of the Chinese people towards medical and healthcare products and the growth in economy and increase in the level of consumer consumption, the pharmaceutical industry in the PRC is very promising. The Group will continue to develop or manufacture proprietary innovative drugs and to take more stringent measures to protect its intellectual property rights, by applying for patent protection of the Company's proprietary technologies and products. Therefore, the Directors are fully confident and optimistic about the prospects on the Group.

In order to maintain its market competitiveness, the Group will devote more efforts to develop and expand its existing market share so as to generate higher return for its shareholders. In future, the Group will continue to focus its resources in research and development, commercialization, project transfers and strategic alliances.

- Research and development

Over the years, the Group has accumulated extensive experience in research and development, and has achieved a leading position in the pharmaceutical industry in the PRC. The Group has formed a very close cooperative relationship with the Life Science Research Institute of the Chinese Academy of Sciences, the Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences and the Shanghai Institute of Materia Medica of the Chinese Academy of Sciences, all being reputable domestic institutions. At the same time, the Group also co-operates with other international and domestic R&D institutes. In future, the Group will devote efforts to achieve breakthroughs in R&D of projects with proprietary intellectual property rights.

As for the research in genetic engineering drugs, since R&D of protein engineering and antibody engineering drugs are the major direction of in the area of bio-pharmaceutical research, the Group has shifted its research focus to the R&D of phage high flux screening (噬菌體高通量篩選) and high expression technology (高表達技術) of animal cells, which are essential components for protein engineering (蛋白工程) and antibody engineering (抗體工程). Currently, the Group's research on recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可融性 INFR75 融合蛋白) for the treatment of arthritis (關節炎), which is based on the above platform, has completed all pre-clinical trials. Application for clinical tests has been made to SFDA.

On the other hand, in respect of the Group's drug design and screening R&D, apart from research based on the existing computer-assisted design, combinatorial chemistry and high throughput screening platform, the Group has further established a new drug screening system targeting at GPCR (G 蛋白偶聯受體). At present, progress has been made in the research of blocking agent blocking the AIDs virus from entering the CCR4 and CCR5 receptors. The research is likely to receive support from the State foundation.

Regarding the R&D on photodynamic therapy drug, the Group is conducting R&D on a new proprietary indication for the patent treatment of macular degeneration (眼底黃斑治療) (for which patent application has been made) and research on a new drug precursor by building upon the foundation of the Group's researches on Hemporfin, deuteroporphyrin derivative and ALA (5-氨基酮戊酸鹽). The Group has also jointly developed a photonic treatment device with a U.S. company and a domestic research institute, and is now proceeding with its commercialization.



As for the medical diagnosis sector, based on the antenatal screening system for Down's syndrome developed by the Group, the Group intends to continue the cooperation with the Scientific Research Institute of the State Population and Family Planning Commission of China and to jointly develop a series of screening and diagnosis products for the "Birth defects interference engineering (出生缺陷干预工程)". The Directors believe that products developed in this area of research will definitely have a competitive edge. At the same time, the Group also intends to develop high-end diagnostic products using the LAMP technology developed by Eiken Chemical Co., Ltd. ("Eiken"), and intends to jointly develop a combined nucleic acid testing reagent for AIDS, hepatitis B and hepatitis C with Shanghai City Blood Centre (上海市血液中心).

In 2003, the Group submitted five applications for clinical tests to SFDA. It is expected that approvals to commence clinical testing will be granted by SFDA one after the other commencing from 2004. By then, the relevant clinical trial will become the focus of the Group's research activities. The Group will continue to recruit professional expertise to conduct clinical research proactively and efficiently.

- Commercialization

The Group's commercialization activities at present are mainly based on medical diagnostic products. It will continue to promote existing diagnosis products so as to further increase its market share. The Group will apply to register its existing diagnosis products pursuant to the standardization requirements of SFDA relating to in vitro diagnostic reagents. Bio-chemical diagnostic reagents which were formerly registered under the Drug Management Category have to be registered under the Medical Device Management Category. The registration may take some time to complete, but it is expected that registration in respect of some of the products will be completed in 2004. The Group will endeavor to complete registration of those diagnostic products that cannot be completed in 2004. As some of the new diagnostic products will complete registration very soon, the Directors are optimistic about the sales of the Groups diagnostic products.

The registration of the Group's antenatal screening system for Down's Syndrome was delayed by the outbreak of severe Acute Respiratory Syndrome ("SARS") in the first half of 2003. The Company has obtained the production permit and approval for the antenatal screening system. Upon obtaining the GMP certificate from SFDA, sales of this product will commence. This project has become the first product being approved for production and clinical application by SFDA since the commencement of the "Birth defects interference engineering" in China. Potential of such product in the market is huge. The Group plans to establish a solid collaboration relationship with the related entities of the Scientific Research Institute of the State Birth Planning Committee, and actively participate in the regional promotion of the "Birth defects interference engineering". It is anticipated that this project will contribute profit to the Company.

Through years of hard work, the HLA genotyping chip (patent application has been made) of the Group has successfully passed the appraisal by the State Quality Control Laboratory as suitable for application in stem cells banks, cord blood banks and clinical transplants in the PRC. Sales orders for 3,000 products have been received by February 2004. It is anticipated that the project will bring certain amount of revenue to the Company after its launch into the market.

## CHAIRMAN'S STATEMENT

To enhance the Group's competitiveness in medical diagnosis products, the Group will apply the LAMP technology of Eiken to further develop its diagnosis products. Meanwhile, the Group is also considering introducing the products developed from these two technology platforms by applying for their import registration with a view to boosting sales and further expanding the Group's market share in medical diagnosis products into the PRC.

- Project transfer

With a number of projects close to obtaining approvals on clinical trial, the value of such projects for transfer and the chance of a successful transfer will increase. With a number of such projects on hand, it is the Group's intention to actively participate in trade fairs for the exchange of technology property rights in China, and to assign designated staff to initiate liaison with various pharmaceutical manufacturers to identify suitable buyers. The Directors anticipate that with the increasing number of projects being approved to commence clinical trial, income from technology transfer will grow in 2004 as compared to 2003. The Group not only aims to derive transfer fee from project transfer but will also insist on entitlement to a royalty fee based on future sales revenue, as a source of steady long-term revenue for the Group. In addition, the projects transferred are concentrated in several transferees, they may form a virtual production base for the Group.

- Strategic alliance

Apart from conducting R&D on new drugs by its in-house professional R&D team, the Group will continue to enter into strategic alliances with various reputable international and domestic bio-pharmaceutical enterprises, universities, research institutes and hospitals, in order to combine the expertise, R&D equipment and resources of the various expert parties to assist the Group in strengthening its own R&D capabilities and to enhance its competitiveness.

During June 2003, the Group entered into a Letter of Intent for cooperation with Eiken, and will sign agreements for specific projects with Eiken. The Group is negotiating for the grant of an exclusive licence to use the LAMP technology developed by Eiken, and to develop clinical and non-clinical bio-chemical diagnostic reagents based on the LAMP platform. Furthermore, both parties will soon enter into an agreement for the appointment of the Group as a sales agent of Eiken for the sales of its diagnosis agents in the PRC.

### ACKNOWLEDGEMENT

Lastly, I would like to express my gratitude to the shareholders and business partners of the Group for their unreserved support and encouragement. I'd also like to express 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, 25 March 2004

## 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 2003 amounted to RMB8,131,000, compared to RMB22,518,000 for the previous year. During the year under review, the Group's turnover was derived entirely from the sales of diagnostic reagents and the provision of related ancillary services.

## TECHNOLOGY TRANSFER REVENUE

For the year ended 31 December 2003, there was no sales revenue from technology transfer, compared to that of RMB14,560,000 from technology transfer for the previous year.

On 25 March 2002, the Company signed a technology transfer contract with Shangdong Dong-E E-Jiao Co., Ltd. for a total consideration of RMB15,000,000. In 2002, RMB10,000,000 was recognized as revenue after the Company completed respective milestones of the transfer as specified in the contract and the economic benefits associated with the completion had flowed to the Company. The balance of RMB5,000,000 will be paid to the Company by two stages, namely RMB2,000,000 and RMB3,000,000 upon obtaining the new drug certificate and manufacturing permit, respectively. Pursuant to the technology transfer 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 from the technology transferred over the new drug protection period stipulated by the SFDA, or a period of five years if such protection period is cancelled. Currently, this project is still at the stage of clinical trial, which is expected to be completed in 2004. Therefore, no sales revenue was recognized from this project for the year ended 2003.

In September 2003, 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) ("Morgan-Tan"), a subsidiary of the Group in which the Company has a controlling interest, entered into an agreement to transfer the technology of Mycophenolate Mofetil (黴酚酸酯) to Lin Yi Xin Shi Dai Pharmaceutical Company Limited (臨沂新時代藥業有限公司) for RMB5,000,000. As it would take some time for steps of the transfer to be completed, and although a certain amount of the consideration has been received, no technology transfer revenue was recognized in 2003.

The decrease in the technology transfer revenue is mainly due to the change of the Group's strategy on R&D activities. The Directors believe that it would be more profitable for the Group to transfer the technology of its research projects at a later stage (in particular, after approvals to enter into clinical trial have been granted by SFDA) than to seek any upfront return. In addition, the long-term strategy of the Group is to focus on R&D and commercialization of its proprietary new drugs. Therefore, although technology transfer would still remain as one of the Group's alternatives to realize short term profits and maintain cash flow position, the Group will focus more on commercialization of its proprietary research projects 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 reagents and the provision of related ancillary services for the year ended 31 December 2003 has increased by 2% to RMB8,131,000 from RMB7,958,000 for the previous year.

### COSTS AND EXPENSES

The total costs and expenses of the Group for the year ended 31 December 2003 were RMB36,116,000, compared with RMB29,340,000 for 2002. The increase in total costs and expenses is mainly attributed to the increased resources devoted by the Group to research and development activities. The R&D expenses have increased by 78% to RMB17,970,000 for the year ended 2003 from RMB10,095,000 for the year ended 2002. On the other hand, the Group's cost of sales has dropped substantially by 37% from RMB9,828,000 for the year ended 2002 to RMB6,155,000 for the year ended 2003.

### (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

A loss attributable to shareholders of RMB18,347,000 was recorded for the year ended 31 December 2003, compared with profit of RMB807,000 for the previous year. The decrease was mainly due to there being no revenue from technology transfer during the year and the increase of R&D expenses as mentioned above. However, the Directors believe that with the commercialization of the Group's self-developed bio-pharmaceutical new drugs and other R&D projects in progress, the Group's operating results will grow substantially.

### IMPAIRMENT OF ASSETS

After the assessment of the fair value of the Group's fixed assets, technical know-how, deferred development costs and other non-current assets, no significant impairment of these assets has been noted as at 31 December 2003.

### SIGNIFICANT INVESTMENTS

For the year ended 2003, the Group did not have any significant investments.

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 4 June 2003, Ba Dian was established with a registered capital of RMB15,000,000. It is a joint venture established by the Company with, among others, The Shanghai Life Science Research Institute of The Chinese Academy of Science (中科院上海生命科學研究院), and The Shanghai Organic Chemistry Research Institute of The Chinese Academy of Science (中科院上海有機化學研究所). The Company holds 65% of the equity interest.

In October 2003, the Company acquired the entire equity interest held by Mr. Tan Jia Zhen (談家禎先生) in Morgan-Tan for RMB500,000. After the acquisition, the interest held by the Company in Morgan-Tan increased from 62.5% to 68.75%.

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 2003, the Directors were not aware of any material contingent liabilities.

### CHARGE ON ASSETS

As at 31 December 2003, the Group did not have any charge on its assets.

### BANKING FACILITIES

As at 31 December 2003, the Group had not applied for any banking facilities.

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group entered into a contract for land resumption on 25 February 2004 for the purchase of a 15-hectare land at a site next to the Company for its new production facilities. The total cost for acquisition of the land use rights would be about RMB7,000,000.

Save as above, the Group did not have any 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 H shares in August 2002 by the Company and loans from municipal government authorities. As at 31 December 2003, the Group had outstanding loans from municipal government authorities of RMB1,650,000 which are unsecured, interest free and repayable within one year.

As at 31 December 2003, the Group had a net cash and cash equivalent position of approximately RMB65,673,000.

The Group's gearing ratio at 31 December 2003 was 0.08 (31 December 2002: 0.11) which is calculated based on the Group's total liabilities of RMB14,521,000 (31 December 2002: RMB 22,140,000) and shareholders' funds of RMB174,550,000 (31 December 2002: RMB192,897,000).

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and to minimize the finance cost, 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 the domestic market. Cash proceeds from the placing of H shares in August 2002 were in HK dollars and part of which has not been converted to RMB. The official exchange rate for HK dollar and RMB is usually stable; however, the operating results and the financial position of the Group may be affected by the movements of 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 2003, the Group had a total of 124 employees, as compared to 106 employees as at 31 December 2002. Staff costs including directors' remuneration for the year ended 31 December 2003 and 2002 were RMB11,570,000 and RMB8,355,000, respectively. The Group's employment and remuneration policies remained unchanged from what were 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 within the 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 Board of Directors is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

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

The Group's turnover for the year ended 31 December 2003 was derived entirely from the sales of diagnostic reagents and the provision of related ancillary services.

## MAJOR CUSTOMERS AND SUPPLIERS OF DIANOSTIC 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 are as follows:

	Proportion in the Group's total	
	Sales	Purchases
Largest customer	17%	
Total of the five largest customers	43%	
Largest supplier		19%
Total of the five largest suppliers		56%

Save as disclosed in the above, none of the Directors, their respective associates (as defined in the GEM Listing Rules) or any shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any beneficial interest in any of the Group's five largest customers or suppliers of the Company for the year ended 31 December 2003.

## RESULTS

The results and financial position of the Group for the year ended 31 December 2003 are set out on pages 37 to 76.

## DIVIDENDS

At the meeting on 25 March 2004, the Board of Directors recommended not to distribute any dividend for the year ended 31 December 2003.

## SHARE CAPITAL

Details of movement in the share capital of the Group during the year are set out in note 33 to the financial statements.

## REPORT OF THE DIRECTORS

### RESERVES

Details of movement in the reserves of the Company during the year are set out in Statement of Changes in Shareholders' Equity and note 34 to the financial statements. On 31 December 2003, there was no distributable reserve to shareholders of the Company.

### PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year are set out in note 14 to the financial statements.

### STAFF RETIREMENT SCHEME

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

### STAFF QUARTERS

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

### DIRECTORS AND SUPERVISORS

Directors of the Company 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:

Pan Fei

Cheng Lin

Weng De Zhang



### **SUPERVISORS:**

Sun Xiao Min

Dai Yan Ling

Zhuang Xian Han

Wei Dong Zhi

Ji Nuo

### **DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

Each of the executive 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 Mr. Cheng Lin, Mr. Pan Fei and Mr. Weng De Zhang (who are Directors), whose respective terms of appointment were for 3 years, commencing from 20 June 2003 and Mr. Ji Nuo (who is Supervisor), whose respective terms of appointment were also for 3 years commencing from 20 June 2003. The term of service thereafter for each of the Directors and Supervisors is renewable subject to approval of the shareholders' general meeting.

As some of the Directors and Supervisors were appointed after most of the members of the current Board and Supervisory Committee were appointed, the Directors propose to unify the date of termination and appointment of each Director and Supervisor so that they all commence the next term of their appointments at the same time upon conclusion of the next annual general meeting.

### **PROFILE OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Profile of the Directors, Supervisors and senior Management are set out on pages 26 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.

## REPORT OF THE DIRECTORS

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

As at 31 December 2003, the interests (including interests in shares and short positions) of the Directors, Chief Executive and Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (“SFO”); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of Domestic shares held	Capacity	Type of interest	Percentage holding in Domestic shares	Percentage of holding in total share capital
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13%	7.31%
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58%	2.58%
Zhao Da Jun	Domestic Shares	15,260,710 (L)	Beneficial owner	Personal	2.98%	2.15%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.10%	0.80%

*Note: The letter “L” stands for long position.*

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2003, the persons other than a director, chief executive or supervisor of the Company who have interests or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and short positions disclosed herein are in addition to those disclosed in respect of the Directors, Chief Executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Percentage in the respective Type of Capacity interest	Percentage class of share capital	in total share capital	
Shanghai Pharmaceutical (Group) Corporation	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	19.66%
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co., Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69%	14.92%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,288 (L)	Beneficial Owner	Corporate	5.98%	4.31%
Shanghai Industrial Investment (Holdings) Co., Ltd.	H Shares	70,564,000 (L)	Interest of controlled corporation	Corporate	35.64%	9.94%
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial Owner	Corporate	33.26%	9.28%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%
HSBC International Trustee Limited	H Shares	12,600,000 (L)	Trustee (other than a bare trustee)	Corporate	6.36%	1.78%

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN CONTRACTS

No significant contract according to which the Group and the Directors made any material transactions, whether directly or indirectly, was signed as at the end of the financial year 2003 or at any time during that financial year.

### USE OF PROCEEDS

During the period from 1 January 2003 to 31 December 2003, the Group has applied the net proceeds as follows:

Item	Anticipated use of the net proceeds as at 31 December 2003 as set out in the prospectus (RMB'000)	Actual amount used as at 31 December 2003 (RMB'000)
<b>Research and commercialization of genetic engineering drugs</b>		
Recombinant human pynphotoxin - $\alpha$ derivatives (rhLT)	26,818	498
Recombinant human parathyroid hormone derivatives (rhPTH)	16,960	1,614
Purchase of production and quality control facilities	25,122	1,158
<b>Research and commercialization of photodynamic therapy drugs</b>		
Hemporfin	5,830	1,629
Deuteroporphyrin	4,770	1,069
<b>Research and commercialization of medical diagnosis products</b>		
HLA genotyping chips	11,660	770
<b>Enhancement of the Company's capabilities in R&amp;D and new drug screening</b>		
	8,480	13,357
Total	<u>99,640</u>	<u>20,095</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 2003, 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 2003, the Company had the following connected transactions:

### REVENUE

Transactions	Amount	Annual limit (in RMB'000,000)
<b>Morgan-Tan</b>		
Fees received for use of premises and sharing of facilities	0.22	2

### EXPENDITURE

#### 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.	<i>Note 1</i>	1.5
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#### Fudan University

	<i>Note 2</i>	5
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#### Morgan-Tan

Technological service fees paid to Morgan-Tan as stage payment for services provided in the rhLT project	2.58	4
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Notes:

- No payment has been received by the Company from Shandong Dong-E E-jiao Co., Ltd., and, consequently, the Company has not made any payment to Shanghai Pharmaceutical.
- During the year 2003, 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.

The 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.

## REPORT OF THE DIRECTORS

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

1. the transactions have been entered into in 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 in 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 Board of 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 relevant 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.

An announcement was made by the Company on 13 March 2003 on the establishment of Ba Dian in accordance with the requirement of the GEM Listing Rules. On 4 June 2003, Ba Dian was formally established with a registered capital of RMB15,000,000. It is a joint venture established by the Company together with, among others, the Shanghai Life Science Research Institute of the Academy of Science(中科院上海生命科學院), the Shanghai Organic Chemistry Research Institute of the Academy of Science (中科院上海有機化學研究所), with the Company holding 65% equity interest. The formation of the joint venture company constituted a connected transaction under the GEM Listing Rules.

## FINANCIAL DATA HIGHLIGHT

A summary of the consolidated results of the Group for three years ended 31 December 2003, which have been extracted from the audited accounts of the Group, is as follows:

	Year ended 31 December		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Total revenues	<b>10,525</b>	23,236	27,983
Operating (loss)/profit	<b>(20,206)</b>	704	13,922
Share of results of associate before taxation	<b>(1,381)</b>	—	—
(Loss)/profit before taxation	<b>(21,587)</b>	704	13,922
Taxation	<b>2,802</b>	(255)	(2,166)
(Loss)/profit after taxation	<b>(18,785)</b>	449	11,756
Minority interests	<b>438</b>	358	70
(Loss)/profit attributable to shareholders	<b>(18,347)</b>	807	11,826

## ASSETS AND LIABILITIES

Summary of consolidated balance sheets of the Group for the three years ended 31 December 2003, which have been extracted from the audited accounts of the Group, is as follows:

	Year ended 31 December		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Total assets	<b>195,032</b>	216,389	90,332
Total liabilities excluding minority interests	<b>14,521</b>	22,140	21,591
Minority Interests	<b>5,961</b>	1,352	1,710
Balance of shareholders' fund	<b>174,550</b>	192,897	67,031

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Pan Fei, who is the chairman of the audit committee, Mr. Weng De Zhang and Mr. Cheng Lin.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the 2003 annual report.

# REPORT OF THE DIRECTORS

## 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 CO., LTD.

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	51%
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 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%
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. (安徽省華金氏蕪湖有限公司)	Drug trading	80%



## CHINA GENERAL TECHNOLOGY (GROUP) HOLDING, LTD.

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 Pharmecautilcal Co., Ltd. (雲南通用善美制藥有限公司)	Drug manufacturing	51%

## SHANGHAI ZHANGJIANG HI-TECH PARK DEVELOPMENT CO., LTD.

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) (Note 3)	Sales of drugs	75%

Notes:

1. Yu Qing Hua, a non-executive Director and a director of Shanghai Pharmaceutical Co., Ltd., was nominated and appointed by Shanghai Pharmaceutical Co., Ltd. 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 Industry Company to be the chairman of the board of Hainan Sanyang Pharmaceutical Co., Ltd.
3. Fang Jing, a non-executive Director, was nominated and appointed by Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. as the director of the board of Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2003.

### PRE-EMPTIVE RIGHTS

Under the articles of association of the Company or by the laws of the People's Republic of China ("PRC", being the jurisdiction in which the Company was established), no pre-emptive rights exist that would oblige the Company to offer new shares on a pro rata basis to its 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, 25 March 2004

To the Shareholders:

The Supervisory Committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") performed its duties in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and 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 was no violation of the State's laws and regulations or the Articles of Association by the Directors and Managers during the year 2003.

The Supervisory Committee considered that the resolutions passed in all board meetings for the year 2003 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 auditors' reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. have truly, objectively and accurately reflected the Company's financial position.

The Supervisory Committee is satisfied with the achievement and progress of the Company in 2003 and has great confidence in the future of the Company.

By order of the Supervisory Committee

**Sun Xiao Min**

*Chairman*

Shanghai, the PRC, 25 March 2004

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

### EXECUTIVE DIRECTORS

**Wang Hai Bo**, aged 43, 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 40, 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 33, 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. 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 58, 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 40, 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 35, 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.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Jiang Guo Xing**, aged 51, is the Chairman of Shanghai Fudan Microelectronics Company Limited, a company listed on GEM. Mr. Jiang graduated from Fudan University and is a senior economist. 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

**Pan Fei**, aged 48, is a professor at Shanghai University of Finance and Economics. He graduated from Shanghai University of Finance and Economics with a doctorate degree in Accounting. He is an associate member of the American Accounting Association of Certified Public Accountants. He has published numerous articles in various financial and economics publications in the PRC and has received several awards. He was appointed as an independent non-executive Director in June 2002.

**Cheng Lin**, aged 41, is a lecturer in Shanghai University of Finance and Economics. Mr. Cheng holds a doctorate degree in economics from Shanghai University of Finance and Economics. 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.

**Weng De Zhang**, aged 41, is an independent representative on the supervisory committee. He is a departmental general manager of the Shanghai branch of Industrial Bank Co., Ltd. He graduated from Remin University of China and obtained a master's degree in business administration from Asia International Open University (Macau). He was the chief accountant of 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 an independent non-executive Director and the vice-chairman of the audit committee of the Company.

### SUPERVISORS

**Sun Xiao Min**, aged 50, is a shareholder representative and the chairman of the supervisory committee. He is the executive director, deputy general manager and chief legal advisor of China General Technology (Group) Holding, Ltd., a promoter and shareholder of the Company. He holds a master's degree in law from Peking University. He was previously the general manager of the legal department of a PRC Company.

**Dai Yan Ling**, aged 51, is a shareholder representative on the supervisory committee. She is the chairman of Pudong Technology Investment and has been the general manager of Shanghai Zhangjiang Venture Capital Co., Ltd. since 1999. She was formerly a vice-director of Pudong New Area Economic and Trade Bureau, Pudong New Area Science and Technology Bureau and a vice director of the Pudong representative office of the Shanghai Municipal Government.

**Zhuang Xian Han**, aged 36, 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 Category I Drug.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Wei Dong Zhi**, aged 39, 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 is Head of the biological engineering research institute and Luhua Bio-tech Research Institute of East China University of Science and Technology.

**Ji Nuo**, aged 34, is an independent representative on the supervisory committee. He graduated from Fudan University and obtained a master's degree in law. He is a partner of a law office, and a referee of China International Chamber of Commerce and China Council for the Promotion of International Trade. He also is a vice director of Shanghai Intellectual Property Right Institute of Shanghai Lawyers Association.

### PROPOSED NON-EXECUTIVE DIRECTOR

**Lou Yi**, age 46, graduated from Xin Jiang Medical University with a doctor degree. Mr. Lou did his post-doctor research on applied economics in Fudan University. He used to be the managing director of Shanghai Bo Xing Gene Chip Co., Ltd. and Shanghai Biochip Co., Ltd. Mr. Lou is currently the deputy managing director of General Technology Group Pharmaceutical Holding, Limited.

### PROPOSED SUPERVISOR

**Han Ben Yi**, age 39, graduated from Xi'an Jiaotong University with a doctor degree. Mr. Han is a qualified lawyer and economist. He used to be the deputy chief of Chang'an County in Shaanxi Province, the deputy head of audit division of the Xi'an Regional Office of China Securities Regulatory Commission, the vice chairman of Huanghe Science and Technology Co., Ltd. and the chairman of Shaanxi BC & TV Network Intermediary Co., Ltd. Mr. Han is currently the deputy general manager of China General Technology (Group) Holding, Ltd., and the chairman and general manager of General Technology Group Pharmaceutical Holding, Limited.

### SENIOR MANAGEMENT

**Liu Yan Jun**, aged 39, is the vice general manager of the company. He obtained a bachelor's degree from the Navy Medical Department and a master's degree in Hepatobiliary Surgery from the Second Military Medical University and a Ph.D. from Eastern hospital of Hepatobiliary Surgery, the 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 formerly an officer and associate professor of the research department in the Molecular Biology department, Cancer Institute, the Second Military Medical University.

**Li Jun**, aged 36, is a vice general manager of the Company. He graduated from Fudan University with a master's degree in biology. He has been responsible for several research projects of the State Natural Science Fund, and has published numerous articles. He is also a licensed pharmacist of PRC.

### QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

**Wang Rui**, aged 30, is the Qualified Accountant, Company Secretary and an authorized representative of the company. She obtained her bachelor's degree in Civil Engineering from Tongji University, Shanghai PRC and her MBA from Oxford Brookes University, UK. She is a member of The Association for Chartered Certified Accountants. She used to work in a high-tech development corporation in Shanghai for a few years, responsible for project management and strategic planning. Prior to joining the Company, Ms. Wang worked in an accounting firm in London, the United Kingdom, where she obtained her professional qualification. She joined the Company in November 2003.

## NOTICE OF THE ANNUAL GENERAL MEETING

**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”, and together with its subsidiaries, the “Group”) will be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-teck Park, Pudong, Shanghai, the PRC on Friday 25 June 2004 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 2003.
2. To consider and approve the report of the Supervisory Committee for the year ended 31 December 2003.
3. To consider and approve the audited financial statements and the report of the auditors for the year ended 31 December 2003.
4. To consider and approve the profit distribution plan for the year ended 31 December 2003, and the final dividend distribution plan for the year ended 31 December 2003 (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 approve the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. as auditors (International and PRC auditors) for the year ending 31 December 2004 and to authorize the Board to fix their remunerations.
6. To consider and approve unifying the date of termination and appointment of each of the following Directors and Supervisors by extending their appointments to or terminating their appointments earlier (as the case may be) upon the conclusion of the next annual general meeting of the Company in or about June 2005, as follows:

<b>Directors</b>	<b>Expiry date of appointment</b>	<b>Extended Expiry Date</b>
Wang Hai Bo	19 January 2005	Conclusion of next AGM
Su Yong	19 January 2005	Conclusion of next AGM
Zhao Da Jun	19 January 2005	Conclusion of next AGM
Yu Qing Hua	19 January 2005	Conclusion of next AGM
Fang Jing	19 January 2005	Conclusion of next AGM
Jiang Guo Xing	19 January 2005	Conclusion of next AGM
<b>Supervisors</b>		
Dai Yan Ling	19 January 2005	Conclusion of next AGM
Zhuang Xian Han	19 January 2005	Conclusion of next AGM
Wei Dong Zhi	19 January 2005	Conclusion of next AGM



## NOTICE OF THE ANNUAL GENERAL MEETING

Directors	Expiry date of appointment	Earlier termination date
Pan Fei	19 June 2006	Conclusion of next AGM
Weng De Zhang	19 June 2006	Conclusion of next AGM
Cheng Lin	19 June 2006	Conclusion of next AGM

### Supervisors

Ji Nuo	19 June 2006	Conclusion of next AGM
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7. To approve the resignation of Mr. Zhang Li Qiang as non-executive Director and Mr. Sun Xiao Min as Supervisor and to consider and approve the appointment of Mr. Lou Yi as non-executive Director and Mr. Han Ben Yi as Supervisor in place of them until the conclusion of the next annual general meeting of the Company in or about June 2005, as follows:

	Termination Date	Commencement date of Appointment	Termination Date
Zhang Li Qiang <i>(resigned as Director)</i>	Conclusion of forthcoming AGM		
Sun Xiao Min <i>(resigned as Supervisor)</i>	Conclusion of forthcoming AGM		
Lou Yi <i>(to be appointed as Director)</i>	—	Conclusion of forthcoming AGM	Conclusion of next AGM
Han Ben Yi <i>(to be appointed as Supervisor)</i>	—	Conclusion of forthcoming AGM	Conclusion of next AGM

8. To consider and, if thought fit, pass the following resolutions as a Special Resolution:
- (1) Art.75, 92, 98 and 133 of the Articles of Association of the Company (“Articles of Association”) be amended in accordance with the latest amendments to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) as follows:
- (a) By adding the following to the end of Art.75:
- “Where any shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any vote cast or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.”

## NOTICE OF THE ANNUAL GENERAL MEETING

(b) By adding the following to the end of Art. 92:

“(4) Where any shareholder is, under the GEM Listing Rules, required to abstain from voting any particular resolution in a class meeting or restricted to voting only for or only against any particular resolution in a class meeting, any vote cast or on behalf of any shareholder in contravention of such requirement or restriction shall not be counted.”

(c) By adding the following to the second paragraph of Art.98:

“The period for lodgment of the notices referred to in this paragraph will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting.”

(d) By adding “any board resolution approving” and “any of his associates (as defined in the GEM Listing Rules)” to the second paragraph of Art.133 of the Articles of Association so that the paragraph reads as follows:

“A director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as defined in the GEM Listing Rules) has material interest nor shall he be counted in the quorum present at the meeting.”

(2) Article 97 of the Articles of Association be amended so that the total number of directors of the Company shall be 10 and that the number of independent directors shall be 3.

9. To consider and, if thought fit, pass the following resolutions as a Special Resolution:

**THAT:**

(1) 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;

## NOTICE OF THE ANNUAL GENERAL MEETING

- (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/or
  - (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.
- (2) contingent on the Board of Directors resolving to issue shares pursuant to paragraph (1) 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);

## NOTICE OF THE ANNUAL GENERAL MEETING

- (b) to determine the use of proceeds and to make necessary filings and registration with the PRC, Hong Kong and other relevant authorities;
  - (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 (1) of this resolution.
10. 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

**Wang Hai Bo**

*Chairman*

Shanghai, the PRC, 25 March 2004

Notes:

- (A) The register of holders of H Shares of the Company will be closed from 25 May 2004 (Tuesday) to 25 June 2004 (Friday) (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 24 May 2004 (Monday) 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 Domestic Shares or H Shares, who intend to attend the Annual General Meeting, must complete and return the reply slip to Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) or to the Secretary to the Board of the Company (for holders of Domestic Shares) not later than 20 days before the date of the Annual General Meeting, that is, before Saturday, 5 June 2004.

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 : 86-21-58553628  
Fax : 86-21-58553893

## NOTICE OF THE ANNUAL GENERAL MEETING

- (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 2003 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 of 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

**PricewaterhouseCoopers**  
22nd Floor Prince's Building  
Central Hong Kong  
Telephone (852) 2289 8888  
Facsimile (852) 2810 9888

**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 subsidiaries (the "Group") as of 31 December 2003 and the consolidated income and cash flow statements of the Group for the year then ended. These financial statements set out on pages 37 to 76 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 2003 and of the results of operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 25 March 2004

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

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

	Notes	Year ended 31 December	
		2003	2002
<b>Revenues</b>			
Turnover		8,131	22,518
Other revenue		2,394	718
<b>Total revenues</b>	3	<b>10,525</b>	23,236
<b>Costs and expenses</b>			
Cost of sales		(6,155)	(9,828)
Research and development costs		(17,970)	(10,095)
Distribution costs		(2,074)	(1,679)
Administrative expenses		(9,261)	(6,916)
Other operating expenses		(656)	(822)
<b>Total costs and expenses</b>		<b>(36,116)</b>	(29,340)
Other income	4	5,385	6,808
<b>Operating (loss)/profit</b>	5	<b>(20,206)</b>	704
Share of results of associate before taxation	18	(1,381)	—
<b>(Loss)/profit before taxation</b>		<b>(21,587)</b>	704
Taxation	8	2,802	(255)
<b>(Loss)/profit after taxation</b>		<b>(18,785)</b>	449
Minority interests		438	358
<b>(Loss)/profit attributable to shareholders</b>	9	<b>(18,347)</b>	807
<b>Dividends</b>	10	—	—
<b>(Loss)/earnings per share (RMB)</b>	12	<b>(0.0258)</b>	0.0013

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

As of 31 December 2003

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

	Notes	Group		Company	
		As of 31 December 2003	2002	As of 31 December 2003	2002
<b>Non-current assets</b>					
Leasehold land payments	13	5,127	5,235	5,127	5,235
Fixed assets	14	43,693	37,760	41,744	37,260
Technical know-how	15	8,385	4,766	3,704	4,766
Deferred development costs	16	16,615	11,228	16,318	2,469
Investment in subsidiaries	17	—	—	11,872	2,253
Investment in an associate	18	3,419	4,560	3,419	4,560
Available-for-sale investments	19	—	828	—	828
Deferred taxation assets	20	3,227	425	3,227	425
		<b>80,466</b>	64,802	<b>85,411</b>	57,796
<b>Current assets</b>					
Inventories	21	2,602	1,534	1,900	1,534
Trade receivables	22	2,701	2,169	2,701	2,169
Other receivables, deposits and prepayments		843	483	794	481
Amounts due from related companies	23	1,000	2,064	1,000	2,064
Amount due from a shareholder	24	250	250	250	250
Amount due from a subsidiary	25	—	—	—	4,779
Amount due from an associate	26	1,350	1,343	1,350	1,343
Available-for-sale investments	19	3,504	5,305	3,504	5,305
Held-to-maturity investements	27	6,003	—	6,003	—
Deposits in other financial institutions		2,945	598	2,945	598
Cash and bank balances		93,368	137,841	85,994	137,619
		<b>114,566</b>	151,587	<b>106,441</b>	156,142



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

As of 31 December 2003

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

	Notes	Group		Company	
		As of 31 December		As of 31 December	
		2003	2002	2003	2002
<b>Current liabilities</b>					
Trade payables	28	1,556	1,631	1,556	1,631
Other payables and accruals		5,242	12,144	4,471	12,144
Deferred revenue	29	5,073	4,908	3,873	4,209
Current taxation liabilities		—	407	—	407
Loans from municipal government authorities	30	1,650	2,050	1,650	1,650
Amount due to a subsidiary	25	—	—	4,752	—
Amount due to a shareholder	31	1,000	1,000	1,000	1,000
		<u>14,521</u>	<u>22,140</u>	<u>17,302</u>	<u>21,041</u>
<b>Net current assets</b>		<u>100,045</u>	129,447	<u>89,139</u>	135,101
<b>Total assets less current liabilities</b>		<u>180,511</u>	194,249	<u>174,550</u>	192,897
<b>Minority interests</b>	32	<u>5,961</u>	1,352	—	—
<b>Net assets</b>		<u><u>174,550</u></u>	<u>192,897</u>	<u><u>174,550</u></u>	<u>192,897</u>
<b>Financed by:</b>					
Share capital	33	71,000	71,000	71,000	71,000
Reserves	34	103,550	121,897	103,550	121,897
<b>Shareholders' funds</b>		<u><u>174,550</u></u>	<u>192,897</u>	<u><u>174,550</u></u>	<u>192,897</u>

**Wang Hai Bo**  
Director

**Zhao Da Jun**  
Director

25 March 2004

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

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

	Notes	Year ended 31 December	
		2003	2002
<b>Operating activities</b>			
Cash (used in)/generated from operations	35(a)	(19,164)	1,884
Interest received		113	403
Tax paid		(407)	(82)
Net cash (used in)/generated from operating activities		(19,458)	2,205
<b>Investing activities</b>			
Purchase of fixed assets		(15,950)	(16,771)
Acquisition of investment in an associate		—	(4,560)
Acquisition of equity interest from a minority shareholder		(500)	—
Additions in deferred development costs		(5,143)	(4,423)
Acquisition of technical know-how		(2,550)	(2,610)
Withdrawal of/(investments in) term deposits		48,245	(84,888)
Interest received from term deposits		1,942	—
Proceeds from disposal of available-for-sale investments		3,311	69
Net cash received from/(used in) investing activities		29,355	(113,183)
<b>Financing activities</b>			
Proceeds from issuance of ordinary shares		—	133,009
Additions in loans from municipal government authorities	35(b)	—	500
Repayments of loans from municipal government authorities	35(b)	(400)	(300)
Dividends paid to group shareholders		—	(7,950)
Capital contribution from minority shareholders		2,625	—
Net cash received from financing activities		2,225	125,259
<b>Increase in cash and cash equivalents</b>		<b>12,122</b>	<b>14,281</b>
<b>Movement in cash and cash equivalents</b>			
At beginning of the year		53,551	39,270
Increase		12,122	14,281
At end of the year		65,673	53,551
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances		93,368	137,841
Deposits in other financial institutions		2,945	598
Held-to-maturity investments with maturities within three months		6,003	—
Less: term deposits in bank with maturities over three months		(36,643)	(84,888)
		65,673	53,551

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2003

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

	Share Capital (Note 33)	Capital accumulation reserve (Note 34)	Statutory common reserve fund (Note 34)	Statutory common welfare fund (Note 34)	Retained earnings/ (Accumulated losses) (Note 34)	Total
At 1 January 2002	53,000	5	1,675	1,103	11,248	67,031
Issuance of ordinary shares (note 33)	18,000	134,755	—	—	—	152,755
Share issuance expenses	—	(19,746)	—	—	—	(19,746)
Dividend paid in respect of 2001	—	—	—	—	(7,950)	(7,950)
Profit for the year	—	—	—	—	807	807
Appropriation to statutory reserves	—	—	34	17	(51)	—
At 31 December 2002	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>4,054</u>	<u>192,897</u>
Loss for the year	—	—	—	—	(18,347)	(18,347)
At 31 December 2003	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(14,293)</u>	<u>174,550</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

*(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 of the date of this report, the Company has direct interests of 68.75% and 65% in two subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (“Morgan-Tan”) and Shanghai Ba Dian Medicine Co., Ltd. (“Ba Dian”), respectively.

The Company and its subsidiaries (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 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”), 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 subsidiaries. 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.

Investments in subsidiaries are 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 subsidiaries’ profit or loss for the year. The Company’s interest in the subsidiaries is carried in the balance sheet at amount that reflects its share of the net assets of the subsidiaries 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 are not subsidiaries 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 associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates.

According to Standing Interpretations Committee (SIC)-3, Elimination of Unrealised Profits and Losses on Transactions with Associates issued by the International Accounting Standards Board (“IASB”), the unrealised profits and losses resulting from transactions between the Group and its associates should be eliminated to the extent of the Group’s interest in the associates. Such elimination will subsequently be reversed upon realisation of the profits and losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (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 capitalised 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 39 below.

### (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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (f) Fixed assets and depreciation (Cont'd)

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.

### (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 capitalised 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 recognised 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 capitalised are transferred to contracted work-in-progress and recognised 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (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 on a straight-line basis 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.

### (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, short-term deposits in bank and other financial institutions and other short-term highly liquid investments 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (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.

### (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.

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as 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. Held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the 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 recognised 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 2003

(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 recognised 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 recognised 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 recognised 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 recognised 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

(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 recognised during the year are as follows:

	2003	2002
Turnover		
Technology transfer revenue	—	14,560
Sales of diagnostic reagent and the provision of related ancillary services	<b>8,131</b>	7,958
	<b>8,131</b>	22,518
Other revenue		
Interest income	<b>2,394</b>	718
	<b>10,525</b>	23,236

On 25 March 2002, the Company signed a technology transfer 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 of the transfer as specified in the contract and the economic benefits associated with the completion had flowed to the Company. Pursuant to the 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 from the technology transferred over the new drug protection period stipulated by the State Food and Drug Administration of the PRC ("SFDA"), 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 company of the Company, to transfer its PPAR $\gamma$  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 to the extent of the Group's interest in Lead Discovery (notes 2(b), 18 and 36).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 4 OTHER INCOME

	2003	2002
Amortisation of government grants and other non-refundable grants	4,463	6,015
Unrealised profit on available-for-sale investments	363	—
Realised profit on disposal of available-for-sale investments	319	—
Realisation of previously unrecognised profit on technology transfer to an associate (note 2(b))	240	—
Business tax rebate income	—	750
Surtaxes rebate income	—	43
	<u>5,385</u>	<u>6,808</u>

### 5 OPERATING (LOSS)/PROFIT

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

	2003	2002
Amortisation of leasehold land payments	108	21
Amortisation of deferred development costs	556	556
Amortisation of technical know-how	1,656	323
Auditors' remuneration	908	736
Provision for bad debts	6	827
Cost of inventories sold	5,599	5,587
Depreciation of fixed assets	3,396	2,172
Less: amount capitalised in deferred development costs	(503)	(491)
	2,893	1,681
Loss on disposal of fixed assets	46	315
Operating lease rentals in respect of land and buildings	56	202
Research and development expenditure (note (a))	17,970	10,095
Unrealised profit on available-for-sale investments	(363)	(98)
Realised (profit)/loss on disposal of available-for-sale investments	(319)	616
Provision for inventories obsolescence	74	—
	<u>74</u>	<u>—</u>

(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 capitalisation as an asset. The salary costs of technical staff are also included in the staff costs disclosed in Note 6 below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 6 STAFF COSTS

	2003	2002
Wages and salaries	8,810	5,998
Housing subsidies	1,319	1,126
Social security costs	808	636
Retirement benefit costs	633	595
	<hr/>	<hr/>
Staff costs including directors' and supervisors' emoluments	11,570	8,355
Less: amount capitalised in the deferred development costs	(1,558)	(1,873)
	<hr/>	<hr/>
	<b>10,012</b>	<b>6,482</b>
	<hr/> <hr/>	<hr/> <hr/>
The number of employees at the end of the year	<b>124</b>	106
	<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 RMB633,000 and RMB595,000 for the year ended 31 December 2003 and 31 December 2002, respectively.

## 8 TAXATION

	2003	2002
Current taxation	—	438
Deferred tax credit (note 20)	(2,802)	(183)
Share of tax of an associate	—	—
	<hr/>	<hr/>
	<b>(2,802)</b>	<b>255</b>
	<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 recognised 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 subsidiaries and an associate are subject to the Income Tax Law of the PRC and the income tax rate applicable is 33%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 8 TAXATION (Cont'd)

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

	2003	2002
(Loss)/profit before taxation	<u>(21,587)</u>	<u>704</u>
Tax calculated at a tax rate of 15%	(3,238)	106
Effect of different tax rate in the subsidiaries and an associate	(441)	(172)
Unrecognised tax losses of subsidiaries and an associate	1,175	315
Utilisation of previously unrecognised tax losses of a subsidiary	(366)	—
Expenses not deductible for tax purpose	<u>68</u>	<u>6</u>
Tax charge	<u>(2,802)</u>	<u>255</u>

## 9 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB18,347,000 and RMB807,000 for the years ended 31 December 2003 and 31 December 2002, respectively.

## 10 DIVIDENDS

At the meeting on 25 March 2004, the Board of Directors has recommended not to distribute any dividends in respect of the year ended 31 December 2003.

At the Annual General Meeting dated 20 June 2003, it was resolved not to distribute any dividends in respect of the year ended 31 December 2002.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 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:

	2003	2002
Basic salaries and allowances	1,120	1,017
Bonus	134	333
Retirement benefit and social security costs	79	70
	<u>1,333</u>	<u>1,420</u>

RMB90,000 fees were paid to the non-executive directors during the year (2002: RMB50,000).

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

	2003	2002
Executive director A	512	490
Executive director B	383	341
Executive director C	378	333
Supervisor A	—	216
Supervisor B	30	20
Supervisor C	10	20
Supervisor D	20	—
Non-executive director A	10	20
Non-executive director B	10	20
Non-executive director C	30	10
Non-executive director D	20	—
Non-executive director E	20	—
	<u>1,423</u>	<u>1,470</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

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

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

	2003	2002
Directors	3	3
Non-directors	2	2
	<u>5</u>	<u>5</u>

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

	2003	2002
Basic salaries and allowances	526	313
Bonus	392	567
Retirement benefit and social security costs	47	40
	<u>965</u>	<u>920</u>

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 2003

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

## 12 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/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 (note 33).

	2003	2002
(Loss)/profit attributable to shareholders	(18,347)	807
Weighted average number of ordinary shares in issue (thousands)	710,000	599,534
Basic (loss)/earnings per share (RMB)	<u>(0.0258)</u>	<u>0.0013</u>

Diluted (loss)/earnings per share has not been calculated for the years ended 31 December 2003 and 31 December 2002 as there were no dilutive potential ordinary shares 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.

	2003	2002
Net book value at 1 January	5,235	5,256
Amortisation	<u>(108)</u>	<u>(21)</u>
Net book value at 31 December	<u>5,127</u>	<u>5,235</u>

The original lease term and remaining lease period of the land use rights of the Group held outside Hong Kong are 50 years and 48 years, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 14 FIXED ASSETS

- (i) The fixed assets of the Group for the years ended 31 December 2003 and 31 December 2002 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
<b>Cost</b>					
At 1 January 2002	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
Additions	2,111	6,847	173	244	9,375
Transfers	(2,111)	2,111	—	—	—
Disposals	—	(64)	(72)	—	(136)
At 31 December 2003	—	47,857	2,151	1,219	51,227
<b>Accumulated depreciation</b>					
At 1 January 2002	—	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
Charge for the year	—	2,933	257	206	3,396
Disposals	—	(43)	(47)	—	(90)
At 31 December 2003	—	6,433	562	539	7,534
<b>Net book value</b>					
At 31 December 2003	—	41,424	1,589	680	43,693
At 31 December 2002	—	35,420	1,698	642	37,760

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 14 FIXED ASSETS (Cont'd)

- (ii) The fixed assets of the Company for the years ended 31 December 2003 and 31 December 2002 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
<b>Cost</b>					
At 1 January 2002	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
Additions	2,033	5,651	18	—	7,702
Transfers	(2,033)	2,033	—	—	—
Disposals	—	(64)	(60)	—	(124)
At 31 December 2003	—	46,085	1,852	850	48,787
<b>Accumulated depreciation</b>					
At 1 January 2002	—	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
Charge for the year	—	2,753	228	200	3,181
Disposals	—	(43)	(44)	—	(87)
At 31 December 2003	—	6,096	477	470	7,043
<b>Net book value</b>					
At 31 December 2003	—	39,989	1,375	380	41,744
At 31 December 2002	—	35,079	1,601	580	37,260

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 15 TECHNICAL KNOW-HOW

	Group		Company	
	2003	2002	2003	2002
<b>Cost</b>				
At beginning of the year	<b>6,074</b>	2,464	<b>6,074</b>	2,464
Acquisition	<b>5,275</b>	3,610	<b>21</b>	3,610
At end of the year	<b>11,349</b>	6,074	<b>6,095</b>	6,074
<b>Accumulated amortisation</b>				
At beginning of the year	<b>1,308</b>	985	<b>1,308</b>	985
Charge for the year	<b>1,656</b>	323	<b>1,083</b>	323
At end of the year	<b>2,964</b>	1,308	<b>2,391</b>	1,308
<b>Net book value</b>				
At end of the year	<b>8,385</b>	4,766	<b>3,704</b>	4,766

## 16 DEFERRED DEVELOPMENT COSTS

	Group		Company	
	2003	2002	2003	2002
<b>Cost</b>				
At beginning of the year	<b>13,174</b>	8,260	<b>4,415</b>	3,376
Capitalisation of cost	<b>5,943</b>	4,914	<b>14,405</b>	1,039
At end of the year	<b>19,117</b>	13,174	<b>18,820</b>	4,415
<b>Accumulated amortisation</b>				
At beginning of the year	<b>1,946</b>	1,390	<b>1,946</b>	1,390
Charge for the year	<b>556</b>	556	<b>556</b>	556
At end of the year	<b>2,502</b>	1,946	<b>2,502</b>	1,946
<b>Net book value</b>				
At end of the year	<b>16,615</b>	11,228	<b>16,318</b>	2,469

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 17 INVESTMENTS IN SUBSIDIARIES — COMPANY

	2003	2002
<b>Unlisted shares, at cost</b>		
At beginning of the year	5,000	5,000
Acquisition	10,250	—
	<hr/>	<hr/>
At end of the year	15,250	5,000
	<hr/>	<hr/>
<b>Share of reserves of subsidiaries</b>		
At beginning of the year	(2,747)	(2,151)
Share of results of subsidiaries for the year	(631)	(596)
	<hr/>	<hr/>
At end of the year	(3,378)	(2,747)
	<hr/>	<hr/>
	<b>11,872</b>	<b>2,253</b>
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During the year, the Company acquired a further 6.25% equity interest of Morgan-Tan and invested in 65% equity interest of a newly set-up subsidiary, Ba Dian, respectively. As of 31 December 2003, the Company held the following investments in subsidiaries which both are limited liability companies:

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	68.75	Research and development ("R&D") of specialised bio- pharmaceutical projects and provision of related services in the PRC
Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司)	PRC 4 June 2003	RMB15,000,000	65	Development of biological and medical technology, the provision of related R&D services and the sale of intermediary products in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 18 INVESTMENT IN AN ASSOCIATE — GROUP AND COMPANY

	<b>2003</b>	2002
Unlisted shares, at cost	<b>6,000</b>	6,000
Elimination of the unrealised profit on technology transfer (note 3)	<b>(1,200)</b>	(1,440)
Share of results of an associate	<b>(1,381)</b>	—
	<u><b>3,419</b></u>	<u>4,560</u>

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

	<b>2003</b>	2002
Listed shares and funds in the PRC	<b>2,504</b>	5,305
Unlisted shares in the PRC	<b>1,000</b>	828
	<u><b>3,504</b></u>	<u>6,133</u>
Available-for-sale investments at fair values		
Current	<b>3,504</b>	5,305
Non-current	<b>—</b>	828
	<u><b>3,504</b></u>	<u>6,133</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 20 DEFERRED TAXATION ASSETS — GROUP AND COMPANY

	2003	2002
<b>Deferred taxation assets (on net basis)</b>		
At beginning of the year	425	242
Credit to the income statement for the year (note 8)	<u>2,802</u>	<u>183</u>
At end of the year	<u><u>3,227</u></u>	<u><u>425</u></u>

A potential deferred taxation asset, which represents mainly temporary difference arising from tax losses carried forward in the subsidiaries, 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 RMB2,180,000 and RMB954,000 for the years ended 31 December 2003 and 31 December 2002 to carry forward against future taxable profit.

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 development costs	Deferred revenue	Total
At 1 January 2002	—	(300)	(300)
Charge to the income statement	<u>—</u>	<u>(122)</u>	<u>(122)</u>
At 31 December 2002	—	(422)	(422)
(Charge)/credit to the income statement	<u>(391)</u>	<u>308</u>	<u>(83)</u>
At 31 December 2003	<u><u>(391)</u></u>	<u><u>(114)</u></u>	<u><u>(505)</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 20 DEFERRED TAXATION ASSETS — GROUP AND COMPANY (Cont'd)

Deferred taxation assets (on gross basis)

	Deferred development			Total
	Provisions	costs	Tax losses	
At 1 January 2002	335	207	—	542
Credit/(charge) to the income statement	401	(96)	—	305
At 31 December 2002	736	111	—	847
(Charge)/credit to the income statement	(207)	(111)	3,203	2,885
At 31 December 2003	529	—	3,203	3,732

### 21 INVENTORIES

	Group		Company	
	2003	2002	2003	2002
Raw materials	1,405	1,120	1,405	1,120
Production supplies and consumables	172	150	172	150
Contracted work-in-progress	702	—	—	—
Finished goods	323	264	323	264
	2,602	1,534	1,900	1,534

Inventories including raw materials of RMB54,000 and finished goods of RMB1,000 are carried at net realisable value as of 31 December 2003 (2002: nil).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 22 TRADE RECEIVABLES — GROUP AND COMPANY

Details of the aging analysis are as follows:

	2003	2002
Current to 30 days	597	639
31 days to 60 days	836	468
61 days to 90 days	—	324
Over 90 days but less than one year	1,418	1,187
Over one year	1,840	1,535
	<hr/>	<hr/>
	4,691	4,153
Provision	(1,990)	(1,984)
	<hr/>	<hr/>
	2,701	2,169
	<hr/> <hr/>	<hr/> <hr/>

Customers are generally granted credit term of 90 days.

### 23 AMOUNTS DUE FROM RELATED COMPANIES — GROUP AND COMPANY

	2003	2002
Amount due from Shanghai HuaShi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (note(a))	1,000	1,000
Amount due from International Advertisement and Exhibition of China General Technology Co., Ltd. (note(b))	—	1,064
	<hr/>	<hr/>
	1,000	2,064
	<hr/> <hr/>	<hr/> <hr/>

- (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  $\alpha$ -glucosidase inhibitor from the SFDA.
- (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 was unsecured and repayable under normal trading terms, and was fully settled in January 2003.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 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/(TO) A SUBSIDIARY — COMPANY

The balance represents an amount due from/(to) Morgan-Tan, 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.

### 27 HELD-TO-MATURITY INVESTMENTS — GROUP AND COMPANY

The balance represents PRC listed securities purchased with fixed payments and fixed maturities. The underlying collaterals of the securities are the PRC government bonds.

### 28 TRADE PAYABLES — GROUP AND COMPANY

Details of the aging analysis are as follows:

	2003	2002
Current to 30 days	273	1,255
31 days to 60 days	—	190
61 days to 90 days	117	42
Over 90 days but less than one year	101	18
Over one year	1,065	126
	<u>1,556</u>	<u>1,631</u>

### 29 DEFERRED REVENUE

	Group		Company	
	2003	2002	2003	2002
Government grants (note (a))	4,473	4,436	3,773	3,737
Non-refundable grants (note (b))	100	472	100	472
Deferred contracted revenue (note (c))	500	—	—	—
	<u>5,073</u>	<u>4,908</u>	<u>3,873</u>	<u>4,209</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 29 DEFERRED REVENUE (Cont'd)

### (a) Government grants

	Group		Company	
	2003	2002	2003	2002
At beginning of the year	4,436	4,438	3,737	3,772
Additions	4,128	3,851	3,368	2,410
Transfer to the income statement	(4,091)	(3,853)	(3,332)	(2,445)
At end of the year	<u>4,473</u>	<u>4,436</u>	<u>3,773</u>	<u>3,737</u>

### (b) Non-refundable grants – Group and Company

	2003	2002
At beginning of the year	472	2,634
Transfer to the income statement	(372)	(2,162)
At end of the year	<u>100</u>	<u>472</u>

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.
- (c) On 15 September 2003, a subsidiary of the Company entered into a technology transfer agreement with Lin Yi Xin Shi Dai Pharmaceutical Co., Ltd. to transfer Mycophenolate Mofetil for a total consideration of RMB5,000,000. Deferred contracted revenue represents the portion of contract revenue received from such technology transfer but related to future performance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 30 LOANS FROM MUNICIPAL GOVERNMENT AUTHORITIES

The loans from municipal government authorities are repayable as follows:

	Group		Company	
	2003	2002	2003	2002
Within one year	<u>1,650</u>	<u>2,050</u>	<u>1,650</u>	<u>1,650</u>

The loans represent government assistance from several PRC municipal government authorities and are unsecured and interest free. All of the loans at 31 December 2003 are repayable within one year.

### 31 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 29(b)), and is unsecured and interest free.

### 32 MINORITY INTERESTS — GROUP

	2003	2002
At 1 January	1,352	1,710
Capital contribution by minority shareholders	5,250	—
Sales of equity interest to the Group	(203)	—
Share of net loss of subsidiaries	(438)	(358)
	<u>5,961</u>	<u>1,352</u>
At 31 December	<u>5,961</u>	<u>1,352</u>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 33 SHARE CAPITAL — GROUP AND COMPANY

	Number of shares (thousands)	Share capital
At 1 January 2002	530,000	53,000
Issuance of ordinary shares (note (b))	180,000	18,000
	<hr/>	<hr/>
At 31 December 2002	710,000	71,000
	<hr/>	<hr/>
At 31 December 2003	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 years ended 31 December 2003 and 31 December 2002, no share options were granted by the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 34 RESERVES — GROUP AND COMPANY

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Retained earnings/ (Accumulated losses)	Total
At 1 January 2002	5	1,675	1,103	11,248	14,031
Issuance of ordinary shares (note 33(b))	134,755	—	—	—	134,755
Share issuance expenses	(19,746)	—	—	—	(19,746)
Dividend paid in respect of 2001	—	—	—	(7,950)	(7,950)
Profit for the year	—	—	—	807	807
Appropriation to statutory reserves	—	34	17	(51)	—
	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>4,054</u>	<u>121,897</u>
Loss for the year	—	—	—	(18,347)	(18,347)
At 31 December 2003	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(14,293)</u>	<u>103,550</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

### 34 RESERVES — GROUP AND COMPANY *(Cont'd)*

- (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. Expenses related to the issue of shares are accounted for as a deduction of the capital accumulation reserve.
- (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 dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, there was no distributable reserve as of 31 December 2003 (2002: RMB3,232,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of (loss)/profit before taxation to cash (used in)/generated from operations:

	2003	2002
(Loss)/profit before taxation	(21,587)	704
Adjustments for:		
Amortisation of leasehold land payments	108	21
Depreciation of fixed assets	2,893	1,681
Amortisation of government grants and other non-refundable grants received	(4,463)	(6,015)
Amortisation of technical know-how	1,656	323
Amortisation of deferred development costs	556	556
Realised (profit)/loss on disposal of available-for-sale investments	(319)	616
Unrealised profit on available-for-sale investments	(363)	(98)
Loss on disposal of fixed assets	46	315
Interest income	(2,394)	(718)
Share of results of associate before taxation	1,381	—
Realisation of previously unrecognised profit on technology transfer to an associate	(240)	—
Changes in working capital:		
- trade and other receivables and amounts due from a shareholder, related companies and an associate	505	1,514
- inventories	(1,068)	(323)
- trade and other payables	(503)	898
- amount due to a shareholder	—	(1,441)
- deferred revenue	4,628	3,851
Cash (used in)/generated from operations	<u>(19,164)</u>	<u>1,884</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

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

	2003	2002
Loans from municipal government authorities		
At beginning of the year	2,050	1,850
Additions	—	500
Repayments	(400)	(300)
At end of the year	<u>1,650</u>	<u>2,050</u>

(c) Major non-cash transaction

Upon the establishing of Ba Dian in June 2003, the minority shareholders subscribed 17.5% equity interest by contribution of RMB2,625,000 technical know-how.

## 36 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, 29(b), 31 and 32, the Group had the following significant transactions with related companies during the year ended 31 December 2003 and 31 December 2002.

	2003	2002
Rental expense paid to Shanghai Zhangjiang Hi-Tech Service Centre Co., Ltd., a fellow subsidiary of ZJ Hi-Tech Park Co., and Shanghai Zhangjiang (Group) Co., Ltd., the holding company of ZJ Hi-Tech Park Co., a major shareholder of the Company (a)	—	103
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 36 RELATED PARTY TRANSACTIONS *(Cont'd)*

- (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 (Group) Co., Ltd. and Shanghai Zhangjiang (Group) Co., Ltd., 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.
- (b) As described in note 29(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 31.
- (c) On 5 December 2002, the Group entered into an agreement with Lead Discovery to transfer its PPAR $\gamma$  activator at a price of RMB6,000,000 (note 3). The unrealised profit from the transfer has been eliminated to the extent of 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 was fully settled in January 2003.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 37 SEGMENTAL INFORMATION

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

	Year ended 31 December 2003			Year ended 31 December 2002		
	Research and development activities	Sales of diagnostic reagent and the provision of related ancillary services	Total	Research and development activities	Sales of diagnostic reagent and the provision of related ancillary services	Total
Turnover	—	8,131	8,131	14,560	7,958	22,518
Segment (loss)/profit	(14,570)	318	(14,252)	5,908	723	6,631
Unallocated income			3,316			1,811
Unallocated costs			(10,651)			(7,738)
(Loss)/profit before taxation			(21,587)			704
Taxation			2,802			(255)
(Loss)/profit after taxation			(18,785)			449
Minority interests			438			358
(Loss)/profit attributable to shareholders			(18,347)			807

Note: Unallocated income and unallocated costs mainly represented other revenue and 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 37 SEGMENTAL INFORMATION (Cont'd)

	Research and development activities	Sales of diagnostic reagent and the provision of related services	Unallocated activities	Total
<b>31 December 2003</b>				
Segment assets	60,266	10,402	124,364	195,032
Segment liabilities	(8,706)	(945)	(10,831)	(20,482)
Net	<u>51,560</u>	<u>9,457</u>	<u>113,533</u>	<u>174,550</u>
<b>Other segment items</b>				
Capital expenditure	15,688	352	1,425	17,465
Depreciation	2,198	252	946	3,396
Amortisation	1,519	754	47	2,320
Impairment charge	—	80	—	80
Other non-cash expenses	4	7	35	46
<b>31 December 2002</b>				
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>
<b>Other segment items</b>				
Capital expenditure	19,002	2,177	5,324	26,503
Depreciation	1,451	238	483	2,172
Amortisation	121	735	44	900
Impairment charge	—	827	—	827
Other non-cash expenses	—	—	931	931

Note: Unallocated activities mainly represented the holding of cash and bank deposits, available-for-sale investments and held-to-maturity investments 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 38 COMMITMENTS

As of 31 December 2003, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of buildings as follows:

	2003	2002
Within one year	113	—
In the second to fifth years inclusive	169	—
	<hr/>	<hr/>
	282	—
	<hr/> <hr/>	<hr/> <hr/>

## 39 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, held-to-maturity investments 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 0.40% 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2003

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

## 39 FINANCIAL INSTRUMENTS *(Cont'd)*

### (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 part 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.

## 40 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

## 41 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2004.