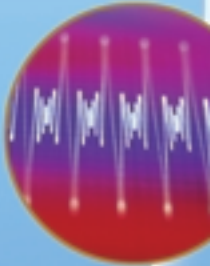




上海復旦張江生物醫藥股份有限公司  
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.  
(a joint stock limited company incorporated in the People's Republic of China)

# Annual Report 2004



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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of The Stock Exchange of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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*This report, for which the directors (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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



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# CORPORATE INFORMATION

## Board of Directors

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

## Non-executive Director

Yu Qing Hua (*Vice-chairman*)  
Lou Yi  
Fang Jing  
Jiang Guo Xing

## Independent Non-executive Director

Pan Fei  
Cheng Lin  
Weng De Zhang

## Supervisors

Han Ben Yi  
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  
Certified Public Accountants Ltd. Co.

## 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

## Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor  
Services Limited  
46/F Hopewell Centre  
183 Queen's Road East, Hong Kong

## Register Office and Principal Place of Business in the PRC

308 Cailun Road  
Zhangjiang Hi-Tech Park  
Pudong Shanghai 201203, PRC

## 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)



## CHAIRMAN'S STATEMENT

On behalf of the board of directors ("the Board") of the Company, I herein present the annual report of the Company together with its subsidiaries (collectively as "the Group") for the year ended 31st December, 2004 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 research and development ("R&D") of genetic engineering, new drug screening, and commercializing patent drugs and special drugs that suit the PRC market.

In respect of R&D, a summary of the Group's major achievements during the year are as follows:

- Five projects, namely recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑) (rhIL-1Ra) for the treatment of arthritis, recombinant human parathyroid hormone derivatives (重組人甲状旁腺激素) (rhPTH) for the treatment of osteoporosis, ALA (5-氨基酮戊酸鹽) for the treatment of pointed condyloma (尖銳濕疣),  $\alpha$ -glucosidase Inhibitor (桑根鱘片) for the treatment of diabetes, and light sugar for the treatment of diabetes, have been approved by the State Food and Drug Administration ("SFDA") to enter into clinical research.
- Registration approval for the health food Andijin (安抵金) for reduction of blood sugar has been obtained.
- Recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可溶性TNFR75融合蛋白) for the treatment of arthritis, and Hemporfin, a photodynamic therapy drug, have been applied to SFDA to proceed with clinical researches.
- Application has been made to SFDA for the production approval in respect of Doxorubicin Liposome Injection (脂質體阿霉素).

In respect of technology transfers, the Group is actively exploring for overseas markets, and has entered into technology transfer and technology service contracts with companies based in Taiwan and Singapore.

- According to the technology transfer contract with a pharmaceutical company in Taiwan, the Group transferred the overseas rights of a technology to that company for a consideration of RMB7,500,000. The Group is also entitled to a profit sharing on the sales after its launch of the products.
- The Group's subsidiary, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. ("Morgan Tan"), entered into an agreement with a pharmaceutical company in Shandong province, and transferred a technology to that company at a consideration of RMB4,500,000.

## CHAIRMAN'S STATEMENT

- Another subsidiary of the Group, Shanghai Ba Dian Medicine Co., Ltd. (上海靶點藥物有限公司) ("Ba Dian") entered into a technology development agreement with a pharmaceutical company in Singapore involving an amount of RMB4,500,000 for the technological development and technical services on two of its medical projects.
- In September 2004, the Group entered into a technology transfer contract with a Taiwan company in respect of the transfer of overseas rights on a technology to that company for a consideration of RMB2,300,000. The Group will share in proportion of the sales profits upon the launch of the product.
- In February 2005, the Group entered into a technology transfer contract with a company in Mainland China in respect of the transfer of the technology to that company for a consideration of RMB17,000,000, and at the same time, reserving to the Group the rights to share in certain proportion of sales profits. By strategically transferring the rights of its R&D projects in China and overseas to different companies, such arrangement benefits the Group by maximizing the Group's returns from such projects.

In respect of patents, the Group has been actively protecting its intellectual property rights on its innovative medicines and research results. During the period under review, the Group has applied for 7 invention patents, including 3 Patent Cooperation Treaty (PCT) patents, including hemporfin for the treatment of macular degeneration, Arginine Deiminase (精氨酸脫亞胺酶) with anti-tumor activities and receptor selective lymphotoxin (受體選擇性淋巴毒素). During the period under review, the Group has received grants of 4 invention patents. As at 31 December 2004, the Group has applied for 25 invention patents in aggregate, and has been granted 10 invention patents.

In respect of commercialization, the Down's Syndrome antenatal screening system has obtained drug registration certificate from the SFDA, and passed the GMP certification by the SFDA. The product has become the first product approved for production and sale by the SFDA since the launch of the "Birth defect interference projects" by the PRC, which is targeting the newly born baby market of approximately 20 million every year. The launch of the product is a new milestone in the course of the Group's commercialization development.

Since its establishment, the Group has been in compliance with the industrial policies of the State, improving its capacity of self-development of new drugs as its principal direction of development, and has obtained the full support by the State. The Group has obtained a number of grants from reputable funds, provincial or State level medical and pharmaceutical institutions in the PRC. During the period under review, the various grants in respect of the R&D projects obtained by the Group amounted to RMB4,605,000, indicating the outstanding results obtained by the Group in the R&D area.



## CHAIRMAN'S STATEMENT

The research on the Group's various R&D projects have been progressing successfully. However, there are also delays on the progress of some items due to adjustments on the focus of R&D and changes made by SFDA on the procedures for clinical applications. Overall, most of the R&D projects are progressing as planned, and at the same time, some projects which were not disclosed in the prospectus, have been completed ahead of schedule. Original project plans and their actual progress are as follows:

<b>Project name and description</b>	<b>Anticipated progress of R&amp;D in 2004 as set out in the prospectus</b>	<b>Actual progress as at 31st December, 2004</b>
Recombinant human lymphotoxin- $\alpha$ derivatives (rhLT) for the treatment of lung cancer	Completed trial production	Completed stage I clinical test. Stage II clinical test is pending approval by the SFDA
Recombinant human parathyroid hormone derivatives (rhPTH) for the treatment of osteoporosis	Commenced Stage III clinical test	Has been approved by the SFDA for clinical test
Construction of GMP plant	GMP certificate has been obtained, and completed purchase of all production and quality control facilities	GMP plant for the production of Down's Syndrome antenatal screening system has been completed and passed GMP certification  In addition, land requisition compensation contract has been entered into for the land use right of approximately 15 mou of land, for the use in the commercialization of the projects to follow
Hemporfin, a photodynamic therapy drug	Completed Stage III clinical test	Application for clinical test has been made to the SFDA
Deuteroporphyrin, a photodynamic therapy drug	Commenced Stage III clinical test	Has basically completed pre-clinical researches

## CHAIRMAN'S STATEMENT

Project name and description	Anticipated progress of R&D in 2004 as set out in the prospectus	Actual progress as at 31st December, 2004
Human leukocyte antigen (HLA) genetic chips	—	Completed
Lymphotoxin mutants	—	Completed
New type of erythropoietin	—	Research is suspended due to other considerations and is replaced with recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑) (rhIL-1Ra). The project has been approved by the SFDA to enter into clinical test
$\alpha$ -1,4 glucosidase inhibitor	Completed pre-clinical research	Completed ahead of schedule, and approved by the SFDA to enter into clinical test
Others	<p>Completed research on the theories of compound Chinese medicine for the treatment of hepatic fibrosis</p> <p>Completed design and screening platform for the design of improved new drug</p> <p>Developed two to three drugs as new targets for future development.</p> <p>Determined one to two self-developed full functional fusion proteins</p>	<p>The direction of research in Chinese medicines has been replaced with the research in liposome, the remaining tasks have all been completed</p>





## CHAIRMAN'S STATEMENT

Project name and description	Anticipated progress of R&D in 2004 as set out in the prospectus	Actual progress as at 31st December, 2004
Recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑) (rhIL-1Ra)	Nil	Has been approved by the SFDA to enter into clinical test
Recombinant human soluble TNFR75 fusion protein (Etanercept) (重組人可融性TNFR75融合蛋白) for the treatment of arthritis	Nil	Application has been made to the SFDA for clinical test
ALA (5-氨基酮戊酸鹽), a new photodynamic drug (bulk)	Nil	Has been approved by the SFDA to enter into clinical test, and clinical test is half completed
ALA (5-氨基酮戊酸鹽), a new photodynamic drug (preparation)	Nil	Has been approved by the SFDA to enter into clinical test, and clinical test is half completed

### FUTURE PROSPECTS

With the increasing awareness of medical health products by the civilians, and the continuing enhancement of the economic development level and the consumption level of the people, prospects of the pharmaceutical market in the PRC is very promising. The Group will continue to develop and manufacture innovative drugs as in the past, and to protect its intellectual property rights by more stringent measures, including its R&D technologies and products under patent protections. Therefore, I am fully confident and optimistic on the development prospects of the Group.

In order to maintain its market competitiveness, the Group will further strive to expand its existing market share, and focus its resources in the R&D, commercialization, project transfers and marketing.

- R&D

Over the years, the Group has accumulated extensive experience in R&D, and has achieved a leading position in the pharmaceutical industry in the PRC. The Group has formed a very close cooperative relationships with Life Science Research Institute of the Chinese Academy of Sciences, Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences and Shanghai Institute of Medical Research of the Chinese Academy of Sciences, all being reputable domestic institutions. At the same time, the Group also made further cooperation 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.



## CHAIRMAN'S STATEMENT

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 strategically 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). Application has been made to the SFDA for the clinical test of the recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可融性TNFR75融合蛋白) for the treatment of arthritis which the Group developed on the platform. Currently, the Company has commenced in the research of another mono-cloning antibody drug with proprietary intellectual property rights.

On the other hand, in respect of the R&D on the Group's drug design and screening, by extensively using computer-assisted designs, combinatory chemistry and high throughput screening platforms for the screening of new drugs, progress has been made in the research on the blocking agent to block AIDS virus from entering the CCR4 and CCR5 receptors, and has obtained supports from the State foundation, making the project to be of significant development potential.

Regarding the R&D on photodynamic therapy drug, the Group will effectively perform clinical researches on the photodynamic projects which have been approved for clinical research, and develop new proprietary indication for such drugs (macular degeneration for which patent application has been made) and research on a new drug precursor.

Regarding transmission system of new drugs, the Group will further develop a number of liposome drugs based on Doxorubicin Liposome (脂質體阿霉素), for which application to SFDA has been made, in order to form a series of liposome drugs.

In 2004, the Group has been approved by the SFDA to enter into clinical test on 5 drugs, and it is anticipated that approvals will be granted by SFDA one after the other commencing from 2005. By then, the relevant clinical trials 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 comply with the standardization requirements of SFDA relating to vitro diagnostic reagents, and product registration and applications have also basically been completed. Bio-chemical diagnostic reagents which were formerly registered under the Drug Management Category now have to be registered under the Medical Device Management Category.



## CHAIRMAN'S STATEMENT

The Group's antenatal screening system for Down's Syndrome has been granted with production approval, and passed the GMP certification of SFDA, and has commenced sales. The 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 with the related entities of the Scientific Research Institute of the State Birth Planning Committee, and actively participates in the regional promotion of the "Birth defects interference engineering". It is anticipated that this project will contribute profit to the Company.

Currently, clinical test on ALA (5-氨基酮戊酸鹽), a new photodynamic drug of the Group, is near to half completion, and is expected to obtain new drug certificate within the year. Application to SFDA has been made for production of Doxorubicin Liposome (脂質體阿霉素). The two products will soon be put into commercialization. The Group is proactively planning for the production facilities of these two categories of products, so as to be in line with the GMP certification and market sales of these two products. The production of these two products is expected to contribute to the Group's revenue.

In respect of commercialization, in addition to the production and sales of diagnostic reagents, antenatal screening system for Down's Syndrome, and the Group's ALA (5-氨基酮戊酸鹽), a new photodynamic drug and Doxorubicin Liposome (脂質體阿霉素) which are pending approval and production, the Group will be successfully transformed from purely R&D both R&D and commercialization, thereby enabling the Company to proceed to a more solid development stage.

- Project transfers

With a number of projects close to obtaining approvals on clinical trial, the overall value of such projects for transfer and the chance for a successful transfer will increase. Therefore, the Directors anticipate that with the increasing number of projects being approved to commence clinical trial, income from technology transfer will grow in 2005. 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. The Group will retain some of the intellectual property right projects as key development, until their commercialization and commencement of marketing, and to transfer the rights on non-key development projects domestically and overseas so as to maximize their values.

In anticipation of the formal launching of the antenatal screening system for Down's Syndrome, and the approval for production of Doxorubicin Liposome (脂質體阿霉素), a new photodynamic drug in the near future, the Group is currently engaged in the development of the marketing system, so as to complete the organic integration of the Group's R&D, product manufacture to marketing functions.



## CHAIRMAN'S STATEMENT

### ACKNOWLEDGEMENT

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

**Wang Hai Bo**

*Chairman*

Shanghai, the PRC, 29th March, 2005



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The following discussion and analysis of the Group's financial and operational position 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 2004 amounted to approximately RMB10,567,000, compared to RMB8,131,000 for the same period in 2003. During the year under review, approximately RMB4,200,000 (or 40% of the total turnover) was derived from the income of technology transfer, and the rest of approximately RMB6,367,000 (or 60% of the total turnover) came from the sale of diagnostic products and the provision of the ancillary services. In contrast, the total turnover for the year 2003 was only generated from the sale of diagnostic products and the provision of the ancillary services.

### REVENUE FROM TECHNOLOGY TRANSFER

Comparing to a nil income from technology transfer for the year 2003, a total income of approximately RMB4,200,000 was recognized from technology transfer in 2004. In March 2004, the Group entered into a technology transfer contract with a Taiwan based pharmaceutical company for a total consideration of RMB7,500,000. The economic benefits flowed into the Group summed up to RMB2,000,000 in return for the work done for the first two stages as stipulated in the terms of the contract. A subsidiary of the Group, Ba Dian, signed a technology development contract with a Singaporean pharmaceutical company for a proceeds of RMB4,500,000, and has obtained an income of RMB200,000 within the year under review. Another subsidiary of the Group, Morgan-Tan, entered into an agreement to transfer a technology Mycophenolate Mofetil to a Shandong based medical company for a consideration of RMB4,500,000. The inflow of economic benefits to the Group amounted to RMB2,000,000 as a result of the completion of the tasks by stages.

### REVENUE FROM SALE OF DIAGNOSTIC PRODUCTS AND PROVISION OF RELATED ANCILLARY SERVICES

Revenue from the sale of diagnostic products and the provision of ancillary services reduced by 22% for the year ended 31 December 2004, in comparison with that of last year. This is mainly because the Group has undergone a crucial transformation process during the year under review. Its core business has evolved from pure R&D to the combination of R&D and commercialization. The management therefore modified the corresponding marketing strategies, which placed more emphasis on cash returns from accounts receivables in selling the traditional diagnostic products with lower profitability, even at the expense of giving up some short-term upfront earnings. However, more resources have been devoted to the new products with growth potential and profit margins, in order to support their market entries, with an aim to competing for a substantial market share at the early stage of commercialization.



## MANAGEMENT DISCUSSION AND ANALYSIS

### COST OF SALES

In comparison to RMB6,155,000 for the same period last year, the cost of sales for the year ended 31 December 2004 was RMB8,325,000, raised by 35% from that of last year. This has been growing in line with the enhancing turnover.

### OPERATING LOSS

Operating loss for the year ended 31 December 2004 was approximately RMB24,446,000, whereas the figure was RMB20,206,000 in 2003. Several factors contributed to the declining situation. Firstly, the interest income as reflected in other income was cut by half when compared with the same period in the previous year, for the reason that large sums of capital has been invested in R&D, resulting in a reduction of cash deposited in banks. Secondly, the distribution costs increased by 14%, due to the fact mentioned above, that the Group employed relatively more resources on the launch of new products. Thirdly, the amortization of technical know-how of the Group for the year under review increased from that of last year. And lastly, the increase in other operating expenses were caused by a provision for impairment of a technical know-how Oxymatrine of RMB1,000,000, which was the impairment loss provided for by the management from a cautious perspective, taking into account the uncertainty of the project's future R&D.

### LOSS ATTRIBUTABLE TO SHAREHOLDERS

A loss attributable to shareholders of RMB24,901,000 was recorded for the year ended 31 December 2004, compared with RMB18,347,000 for the same period in 2003. The increase in operating loss was mainly caused by the increase in costs and expenses, and the decrease in other income. However, the Directors believe that with achievements in the embarkation of the new products and continuous improvement on commercialization of the Group, operating returns and commercialization will be obtained in the next financial year.

### 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 other impairment of assets has been noted as at 31 December 2004, apart from the impairment loss on intangible asset of RMB1,000,000 provided for the technical know-how Oxymatrine, as mentioned above.

### SIGNIFICANT INVESTMENTS

For the year ended 2004, the Group did not have any significant investment.

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

In April 2004, the Group recognized the second phase investment of RMB1,200,000 on the associated company Shanghai Lead Discovery Pharmaceutical Co., Ltd. ("Lead Discovery"), upon completion of capital verification by Lead Discovery.



## MANAGEMENT DISCUSSION AND ANALYSIS

### CONTINGENT LIABILITIES

As at 31 December 2004, the Directors were not aware of any material contingent liabilities.

### CHARGE ON ASSETS

As at 31 December 2004, the Group did not have any charge on its assets.

### BANKING FACILITIES

As at 31 December 2004, the Group had not applied for any banking facilities.

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group has gone through the relevant process for the purchase of a 15-mou land at a site next to the Company for the new production facilities, and has signed the related compensation contract for land resumption on 25 February 2004. The total investment has not yet determined.

Save as above, the Group did not have any future plans for material investments or capital assets.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of shares on the Hong Kong GEM Board in August 2002 by the Company and financial assistance as well as loans from municipal government authorities. As at 31 December 2004, the Group had outstanding loans from municipal government authorities of RMB 1,650,000 which are unsecured and interest free.

As at 31 December 2004, the Group had a net cash and cash equivalent position of approximately RMB64,924,000.

The Group's gearing ratio as at 31 December 2004 was 0.10 (31 December 2003: 0.08) which is calculated based on the Group's total liabilities of RMB14,980,000 (31 December 2003: RMB 14,521,000) and shareholders' funds of RMB149,649,000 (31 December 2003: RMB174,550,000).

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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 in 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 2004, the Group had a total of 137 employees, as compared to 124 employees as at 31 December 2003. Staff costs including directors' remuneration for the year ended 31 December 2004 and 2003 were RMB13,426,000 and RMB11,570,000, 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 social welfare plans, are also provided to employees.





## REPORT OF THE DIRECTORS

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 2004.

### PRINCIPAL ACTIVITIES

The Group is principally engaged in the R&D of innovative drugs.

The Group's turnover for the year ended 31 December 2004 was generated from technology transfer and sale of diagnostic products with the provision of related ancillary services.

### MAJOR CUSTOMERS AND SUPPLIERS OF DIANOSTIC REAGENT

During the period covered by this report, the proportions of the major customers and suppliers which accounted for the Group's total sales and purchases are as follows:

	Proportion in the Group's total	
	Sales	Purchases
Largest customer	19%	
Total of the five largest customers	57%	
Largest supplier		22%
Total of the five largest suppliers		67%

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

### RESULTS

The results and financial position of the Group for the year ended 31 December 2004 are set out on pages 39 to 80.

### DIVIDENDS

At the meeting on 29 March 2005, the Board of Directors did not propose to declare any dividends for the year ended 31 December 2004.

### SHARE CAPITAL

There is no movement in the share capital of the Group during the year.



## 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 33 to the financial statements. On 31 December 2004, 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 subsidy and housing provident fund provided to staff are included in note 6 of the financial statements.

### DIRECTORS AND SUPERVISORS

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

#### EXECUTIVE DIRECTORS:

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

#### NON-EXECUTIVE DIRECTORS:

Yu Qing Hua (*Vice-Chairman*)  
Zhang Li Qiang (Resigned on 25 June 2004)  
Lou Yi (Appointed on 25 June 2004)  
Fang Jing  
Jiang Guo Xing



## REPORT OF THE DIRECTORS

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Pan Fei  
Cheng Lin  
Weng De Zhang

### SUPERVISORS

Sun Xiao Min (Resigned on 25 June 2004)  
Han Ben Yi (Appointed on 25 June 2004)  
Dai Yan Ling  
Zhuang Xian Han  
Wei Dong Zhi  
Ji Nuo

### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and Supervisors, whose term as approved on the last annual general meeting was unified till (or before or after) June 2005 upon the conclusion of the next annual general meeting, has entered into a service agreement with the Group. The term of service thereafter for each of the Directors and Supervisors is renewable subject to approval of the shareholders' general meeting.

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

Profile of the Directors, Supervisors and senior Management are set out on pages 28 to 30.

### 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.

### RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

For the year ended 31 December 2004, none of the Company, its subsidiaries, its fellow subsidiaries or its ultimate controlling companies has engaged in any arrangement, to enable the Directors or Supervisors of the Company to benefit from acquiring the shares in or debentures of the Company or of any other body corporate.

## REPORT OF THE DIRECTORS

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

As at 31 December 2004, the interests (including interests in shares and/or 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 5.46 to 5.67 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.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2004, the persons other than a director, chief executive or supervisor of the Company who have interests and/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/or short positions, if any, 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	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage 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%
Princepts MB Asset Management Corp.	H Shares	18,900,000 (L)	Beneficial Owner	Corporate	9.54%	2.66%

# 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 2004 or at any time during that financial year.

## USE OF PROCEEDS

During the period from 1 January 2004 to 31 December 2004, the Group has applied the net proceeds as follows:

Item	Anticipated use of the net proceeds for the year ended 31 December 2004 as set out in the prospectus (RMB'000)	Actual amount used as at for the year ended 31 December 2004 (RMB'000)
<b>Research and commercialization of genetic engineering drugs</b>		
Recombinant human pumphotoxin- $\alpha$ derivatives (rhLT)	—	1,387
Recombinant human parathyroid hormone derivatives (rhPTH)	—	394
Purchase of production and quality control facilities	—	2,014
<b>Research and commercialization of photodynamic therapy drugs</b>		
Hemporfin	—	1,292
Deuteroporphyrin	—	1,485
<b>Research and commercialization of medical diagnosis products</b>		
HLA genotyping chips	—	1,799
<b>Enhancement of the Company's capabilities in R&amp;D and new drug screening</b>		
	—	6,947
<b>Total</b>	—	15,318



## REPORT OF THE DIRECTORS

### 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 2004, one fellow subsidiary of Guotai Junan held 1,208,000 H Shares of the Company. Save as mentioned above, none of Guotai Junan, Barits, their directors, employees or 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 2004, the continuing connected transactions disclosed by the Company in compliance with the disclosure requirements set out in Chapter 20 of the GEM Listing Rules are as follows:

#### REVENUE

Transactions	Amount	Annual limit
	(in RMB '000,000)	
<b>Morgan-Tan</b>		
Fees received for use of premises and sharing of facilities	0.35	2
<b>Shanghai Pharmaceutical</b>		
Sales to Shanghai Pharmaceutical pursuant to the sales and distribution agreement commencing 2004	—	40

#### EXPENDITURE

Transactions	Amount	Annual limit
	(in RMB '000,000)	
<b>Fudan University</b>		
	—	5
<b>Morgan-Tan</b>		
Technological service fees	—	4

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



## 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 subsidiaries 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 favorable to the Company than those available to or from independent third parties; and
4. in accordance with the terms of the agreement governing such transactions.

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

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

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the regulations prescribed by the GEM Listing Rules, each of the independent non-executive directors of the Company has confirmed with the Company their independence. The Company has received such confirmation from the independent non-executive Directors and considers the independent non-executive Directors as independent.



## REPORT OF THE DIRECTORS

### FINANCIAL DATA HIGHLIGHT

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

	Year ended 31 December		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Total revenues	10,567	8,131	22,518
Operating (loss)/profit	(24,446)	(20,206)	704
Finance costs	—	—	—
Share of results of associate before taxation	(2,240)	(1,381)	—
(Loss)/profit before taxation	(26,686)	(21,587)	704
Taxation	258	2,802	(255)
(Loss)/profit after taxation	(26,428)	(18,785)	449
Minority interests	1,527	438	358
(Loss)/profit attributable to shareholders	(24,901)	(18,347)	807

### ASSETS AND LIABILITIES

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

	As at 31 December		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Total assets	169,063	195,032	216,389
Total liabilities excluding minority interests	14,980	14,521	22,140
Minority Interests	4,434	5,961	1,352
Balance of shareholders' fund	149,649	174,550	192,897

### 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. Wong 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 2004 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%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海制藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥有限公司)	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. (上海華氏制藥有限公司) (Note)	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%

#### 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)	Drug manufacturing	65%
Yunnan Tongyong Shanmei Pharmecautical Co.,Ltd. (雲南通用善美制藥有限公司)	Drug manufacturing	51%



## REPORT OF THE DIRECTORS

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%

*Note: 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.*

### BOARD PRACTICES AND PROCEDURES

During the year ended 31 December 2004, the Company has been complying with Rules 5.34 to 5.45 of the GEM Listing Rules relating to the board practices and procedures.

### SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2004, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings stipulated in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Directors of the Company have been complying with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2004.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2004.

### PRE-EMPTIVE RIGHTS

There is no regulation for the purchase of the pre-emptive rights as set out in 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), which 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.



## REPORT OF THE DIRECTORS

### AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who upon retirement is eligible for offering itself for re-appointment. The Company has not changed the auditor during the last three years.

By Order of the Board

**Wang Hai Bo**

*Chairman*

As at the date on the publication of this report, the Board comprises:

Mr. Wang Hai Bo (*Executive Director*)

Mr. Su Yong (*Executive Director*)

Mr. Zhao Da Jun (*Executive Director*)

Mr. Yu Qing Hua (*Non-executive Director*)

Mr. Lou Yi (*Non-executive Director*)

Ms. Fang Jing (*Non-executive Director*)

Mr. Jiang Guo Xing (*Non-executive Director*)

Mr. Pan Fei (*Independent Non-executive Director*)

Mr. Cheng Lin (*Independent Non-executive Director*)

Mr. Weng De Zhang (*Independent Non-executive Director*)

Shanghai, the PRC, 29 March 2005



## REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders:

The Supervisory Committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Supervisory Committee”) for the year 2004 has performed its duties in accordance with the relevant provisions and requirements of the Company Law and the Articles of Association, and the Supervisors have 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 held the opinion 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 2004.

To the point of view of the Supervisory Committee, the resolutions passed in all board meetings for the year 2004 had been made with a view to protecting the Company’s interests. No insider dealings, or anything which was prejudicial to the interests of the Company, or loss of Company’s assets was acknowledged. The auditors’ reports issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co. 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 2004 and has great confidence in the future of the Company.

By order of the Supervisory Committee

**Han Ben Yi**

*Supervisor*

As at the date on the publication of this report, the supervisory committee comprises:

Mr. Han Ben Yi

Ms. Dai Yan Ling

Mr. Zhuang Xian Han

Mr. Wei Dong Zhi

Mr. Ji Nuo

Shanghai, the PRC, 29 March 2005



## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### DIRECTORS

#### EXECUTIVE DIRECTORS

**Wang Hai Bo**, aged 44, 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 41, 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 34, 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 59, 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.

**Lou Yi**, aged 47, graduated from Xin Jiang Medical University with a Ph.D. Mr. Lou did his post-doctoral research on applied economics in Fudan University. He used to be the managing director of Shanghai Bo Xing Gene Chip Co., and Shanghai Biochip Co., Ltd. He is currently the deputy managing director of General Technology Group Pharmaceutical Holding, Ltd. He was appointed as a non-executive Director in June 2004.

**Fang Jing**, aged 36, 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 52, 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 49, 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 Lecture of Certified Public Accountants. He has published numerous articles in various financial and economics publications in the PRC and has got several awards. He was appointed as an independent non-executive Director in June 2003.

**Cheng Lin**, aged 42, is an associate professor in Shanghai University of Finance and Economics. Mr. Cheng holds doctorate degree in economics from Shanghai University of Finance and Economics (上海財經大學). He has published numerous articles in various financial and economics publications in the PRC. Mr. Cheng was appointed as an independent non-executive Director in July 2002.

**Weng De Zhang**, aged 42, is the President of a Sub-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 was appointed the independent non-executive Director and the vice-chairman of the audit committee of the Company in June 2003.

### SUPERVISORS

**Han Ben Yi**, aged 40, is a shareholder representative on the supervisory committee. He graduated from Xi An Jiao Tong University with a Ph.D. 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.

**Dai Yan Ling**, aged 52, 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.



## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Zhuang Xian Han**, aged 37, 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.

**Wei Dong Zhi**, aged 40, 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 a Head of the biological engineering research institute of East China University of Science and Technology and Luhua Bio-tech Research Institute.

**Ji Nuo**, aged 35, is an independent representative on the supervisory committee. He graduated from Fudan University and obtained 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.

### SENIOR MANAGEMENT

**Liu Yan Jun**, aged 40, is a deputy general manager of the company. He obtained a bachelor's degree from the Navy Medical Department and a master's degree in Hepatobiliary Surgery of 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 employed as an officer and associate professor of the research department in the Molecular Biology department, Cancer Institute, the Second Military Medical University.

**Li Jun**, aged 37, is a deputy 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 certified of PRC.

### QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

**Wang Rui**, aged 31, is the Qualified Accountant, Company Secretary and an authorized representative of the company. She obtained her bachelor's degree 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, and is currently the financial controller of the Company.





## 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 24 June 2005 at 10:00 a.m. for the following purposes:

As ordinary resolutions:

1. To consider and approve the report of the Directors for the year ended 31 December 2004.
2. To consider and approve the report of the Supervisory Committee for the year ended 31 December 2004.
3. To consider and approve the audited accounts and the report of the auditor for the year ended 31 December 2004.
4. To consider and approve the profit distribution plan for the year ended 31 December 2004, and the final dividend distribution plan for the year ended 31 December 2004 (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 Certified Public Accountants Ltd. Co. as the International and the PRC auditors of the Group, respectively, for the year ending 31 December 2005 and to authorize the Board to fix their remunerations.
6. To consider and approve the following appointments of Directors and Supervisors:
  - (1) Upon the expiry appointment of the following Directors and Supervisors at the conclusion of the forthcoming annual general meeting, to consider and approve the appointment of each of the following Directors and Supervisors who have offered themselves for re-appointment;
  - (2) To consider and approve the appointment of the following four candidates nominated by the Board, namely, Mr. Guo Jun Yu as non-executive Director, and Mr. Guo Yi Cheng, Mr. Yang Xiao Hua and Ms. Zhang Man Juan, as Supervisors, whose brief biographies are set out in Appendix I of this notice, to fill the vacancies left by Mr. Yu Qing Hua, non-executive Director, and Mr. Han Ben Yi, Ms. Dai Yan Ling and Mr. Zhuang Xian Han, Supervisors, who have not offered themselves for re-appointment upon expiry of the respective terms of their appointments at the conclusion of the forthcoming annual general meeting; and

## NOTICE OF THE ANNUAL GENERAL MEETING

- (3) To consider and approve the appointment of Mr. Zhou Jie, whose biographical details are in Appendix 1 of this notice, as an additional non-executive Director:

### Executive Directors

Wang Hai Bo	To be re-appointed upon expiry of appointment
Su Yong	To be re-appointed upon expiry of appointment
Zhao Da Jun	To be re-appointed upon expiry of appointment

### Non-executive Directors

Yu Qing Hua	Not offered himself for re-appointment
Lou Yi	To be re-appointed upon expiry of appointment
Fang Jing	To be re-appointed upon expiry of appointment
Jiang Guo Xing	To be re-appointed upon expiry of appointment
Zhou Jie	To be appointed
Guo Jun Yu	To be appointed

### Independent Non-executive Directors

Pan Fei	To be re-appointed upon expiry of appointment
Cheng Lin	To be re-appointed upon expiry of appointment
Weng De Zhang	To be re-appointed upon expiry of appointment

### Supervisors

Han Ben Yi	Not offered himself for re-appointment
Dai Yan Ling	Not offered himself for re-appointment
Wei Dong Zhi	To be re-appointed upon expiry of appointment
Ji Nuo	To be re-appointed upon expiry of appointment
Zhuang Xian Han	Not offered himself for re-appointment
Guo Yi Cheng	To be appointed
Yang Xiao Hua	To be appointed
Zhang Man Juan	To be appointed

The terms of office for each of the Directors and Supervisors, provided that his/her appointments or re-appointment is approved, will be three years from the conclusion of the forthcoming Annual General Meeting, until the conclusion of the 2007 Annual General Meeting in or about June 2008.



## NOTICE OF THE ANNUAL GENERAL MEETING

7. To consider and approve the remuneration policies for the Directors and Supervisors of the Company for the year ended 31 December 2005 and to authorize the board of Directors to implement such remuneration policies.

As special resolutions:

8. To consider and, if appropriate, pass the proposal to amend the Articles of Association of the Company by way of a special resolution by amending the number of directors of the board of directors of the Company in article 97 from 10 to 11 and to authorize the Board of Directors of the Company to deal with all necessary matters concerning the amendment;
9. To consider and, if thought fit, approve the following by way of 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 and/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 make or grant offers, agreements or options during the Relevant Period which might require the exercise of such powers after the end of the Relevant Period;
  - (b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of Directors of the Company otherwise than pursuant to the share option scheme adopted by the Company for the grant or issue of shares of the Company, shall not exceed:
    - (i) 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and/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



## NOTICE OF THE ANNUAL GENERAL MEETING

- (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” means 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” means 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) Provided that the Board of Directors resolves to issue shares pursuant to paragraph (1) of this Resolution, authorized the Board of Directors:
- (a) to approve, enter into, procure to enter into and engage in all documents, agreements and matters which it deems to be in connection with the issue of such new shares, including but not limited to the time and place for such issue, to make all necessary applications to the relevant authorities, to enter into underwriting agreement (or any other agreements);
  - (b) to determine the 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 deemed 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.



## NOTICE OF THE ANNUAL GENERAL MEETING

As an ordinary resolution:

10. To consider and approve any written 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*

As at the date on the publication of this notice, the Board comprises:

Mr. Wang Hai Bo (*Executive Director*)

Mr. Su Yong (*Executive Director*)

Mr. Zhao Da Jun (*Executive Director*)

Mr. Yu Qing Hua (*Non-executive Director*)

Mr. Lou Yi (*Non-executive Director*)

Ms. Fang Jing (*Non-executive Director*)

Mr. Jiang Guo Xing (*Non-executive Director*)

Mr. Pan Fei (*Independent Non-executive Director*)

Mr. Cheng Lin (*Independent Non-executive Director*)

Mr. Weng De Zhang (*Independent Non-executive Director*)

Shanghai, the PRC, 29 March 2005

Notes:

- (A) The register of holders of H Shares of the Company will be closed from Tuesday 24 May 2005 to Friday 24 June 2005 (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 Monday 23 May 2005 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:

46th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong



## NOTICE OF THE ANNUAL GENERAL MEETING

- (B) Holders of H Shares, who intend to attend the Annual General Meeting, must complete and return the reply slip to the Secretary to the Board of the Company not later than 20 days before the date of the Annual General Meeting, that is, before Saturday, 4 June 2005.

Details of the Office of the Secretary to the Board of the Company are 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

- (C) Holder of H Shares entitled to attend the Annual General Meeting and having voting rights is 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, their proxies may exercise the voting rights by polling only. Shareholders who intend to appoint one or more proxies should first read the 2004 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 authorized 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 proxy form and if the proxy form is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to 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, in order for such documents to be valid.
- (F) Each holders of Domestic Shares is entitled to appoint in writing one or more persons as their proxies to attend and vote on its behalf at the Annual General Meeting. 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 not less than 24 hours before the time of holding of the Annual General Meeting, the address of which is as indicated in Note (B) above, in order for such documents to be valid.
- (G) If an attorney is appointed to attend the Annual General Meeting, such attorney must present its identity document and power of attorney or authorization 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 his identity document and notarially certified copy of the resolution passed by the board or other authority or notarially certified copy of the license 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.



## NOTICE OF THE ANNUAL GENERAL MEETING

### APPENDIX I

Profiles of the candidates to be appointed as non-executive Directors are as follows:

**Zhou Jie**, aged 37, is the Executive Vice President of Shanghai Industrial Holdings Limited; Chief Planning Officer of SIIC Shanghai (Holding) Co., Ltd.; Vice Chairman of Board of both Shanghai Sunve Pharmaceutical Co., Ltd. and Hangzhou Huqingyutang Drugstore Co., Ltd.; Director of Shanghai Industrial United Holdings Co., Ltd., Chia Tai Qingchunbao Pharmaceutical Co., Ltd., Xia Men Traditional Chinese Medicine Co., Ltd., and Shanghai Sunve Biotech Co., Ltd; Chairman of the Supervisory Committee of Bright Dairy & FoodCo. He graduated from Shanghai Jiao Tong University where he obtained a Master's Degree in Management Engineering. Mr. Zhou was once the Chairman of the Board and General Manager of Shanghai Shang Shi Asset Operations Ltd, and Deputy Manager of the Department of Investment Banking in Shanghai Wan Guo Inc. (now Shenyin & Wanguo Inc.). He has more than ten-year experience in the area of investment banking and capital market operation.

**Guo Jun Yu**, aged 31, graduated from Shanghai Medical University with a bachelor's degree. He has a professional pharmacist qualification. He is currently the assistant to general manager and deputy manager of Medicine Distribution Business Unit of Shanghai Pharmaceutical Holdings Ltd, where he has been working for nearly 10 years. He's very experienced on sales and management of medical products.

Profiles of the candidates to be appointed as Supervisors are as follows:

**Guo Yi Cheng**, aged 59, graduated from Economic Management College of China Central Party School. He holds a researcher's qualification of Shanghai Academy of Social Sciences. He used to be deputy head of Economy Department of Shanghai Municipality Government Research Office, and deputy general manager of Shanghai Pharmaceutical Co., Ltd. He is currently the Director and Deputy General Manager of General Technology Group Pharmaceutical Holding Limited.

**Yang Xiao Hua**, aged 42, graduated from Shanghai Pedagogic University with a bachelor's degree. He is currently the assistant to general manager of Shanghai Dingjia Venture Capital Management Co., Ltd. He used to be the head of office of China Council for the Promotion of International Trade Pudong Branch, project manager in Shanghai Liuli Modern-Life Park Development Corp., and assistant to general manager of Shanghai Zhangjiang Venture Capital Co., Ltd.

**Zhang Man Juan**, aged 41, graduated from China Broadcast & Television University in finance and accounting. She used to be a deputy chief of the finance department of Shanghai Huaihai Medical Factory. She is currently an Assistant Manager of the Finance Department of the Company.

## REPORT OF THE AUDITORS



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor, Prince's Building  
Central, Hong Kong

**REPORT OF THE 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 sheet of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") and the consolidated balance sheet of the Company and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated income and cash flow statements of the Group for the year then ended. These financial statements set out on pages 39 to 80 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. 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 standing alone and of the Group as of 31 December 2004 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, 29 March 2005



# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2004	2003
Turnover	3	10,567	8,131
Cost of sales		(8,325)	(6,155)
<b>Gross profit</b>		<b>2,242</b>	<b>1,976</b>
Other income	4	6,588	7,779
Research and development costs		(18,440)	(17,970)
Distribution costs		(2,360)	(2,074)
Administrative expenses		(10,952)	(9,261)
Other operating expenses		(1,524)	(656)
<b>Operating loss</b>	5	<b>(24,446)</b>	<b>(20,206)</b>
Share of results of associate before taxation	18	(2,240)	(1,381)
<b>Loss before taxation</b>		<b>(26,686)</b>	<b>(21,587)</b>
Taxation	8	258	2,802
<b>Loss after taxation</b>		<b>(26,428)</b>	<b>(18,785)</b>
Minority interests		1,527	438
<b>Loss attributable to shareholders</b>	9	<b>(24,901)</b>	<b>(18,347)</b>
<b>Dividends</b>	10	<b>—</b>	<b>—</b>
<b>Basic loss per share (RMB)</b>	12	<b>(0.0351)</b>	<b>(0.0258)</b>

SHANGHAI FUDAN-ZHANGJIANG BIO-PHARMACEUTICAL CO., LTD.

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

As of 31 December 2004

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

	Notes	Group		Company	
		As of 31 December 2004	2003	As of 31 December 2004	2003
<b>Non-current assets</b>					
Leasehold land payments	13	<b>8,970</b>	5,127	<b>8,970</b>	5,127
Fixed assets	14	<b>43,366</b>	43,693	<b>41,191</b>	41,744
Technical know-how	15	<b>6,386</b>	8,385	<b>2,755</b>	3,704
Deferred development costs	16	<b>17,218</b>	16,615	<b>16,921</b>	16,318
Investments in subsidiaries	17	—	—	<b>9,026</b>	11,872
Investment in an associate	18	<b>2,667</b>	3,419	<b>2,667</b>	3,419
Deferred tax assets	19	<b>3,485</b>	3,227	<b>3,485</b>	3,227
		<b>82,092</b>	80,466	<b>85,015</b>	85,411
<b>Current assets</b>					
Inventories	20	<b>3,552</b>	2,602	<b>3,552</b>	1,900
Trade receivables	21	<b>1,864</b>	2,701	<b>1,864</b>	2,701
Other receivables, deposits and prepayments		<b>1,167</b>	843	<b>782</b>	794
Amounts due from related companies	22	<b>1,000</b>	1,000	<b>1,000</b>	1,000
Amount due from a shareholder	23	<b>250</b>	250	<b>250</b>	250
Amount due from an associate	24	—	1,350	—	1,350
Available-for-sale investments	25	<b>2,318</b>	3,504	<b>2,318</b>	3,504
Term deposits in bank with maturities of three to twelve months	26	<b>11,896</b>	36,643	<b>11,896</b>	36,643
Cash and cash equivalents	26	<b>64,924</b>	65,673	<b>59,459</b>	58,299
		<b>86,971</b>	114,566	<b>81,121</b>	106,441

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

As of 31 December 2004

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

	Notes	Group		Company	
		As of 31 December		As of 31 December	
		2004	2003	2004	2003
<b>Current liabilities</b>					
Trade payables	27	3,060	1,556	3,046	1,556
Other payables and accruals		4,521	5,242	4,204	4,471
Deferred revenue	28	4,749	5,073	3,077	3,873
Loans from municipal government authorities	29	1,650	1,650	1,650	1,650
Amount due to a subsidiary	30	—	—	3,510	4,752
Amount due to a shareholder	31	1,000	1,000	1,000	1,000
		<u>14,980</u>	<u>14,521</u>	<u>16,487</u>	<u>17,302</u>
<b>Net current assets</b>		<u>71,991</u>	<u>100,045</u>	<u>64,634</u>	<u>89,139</u>
<b>Total assets less current liabilities</b>		<u>154,083</u>	<u>180,511</u>	<u>149,649</u>	<u>174,550</u>
<b>Financed by:</b>					
Share capital	32	71,000	71,000	71,000	71,000
Reserves	33	78,649	103,550	78,649	103,550
<b>Shareholders' funds</b>		<u>149,649</u>	<u>174,550</u>	<u>149,649</u>	<u>174,550</u>
<b>Minority interests</b>	34	<u>4,434</u>	<u>5,961</u>	<u>—</u>	<u>—</u>
		<u>154,083</u>	<u>180,511</u>	<u>149,649</u>	<u>174,550</u>

**Wang Hai Bo**  
Director

**Zhao Da Jun**  
Director

29 March 2005

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2004	2003
<b>Operating activities</b>			
Cash used in operations	35(a)	(15,353)	(19,164)
Interest received		540	113
Tax paid		—	(407)
Net cash used in operating activities		<u>(14,813)</u>	<u>(19,458)</u>
<b>Investing activities</b>			
Purchase of fixed assets		(6,057)	(15,950)
Payment for leasehold land		(3,950)	—
Acquisition of equity interest from a minority shareholder		—	(500)
Additions in deferred development costs		(1,902)	(5,143)
Acquisition of technical know-how		(1,193)	(2,550)
Withdrawal of term deposits with maturities of three to twelve months		24,747	48,245
Interest received from term deposits with maturities of three to twelve months		1,007	1,942
Proceeds from disposal of fixed assets		40	—
Proceeds from disposal of available-for-sale investments		1,372	3,311
Net cash received from investing activities		<u>14,064</u>	<u>29,355</u>
<b>Financing activities</b>			
Repayments of loans from municipal government authorities	35(b)	—	(400)
Capital contribution from minority shareholders		—	2,625
Net cash received from financing activities		<u>—</u>	<u>2,225</u>
<b>(Decrease)/Increase in cash and cash equivalents</b>		<u><b>(749)</b></u>	<u><b>12,122</b></u>
<b>Movement in cash and cash equivalents</b>			
At beginning of the year		65,673	53,551
(Decrease)/Increase		(749)	12,122
At end of the year		<u><b>64,924</b></u>	<u><b>65,673</b></u>

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2004

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

	Share capital (Note 32)	Capital accumulation reserve (Note 33)	Statutory common reserve fund (Note 33)	Statutory common welfare fund (Note 33)	Retained earnings/ (Accumulated losses) (Note 33)	Total
At 1 January 2003	71,000	115,014	1,709	1,120	4,054	192,897
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>
Loss for the year	—	—	—	—	(24,901)	(24,901)
At 31 December 2004	<u>71,000</u>	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(39,194)</u>	<u>149,649</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(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 trading of the newly issued 198,000,000 ordinary shares (“H shares”) of RMB0.10 each of the Company commenced 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 reagents and the provision of related ancillary services in the PRC.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements 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. Accounting policies of subsidiaries have been changed where necessary 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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

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





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (f) Fixed assets and depreciation

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

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

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

Construction-in-progress represents properties under construction and is stated at cost less impairment. 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 are ready for 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 when it is probable that the product will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. 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 when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. 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.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (g) Research and development *(continued)*

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

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

#### (h) Impairment of long lived assets

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

#### (i) Leases

Leasehold land payments are up-front payments made 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 and 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.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (k) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

#### (l) Cash and cash equivalents

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.

#### (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.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (o) Investments *(continued)*

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.

#### (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.

#### (q) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

#### (r) Technical know-how

Expenditure to acquire 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 FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 2 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (s) Revenue recognition

- (i) Sales of diagnostic reagents 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 reagents, 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.

#### (t) Dividends

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

#### (u) 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.

The Group uses business segments as its primary segment reporting format.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 3 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 reagents and the provision of related ancillary services in the PRC. Turnover recognised during the year are as follows:

	2004	2003
Technology transfer revenue	4,200	—
Sales of diagnostic reagents and the provision of related ancillary services	6,367	8,131
	<u>10,567</u>	<u>8,131</u>

On 20 March 2004, the Company entered into a technology transfer contract with a Taiwanese pharmaceutical company to transfer Recombinant human soluble TNFR 75 fusion protein for a total consideration of RMB7,500,000, of which an amount of RMB2,000,000 was received and recognised as revenue in 2004 as the Company completed respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from the Taiwanese pharmaceutical company equal to 6% of the future gross annual sales from the technology transferred. However, management estimates that the Company will not receive any significant royalty payments in the near future.

On 19 September 2003, Ba Dian, a subsidiary of the Company, entered into a technology transfer contract with a Singaporean pharmaceutical company to transfer TD506 and TD 507 with a total consideration of RMB4,500,000, of which an amount of RMB200,000 was received and recognised as revenue in 2004 (2003: nil) as Ba Dian completed respective milestones of the transfer as specified in the contract and economic benefits associated with the completion had flowed to Ba Dian. Pursuant to the contract, Ba Dian is entitled to receive royalty payments from the Singaporean pharmaceutical company equal to 5% of the future gross annual sales from the technology transferred over a period of 10 years starting from the commencement of production. However, management estimates that Ba Dian will not receive any significant royalty payments in the near future.

On 15 September 2003 and on 10 March 2004, Morgan-Tan, a subsidiary of the Company, entered into technology transfer contracts with a pharmaceutical company in Shandong Province to transfer Mycophenolate Mofetil for a total consideration of RMB4,500,000, of which an amount of RMB1,500,000 was received in 2004 and an amount of RMB500,000 was received in 2003. Revenue of RMB2,000,000 was recognised in 2004 (2003: nil) as Morgan-Tan completed respective milestones of the transfer as specified in the contracts and economic benefits associated with the completion had flowed to Morgan-Tan.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 4 OTHER INCOME

	2004	2003
Amortisation of government grants and other non-refundable grants	4,929	4,463
Interest income	990	2,394
Realised profit on disposal of available-for-sale investments	367	319
Realisation of previously unrecognised profit on technology transfer to an associate	288	240
Unrealised profit on available-for-sale investments	—	363
Others	14	—
	<u>6,588</u>	<u>7,779</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 5 OPERATING LOSS

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

	2004	2003
Amortisation of leasehold land payments	107	108
Amortisation of deferred development costs (included in 'Cost of sales')	1,331	556
Amortisation of technical know-how (included in 'Research and development costs')	1,898	1,272
Amortisation of technical know-how (included in 'Administrative expenses')	194	384
	2,092	1,656
Auditors' remuneration	902	908
Provision for bad debts	261	6
Impairment of technical know-how	1,000	—
Cost of inventories sold	6,994	5,599
Depreciation of fixed assets	3,915	3,396
Less: amount capitalised in deferred development costs	(32)	(503)
	3,883	2,893
Loss on disposal of fixed assets	57	46
Operating lease rentals in respect of land and buildings	113	56
Research and development costs ( <i>note (a)</i> )	18,440	17,970
Unrealised loss/(profit) on available-for-sale investments	181	(363)
Realised profit on disposal of available-for-sale investments	(367)	(319)
Provision for inventories obsolescence	—	74
	<u>          </u>	<u>          </u>

- (a) Research and development costs 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 FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 6 STAFF COSTS

	2004	2003
Wages and salaries	10,010	8,810
Housing subsidies	1,747	1,319
Social security costs	866	808
Retirement benefit costs	803	633
	<hr/>	<hr/>
Staff costs including directors' and supervisors' emoluments	13,426	11,570
Less: amount capitalised in the deferred development costs	(132)	(1,558)
	<hr/>	<hr/>
	13,294	10,012
	<hr/> <hr/>	<hr/> <hr/>
The number of employees at the end of the year	137	124
	<hr/> <hr/>	<hr/> <hr/>

### 7 RETIREMENT BENEFIT COSTS

The employees of the Group participate in a retirement benefit plan organised 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' total wages and salaries 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 RMB803,000 and RMB633,000 for the years ended 31 December 2004 and 31 December 2003, respectively.

### 8 TAXATION

	2004	2003
Current taxation	—	—
Deferred tax credit (note 19)	(258)	(2,802)
Share of tax of an associate	—	—
	<hr/>	<hr/>
	(258)	(2,802)
	<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%.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 8 TAXATION (continued)

The subsidiaries and an associate are subject to the Income Tax Law of the PRC and the income tax rate applicable is 33%.

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

	2004	2003
Loss before taxation	<u>(26,686)</u>	<u>(21,587)</u>
Tax calculated at a tax rate of 15%	(4,003)	(3,238)
Effect of different tax rate in the subsidiaries and an associate	(1,236)	(441)
Effect of unrecognised tax losses of the Group	4,936	1,175
Utilisation of previously unrecognised tax losses of a subsidiary	—	(366)
Expenses not deductible for tax purpose	<u>45</u>	<u>68</u>
Tax charge	<u>(258)</u>	<u>(2,802)</u>

## 9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB24,901,000 and RMB18,347,000 for the years ended 31 December 2004 and 31 December 2003, respectively.

## 10 DIVIDENDS

At the meeting on 29 March 2005, the Board of Directors recommended not to distribute any dividends in respect of the year ended 31 December 2004.

At the shareholders' Annual General Meeting on 25 June 2004, it was resolved not to distribute any dividends in respect of the year ended 31 December 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS

- (i) Details of emoluments in respect of the executive directors and supervisors of the Company are as follows:

	2004	2003
Basic salaries and allowances	1,082	1,060
Bonus	148	134
Retirement benefit and social security costs	91	79
Fees	80	60
	<u>1,401</u>	<u>1,333</u>

RMB120,000 fees were paid and payable to the non-executive directors for the year (2003: RMB90,000).

All of the directors' and supervisors' emoluments are within the band of nil to HKD1,000,000 during the year. The emoluments in respect of executive directors, supervisors and non-executive directors are as follows:

	2004	2003
Executive director A	529	512
Executive director B	399	383
Executive director C	393	378
Supervisor A	40	30
Supervisor B	—	10
Supervisor C	40	20
Non-executive director A	—	10
Non-executive director B	—	10
Non-executive director C	40	30
Non-executive director D	40	20
Non-executive director E	40	20
	<u>1,521</u>	<u>1,423</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND HIGHEST PAID INDIVIDUALS *(continued)*

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

	2004	2003
Directors	3	3
Non-directors	2	2
	<u>5</u>	<u>5</u>

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

	2004	2003
Basic salaries and allowances	540	526
Bonus	104	392
Retirement benefit and social security costs	55	47
	<u>699</u>	<u>965</u>

The emoluments of each of the non-directors during the year were below HKD1,000,000.

(iv) During the years ended 31 December 2004 and 31 December 2003, no directors or any of the five highest paid individuals of the Company waived any emoluments and no emoluments have been paid or are payable 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 FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 12 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Loss attributable to shareholders	(24,901)	(18,347)
Weighted average number of ordinary shares in issue (thousands)	710,000	710,000
Basic loss per share (RMB)	<u>(0.0351)</u>	<u>(0.0258)</u>

Diluted loss per share has not been calculated for the years ended 31 December 2004 and 31 December 2003 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.

	2004	2003
Net book value at 1 January	5,127	5,235
Additions	3,950	—
Amortisation	<u>(107)</u>	<u>(108)</u>
Net book value at 31 December	<u>8,970</u>	<u>5,127</u>

The original lease terms of the land use rights of the Group held outside Hong Kong are 50 years. The remaining lease periods of the land use rights of the Group outside Hong Kong are 47 and 50 years.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(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 2004 and 31 December 2003 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
<b>Cost</b>					
At 1 January 2003	—	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
Additions	—	2,693	617	375	3,685
Disposals	—	(333)	(48)	—	(381)
At 31 December 2004	—	50,217	2,720	1,594	54,531
<b>Accumulated depreciation</b>					
At 1 January 2003	—	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
Charge for the year	—	3,379	285	251	3,915
Disposals	—	(262)	(22)	—	(284)
At 31 December 2004	—	9,550	825	790	11,165
<b>Net book value</b>					
At 31 December 2004	—	40,667	1,895	804	43,366
At 31 December 2003	—	41,424	1,589	680	43,693

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 14 FIXED ASSETS (continued)

(ii) The fixed assets of the Company for the years ended 31 December 2004 and 31 December 2003 are as follows:

	Construction in progress	Plant and machinery	Furniture, fixtures and computer equipment	Motor vehicles	Total
<b>Cost</b>					
At 1 January 2003	—	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
Additions	—	2,119	548	374	3,041
Disposals	—	(332)	(45)	—	(377)
At 31 December 2004	—	47,872	2,355	1,224	51,451
<b>Accumulated depreciation</b>					
At 1 January 2003	—	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
Charge for the year	—	3,080	239	181	3,500
Disposals	—	(262)	(21)	—	(283)
At 31 December 2004	—	8,914	695	651	10,260
<b>Net book value</b>					
At 31 December 2004	—	38,958	1,660	573	41,191
At 31 December 2003	—	39,989	1,375	380	41,744

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 15 TECHNICAL KNOW-HOW

	Group		Company	
	2004	2003	2004	2003
<b>Cost</b>				
At beginning of the year	11,349	6,074	6,095	6,074
Acquisitions	1,093	5,275	1,093	21
At end of the year	12,442	11,349	7,188	6,095
<b>Accumulated amortisation</b>				
At beginning of the year	2,964	1,308	2,391	1,308
Charge for the year	2,092	1,656	1,042	1,083
At end of the year	5,056	2,964	3,433	2,391
<b>Impairment charge</b>				
At beginning of the year	—	—	—	—
Additions	1,000	—	1,000	—
At end of the year	1,000	—	1,000	—
<b>Net book value</b>				
At end of the year	6,386	8,385	2,755	3,704



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 16 DEFERRED DEVELOPMENT COSTS

	Group		Company	
	2004	2003	2004	2003
<b>Cost</b>				
At beginning of the year	19,117	13,174	18,820	4,415
Capitalisation of costs	1,934	5,943	1,934	14,405
At end of the year	21,051	19,117	20,754	18,820
<b>Accumulated amortisation</b>				
At beginning of the year	2,502	1,946	2,502	1,946
Charge for the year	1,331	556	1,331	556
At end of the year	3,833	2,502	3,833	2,502
<b>Net book value</b>				
At end of the year	17,218	16,615	16,921	16,318

## 17 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2004	2003
<b>Unlisted shares, at cost</b>		
At beginning of the year	15,250	5,000
Additions	—	10,250
At end of the year	15,250	15,250
<b>Share of reserves of subsidiaries</b>		
At beginning of the year	(3,378)	(2,747)
Share of results of subsidiaries for the year	(2,846)	(631)
At end of the year	(6,224)	(3,378)
	9,026	11,872

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 17 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

In 2003, 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. As of 31 December 2004, the Company held the following investments in subsidiaries which are both 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 FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

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

	2004	2003
<b>Unlisted shares, at cost</b>		
At beginning of the year	6,000	6,000
Transfer from 'Amount due from an associate' (note 24)	1,200	—
	<hr/>	<hr/>
At end of the year	7,200	6,000
	<hr/>	<hr/>
<b>Unrealised profit on technology transferred to associate</b>		
At beginning of the year	(1,200)	(1,440)
Realisation (a)	288	240
	<hr/>	<hr/>
At end of the year	(912)	(1,200)
	<hr/>	<hr/>
<b>Share of results of an associate</b>		
At beginning of the year	(1,381)	—
Addition	(2,240)	(1,381)
	<hr/>	<hr/>
At end of the year	(3,621)	(1,381)
	<hr/>	<hr/>
	<b>2,667</b>	<b>3,419</b>
	<hr/> <hr/>	<hr/> <hr/>

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 ("Lead Discovery") (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

(a) This represents the current year realised amount of the previously unrecognised profit on technology transferred to Lead Discovery in the year ended 31 December 2002 (note 4).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 19 DEFERRED TAX ASSETS – GROUP AND COMPANY

	2004	2003
<b>Deferred tax assets (on net basis)</b>		
At beginning of the year	3,227	425
Credit to the income statement for the year (note 8)	<u>258</u>	<u>2,802</u>
At end of the year	<u><u>3,485</u></u>	<u><u>3,227</u></u>

A potential deferred tax asset, which represents mainly temporary difference arising from tax losses carried forward, has not been recognised in the financial statements as, in the opinion of the directors, it is uncertain that such asset will be realised in the foreseeable future. The Group has unrecognised tax losses of RMB24,606,000 and RMB2,180,000 as of 31 December 2004 and 31 December 2003 to carry forward against future taxable profit. These tax losses will expire in the next five years.

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

### Deferred tax liabilities (on gross basis)

	Deferred development costs	Deferred revenue	Total
At 1 January 2003	—	(422)	(422)
(Charge)/credit to the income statement	<u>(391)</u>	<u>308</u>	<u>(83)</u>
At 31 December 2003	(391)	(114)	(505)
Charge to the income statement	<u>(508)</u>	<u>(483)</u>	<u>(991)</u>
At 31 December 2004	<u><u>(899)</u></u>	<u><u>(597)</u></u>	<u><u>(1,496)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 19 DEFERRED TAX ASSETS – GROUP AND COMPANY (continued)

Deferred tax assets (on gross basis)

	Deferred development			Total
	Provisions	costs	Tax losses	
At 1 January 2003	736	111	—	847
(Charge)/credit to the income statement	(207)	(111)	3,203	2,885
At 31 December 2003	529	—	3,203	3,732
Credit to the income statement	240	—	1,009	1,249
At 31 December 2004	769	—	4,212	4,981

### 20 INVENTORIES

	Group		Company	
	2004	2003	2004	2003
Raw materials	1,157	1,405	1,157	1,405
Production supplies and consumables	168	172	168	172
Contracted work-in-progress	35	702	35	—
Finished goods	2,192	323	2,192	323
	3,552	2,602	3,552	1,900

As of 31 December 2004 and 31 December 2003, inventories including raw materials of RMB54,000 and finished goods of RMB1,000 were carried at net realisable value.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 21 TRADE RECEIVABLES – GROUP AND COMPANY

Details of the aging analysis are as follows:

	2004	2003
Current to 30 days	268	597
31 days to 60 days	303	836
61 days to 90 days	252	—
Over 90 days but less than one year	1,063	1,418
Over one year	2,229	1,840
	<hr/>	<hr/>
	4,115	4,691
Provision	(2,251)	(1,990)
	<hr/>	<hr/>
	1,864	2,701
	<hr/> <hr/>	<hr/> <hr/>

Customers are generally granted credit term of 90 days.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers. Management believes that no additional credit risks beyond amounts provided for collection losses is inherent in the Group's trade receivables.

## 22 AMOUNTS DUE FROM RELATED COMPANIES – GROUP AND COMPANY

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 shareholder of the Company. The amount is unsecured and is due for settlement within 12 months.

## 23 AMOUNT DUE FROM A SHAREHOLDER – GROUP AND COMPANY

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

## 24 AMOUNT DUE FROM AN ASSOCIATE – GROUP AND COMPANY

The balance as of 31 December 2003 included RMB1,200,000 capital injection to Lead Discovery, an associate of the Company, which was under verification and subsequently transferred to investment in Lead Discovery in 2004 (note 18). The remaining balance as of 31 December 2003 represented an amount due from Lead Discovery and was unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 25 AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

	2004	2003
Listed funds in the PRC	1,318	2,504
Unlisted shares in the PRC	1,000	1,000
	<hr/>	<hr/>
Available-for-sale investments at fair values	<b>2,318</b>	3,504
	<hr/> <hr/>	<hr/> <hr/>
Current	<b>2,318</b>	3,504
	<hr/> <hr/>	<hr/> <hr/>

### 26 CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
Cash and bank balances	62,972	93,368	61,007	85,994
Deposits in other				
financial institutions (a)	10,348	2,945	10,348	2,945
Held-to-maturity investments with				
maturities within three months (b)	3,500	6,003	—	6,003
Less: term deposits in bank with				
maturities of three to				
twelve months	(11,896)	(36,643)	(11,896)	(36,643)
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>64,924</b>	65,673	<b>59,459</b>	58,299
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- (a) Deposits in other financial institutions can be withdrawn on demand with no restriction.
- (b) The balance represents PRC listed debt securities purchased with fixed payments, fixed maturities and secured by certain PRC government bonds.
- (c) The effective interest rate on cash placed with banks and deposits in other financial institutions ranged from 0.40% - 2.6% (2003: 0.40% - 4.0%) per annum.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 27 TRADE PAYABLES

Details of the aging analysis are as follows:

	Group		Company	
	2004	2003	2004	2003
Current to 30 days	1,851	273	1,851	273
31 days to 60 days	19	—	19	—
61 days to 90 days	—	117	—	117
Over 90 days but less than one year	73	101	59	101
Over one year	1,117	1,065	1,117	1,065
	<u>3,060</u>	<u>1,556</u>	<u>3,046</u>	<u>1,556</u>

## 28 DEFERRED REVENUE

	Group		Company	
	2004	2003	2004	2003
Government grants (note (a))	4,249	4,473	2,577	3,773
Non-refundable grants (note (b))	—	100	—	100
Deferred contracted revenue (note (c))	500	500	500	—
	<u>4,749</u>	<u>5,073</u>	<u>3,077</u>	<u>3,873</u>

(a) Government grants

	Group		Company	
	2004	2003	2004	2003
At beginning of the year	4,473	4,436	3,773	3,737
Additions	4,605	4,128	3,005	3,368
Transfer to the income statement	(4,829)	(4,091)	(4,201)	(3,332)
At end of the year	<u>4,249</u>	<u>4,473</u>	<u>2,577</u>	<u>3,773</u>





## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 28 DEFERRED REVENUE (continued)

(b) Non-refundable grants – Group and Company

	2004	2003
At beginning of the year	100	472
Transfer to the income statement	<u>(100)</u>	<u>(372)</u>
At end of the year	<u><u>—</u></u>	<u><u>100</u></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.

The technology related to one of the above two projects was transferred to a third party in the year ended 31 December 2002 and there remains an unpaid balance of 30% rebate to SPCL (note 31).

- (c) On 27 September 2004, the Company entered into a technology transfer contract with a Taiwanese pharmaceutical company to transfer Filgrastim for a total consideration of RMB2,300,000. Deferred contract revenue of the Company and the Group amounted to RMB500,000 as of 31 December 2004 represented the portion of contract revenue received from such technology transfer but related to future performance.

On 15 September 2003 and on 10 March 2004, Morgan-Tan, a subsidiary of the Company entered into technology transfer contracts with a pharmaceutical company in Shandong Province to transfer Mycophenolate Mofetil for a total consideration of RMB4,500,000. Deferred contracted revenue of the Group amounted to RMB500,000 as of 31 December 2003 represented the portion of contract revenue received from such technology transfer but related to future performance. The deferred contract revenue as at 2003 year end was recognised as income in 2004 upon completion of respective milestone of the transfer as specified in the contracts (note 3).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

## 29 LOANS FROM MUNICIPAL GOVERNMENT AUTHORITIES – GROUP AND COMPANY

The loans from municipal government authorities are repayable as follows:

	2004	2003
Within one year	<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 as of 31 December 2004 are repayable within one year.

## 30 AMOUNT DUE TO A SUBSIDIARY – COMPANY

The balance represents an amount due to Morgan-Tan, a subsidiary of the Company and is unsecured, interest free and repayable on demand.

## 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 projects to a third party (note 28(b)), and is unsecured, interest free and repayable on demand.

## 32 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	Share capital
At 31 December 2004 and 31 December 2003	<u>710,000</u>	<u>71,000</u>

All authorised shares are issued and fully paid.

- 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 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 HKD0.80. 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 32 SHARE CAPITAL – GROUP AND COMPANY (continued)

- (c) On 23 June 2002, a share option scheme (the “Scheme”) was conditionally approved by the shareholders of the Company in a general meeting. Full-time employees including any executive director of the Company or its subsidiaries can be invited to take up the options to subscribe for H shares of the Company, subject to satisfaction of certain conditions. The maximum number of H shares which may be issued upon exercise of all outstanding options offered to be granted or granted and yet to be exercised under the Scheme and any other scheme of the Group must not, in aggregate, exceed 30% of the H shares of the Company in issue from time to time. The subscription price will be determined by the Board of Directors, and will be no less than the highest of (i) the closing price of the H shares as stated in the Stock Exchange’s daily quotations sheet on the date of offer, which must be a business day; (ii) the average closing prices of the H shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a H share. The Scheme will remain valid for a period of 10 years since the date on which the Scheme becomes unconditional. A consideration of RMB1.00 is payable on acceptance of the option offer. The share options granted under the Scheme may be exercised during a period determined by the Board of Directors but no more than 10 years from the date of grant of the option.

No option shares have been granted since 23 June 2002.

### 33 RESERVES – GROUP AND COMPANY

	Capital accumulation reserve	Statutory common reserve fund	Statutory common welfare fund	Retained earnings/ Accumulated losses)	Total
At 1 January 2003	115,014	1,709	1,120	4,054	121,897
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>
Loss for the year	—	—	—	(24,901)	(24,901)
At 31 December 2004	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(39,194)</u>	<u>78,649</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 33 RESERVES – GROUP AND COMPANY (continued)

- (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 2004 (2003: nil).

### 34 MINORITY INTERESTS – GROUP

	2004	2003
At 1 January	5,961	1,352
Capital contribution by minority shareholders	—	5,250
Sales of equity interest to the Group	—	(203)
Share of net loss of subsidiaries	(1,527)	(438)
	<hr/>	<hr/>
At 31 December	<b>4,434</b>	5,961
	<hr/> <hr/>	<hr/> <hr/>

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 shareholder of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of loss before taxation to cash used in operations

	2004	2003
Loss before taxation	(26,686)	(21,587)
Adjustments for:		
Amortisation of leasehold land payments	107	108
Depreciation of fixed assets	3,883	2,893
Amortisation of government grants and other non-refundable grants received	(4,929)	(4,463)
Amortisation of technical know-how	2,092	1,656
Amortisation of deferred development costs	1,331	556
Realised profit on disposal of available-for-sale investments	(367)	(319)
Unrealised loss/(profit) on available-for-sale investments	181	(363)
Loss on disposal of fixed assets	57	46
Interest income	(990)	(2,394)
Share of results of associate before taxation	2,240	1,381
Realisation of previously unrecognised profit on technology transfer to an associate	(288)	(240)
Impairment of technical Know-how	1,000	—
Changes in working capital:		
– trade and other receivables and amounts due from a shareholder, related companies and an associate	107	505
– inventories	(950)	(1,068)
– trade and other payables	3,254	(503)
– deferred revenue	4,605	4,628
Cash used in operations	<u>(15,353)</u>	<u>(19,164)</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Analysis of changes in financing during the year

	2004	2003
Loans from municipal government authorities		
At beginning of the year	1,650	2,050
Repayments	—	(400)
At end of the year	1,650	1,650

(c) Major non-cash transaction

There has been no major non-cash transaction in 2004.

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Group had not entered into any significant related party transaction in the years ended 31 December 2004 and 31 December 2003. The related party balances as of 31 December 2004 and 31 December 2003 are disclosed in notes 22, 23, 24, 28(b), 30 and 31.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(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 by principal activities is as follows:

	Year ended 31 December 2004			Year ended 31 December 2003		
	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Total	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Total
Turnover	<u>4,200</u>	<u>6,367</u>	<u>10,567</u>	<u>—</u>	<u>8,131</u>	<u>8,131</u>
Segment (loss)/profit	(12,811)	(2,080)	(14,891)	(14,570)	318	(14,252)
Unallocated income			1,659			3,316
Unallocated costs			(13,454)			(10,651)
Loss before taxation			(26,686)			(21,587)
Taxation			258			2,802
Loss after taxation			(26,428)			(18,785)
Minority interests			1,527			438
Loss attributable to shareholders			<u>(24,901)</u>			<u>(18,347)</u>

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 37 SEGMENTAL INFORMATION (continued)

	Research and development activities	Sales of diagnostic reagents and the provision of related ancillary services	Unallocated activities	Total
<b>31 December 2004</b>				
Segment assets	40,557	30,263	98,243	169,063
Segment liabilities	(8,198)	(2,369)	(4,413)	(14,980)
Net	<u>32,359</u>	<u>27,894</u>	<u>93,830</u>	<u>154,083</u>
<b>Other segment items</b>				
Capital expenditure	4,612	674	5,344	10,630
Depreciation	1,631	1,551	733	3,915
Amortisation	1,899	1,499	132	3,530
Impairment charge	1,000	261	—	1,261
Other non-cash expenses	8	36	13	57
Net	<u>51,560</u>	<u>9,457</u>	<u>119,494</u>	<u>180,511</u>
<b>31 December 2003</b>				
Segment assets	60,266	10,402	124,364	195,032
Segment liabilities	(8,706)	(945)	(4,870)	(14,521)
Net	<u>51,560</u>	<u>9,457</u>	<u>119,494</u>	<u>180,511</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

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 and all the assets of the Group are located in the PRC. Hence, no separate geographical analysis on the net operating assets is presented.





## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 38 COMMITMENTS

As of 31 December 2004, the Group had future aggregate minimum lease payments due under non-cancellable operating leases in respect of buildings as follows:

	2004	2003
Within one year	113	113
In the second to fifth years inclusive	56	169
	<u>169</u>	<u>282</u>

The Company had no material commitments as of 31 December 2004 and 31 December 2003.

### 39 FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

#### (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.

The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004  
(All amounts are shown in RMB thousands unless otherwise stated)

### 39 FINANCIAL INSTRUMENTS (continued)

#### (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) Interest risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets and liabilities, except for those disclosed in note 26 which are primarily cash placed with banks and other financial institutions in the PRC.

#### (e) 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 and the remittance out of the PRC are 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 29 March 2005.



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)

(Stock code: 8231)

**Annual General Meeting**

**REPLY SLIP**

To: Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company")

I/We<sup>(1)</sup> (Chinese name) \_\_\_\_\_

(English name) \_\_\_\_\_

of \_\_\_\_\_

(as shown in the register of members) being the registered holder(s) of<sup>(2)</sup> \_\_\_\_\_

Domestic/H shares<sup>(3)</sup> of Rmb0.10 each in the capital of the Company, hereby inform the Company that I/We intend to attend (in person or by proxy) the Annual General Meeting of the Company to be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-tech Park, Pudong, Shanghai, the PRC on 24 June 2005 at 10:00 a.m.

Date: \_\_\_\_\_ 2005                      Signature(s): \_\_\_\_\_

*Notes:*

1. Please insert full name(s) and address(es) (as shown in the register of members) in block capital(s).
2. Please insert the number of shares registered in your name(s).
3. Please delete the inappropriate.
4. In order to be valid, the completed and signed reply slip shall be delivered to either one of the following addresses on or before 4 June 2005. This reply slip may be delivered to the Company by hand, by post or by facsimile.

For holders of Domestic Shares:

No. 308 Cailun Road  
Zhangjiang Hi-tech Park  
Pudong District  
Shanghai  
PRC  
Postal Code: 201203  
Fax: (8621) 5855 3893

For holders of H Shares:

46th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong  
Fax: (852) 2865 0990

\* For identification purpose only



**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)  
 (Stock code: 8231)

**Proxy Form for Annual General Meeting**

Number of Shares related to this proxy form <sup>(Note 1)</sup>	H Shares/Domestic Shares**
---	----------------------------

I(We) <sup>(Note 2)</sup> \_\_\_\_\_  
 of \_\_\_\_\_,  
 being the registered holder(s) of \_\_\_\_\_ H Share(s)/Domestic Share(s)\*\* <sup>(Note 1)</sup>  
 of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") now appoint <sup>(Note 3)</sup> \_\_\_\_\_,  
 I.D. No.: \_\_\_\_\_ of \_\_\_\_\_,

or failing him the Chairman of the meeting as my(our) proxy to attend and vote for me(us) on the following resolutions in accordance with the instruction(s) below and on my(our) behalf at the Annual General Meeting to be held at 2nd Floor, No. 308 Cailun Road, Zhangjiang Hi-tech Park, Pudong, Shanghai, the People's Republic of China on Friday, 24th June, 2005 at 10:00 a.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing the ordinary and special resolutions as set out in the notice convening the meeting. In the absence of any indication, the proxy may vote for or against the resolutions at his own discretion. <sup>(Note 6)</sup>

Ordinary Resolutions	For <sup>(Note 4)</sup>	Against <sup>(Note 4)</sup>
1. To consider and approve the report of the Directors for the year 2004.		
2. To consider and approve the report of the Supervisory Committee for the year 2004.		
3. To consider and approve the audited financial statements and auditors' report for the year 2004.		
4. To consider and approve the profit distribution plan of the Company for the year 2004.		
5. To consider and approve the appointment of auditors (International and PRC auditors) and authorize the Board to fix their remunerations.		
6. To consider and approve the appointment of the Directors and Supervisors as detailed in Resolution 6 (see details overleaf).		
7. To consider and approve the remuneration policies for the Directors and Supervisors for the year 2005.		
Special Resolutions		
8. To consider and approve the proposed amendments to the Articles of Association of the Company (see the proposed amendments overleaf).		
9. To consider and approve the 20% general mandate (see overleaf for terms of the 20% general mandate).		

Date: \_\_\_\_\_ 2005

Signature: \_\_\_\_\_ <sup>(Note 5)</sup>

**Notes:**

- Please insert the number of Share(s) registered in your name(s) relating to this form of proxy. If no number is inserted, this form of proxy will be deemed to relate to all of the shares in the capital of the Company registered in your name(s).
- Please insert full name(s) and address(es) in BLOCK LETTERS.
- Please insert the name and address of your proxy. If this is left blank, the chairman of the Annual General Meeting will act as your proxy. One or more proxies, who may not be member(s) of the Company, may be appointed to attend and vote in the meeting provided that such proxies must attend the meeting in person on your behalf. Any alteration made to this proxy form must be signed by the signatory.
- Attention: If you wish to vote FOR any resolution, please indicate with a "✓" in the appropriate space under "For". If you wish to vote AGAINST any resolution, please indicate with a "✓" in the appropriate space under "Against". In the absence of any such indication, the proxy will vote or abstain at his discretion.
- This form of proxy must be signed underhand by you or your attorney duly authorised in that behalf. If the appointer is a corporation, this form must be signed under its common seal or under hand by any directors or agents duly appointed by such corporation. If this form is signed by an attorney of the appointer, the power of attorney authorizing that attorney to sign, or other document of authorization, must be notarially certified.
- This form of proxy together with the power of attorney or other authorisation document(s) which have been notarised, must be delivered, in the case of a holder of Domestic Share(s), to the Company and in the case of a holder of H Share(s), to Computershare Hong Kong Investor Services Limited, at least 24 hours before the time designated for the holding of the Annual General Meeting.

\* For identification purpose only

\*\* Please delete as appropriate

## Resolution Nos. 6, 8 and 9 referred to in the Proxy form

### Ordinary resolutions

#### Resolution no. 6

To consider and approve the following appointments of Directors and Supervisors:

- (1) Upon the expiry appointment of the following Directors and Supervisors at the conclusion of the forthcoming annual general meeting, to consider and approve the appointment of each of the following Directors and Supervisors who have offered themselves for re-appointment;
- (2) To consider and approve the appointment of the following four candidates nominated by the Board, namely, Mr. Guo Jun Yu as non-executive Director, and Mr. Guo Yi Cheng, Mr. Yang Xiao Hua and Ms. Zhang Man Juan, as Supervisors, whose brief biographies are set out in Appendix I below, to fill the vacancies left by Mr. Yu Qing Hua, non-executive Director, and Mr. Han Ben Yi, Ms. Dai Yan Ling and Mr. Zhuang Xian Han, Supervisors, who have not offered themselves for re-appointment upon expiry of the respective terms of their appointments at the conclusion of the forthcoming annual general meeting; and
- (3) To consider and approve the appointment of Mr. Zhou Jie, whose biographical details are in Appendix 1 below, as an additional non-executive Director.

#### Executive Directors

Wang Hai Bo	To be re-appointed upon expiry of appointment
Su Yong	To be re-appointed upon expiry of appointment
Zhao Da Jun	To be re-appointed upon expiry of appointment

#### Non-executive Directors

Yu Qing Hua	Not offered himself for re-appointment
Lou Yi	To be re-appointed upon expiry of appointment
Fang Jing	To be re-appointed upon expiry of appointment
Jiang Guo Xing	To be re-appointed upon expiry of appointment
Zhou Jie	To be appointed
Guo Jun Yu	To be appointed

#### Independent Non-executive Directors

Pan Fei	To be re-appointed upon expiry of appointment
Cheng Lin	To be re-appointed upon expiry of appointment
Weng De Zhang	To be re-appointed upon expiry of appointment

#### Supervisors

Han Ben Yi	Not offered himself for re-appointment
Dai Yan Ling	Not offered himself for re-appointment
Wei Dong Zhi	To be re-appointed upon expiry of appointment
Ji Nuo	To be re-appointed upon expiry of appointment
Zhuang Xian Han	Not offered himself for re-appointment
Guo Yi Cheng	To be appointed
Yang Xiao Hua	To be appointed
Zhang Man Juan	To be appointed

The terms of office for each of the Directors and Supervisors, provided that his/her appointments or re-appointment is approved, will be three years from the conclusion of the forthcoming Annual General Meeting, until the conclusion of the 2007 Annual General Meeting in or about June 2008.

## Appendix I

### Profiles of the candidates to be appointed as non-executive Directors are as follows:

**Zhou Jie**, aged 37, is the Executive Vice President of Shanghai Industrial Holdings Limited; Chief Planning Officer of SIIC Shanghai (Holding) Co., Ltd.; Vice Chairman of Board of both Shanghai Sunve Pharmaceutical Co., Ltd. and Hangzhou Huqingyutang Drugstore Co., Ltd.; Director of Shanghai Industrial United Holdings Co., Ltd., Chia Tai Qingchunbao Pharmaceutical Co., Ltd., Xia Men Traditional Chinese Medicine Co., Ltd., and Shanghai Sunve Biotech Co., Ltd; Chairman of the Supervisory Committee of Bright Dairy & FoodCo. He graduated from Shanghai Jiao Tong University where he obtained a Master's Degree in Management Engineering. Mr. Zhou was once the Chairman of the Board and General Manager of Shanghai Shang Shi Asset Operations Ltd, and Deputy Manager of the Department of Investment Banking in Shanghai Wan Guo Inc. (now Shenying & Wanguo Inc.). He has more than ten-year experience in the area of investment banking and capital market operation.

**Guo Jun Yu**, aged 31, graduated from Shanghai Medical University with a bachelor's degree. He has a professional pharmacist qualification. He is currently the assistant to general manager and deputy manager of Medicine Distribution Business Unit of Shanghai Pharmaceutical Holdings Ltd, where he has been working for nearly 10 years. He is very experienced on sales and management of medical products.

### Profiles of the candidates to be appointed as Supervisors are as follows:

**Guo Yi Cheng**, aged 59, graduated from Economic Management College of China Central Party School. He holds a researcher's qualification of Shanghai Academy of Social Sciences. He used to be deputy head of Economy Department of Shanghai Municipality Government Research Office, and deputy general manager of Shanghai Pharmaceutical Co., Ltd. He is currently the Director and Deputy General Manager of General Technology Group Pharmaceutical Holding Limited.

**Yang Xiao Hua**, aged 42, graduated from Shanghai Pedagogic University with a bachelor's degree. He is currently the assistant to general manager of Shanghai Dingjia Venture Capital Management Co., Ltd. He used to be the head of office of China Council for the Promotion of International Trade Pudong Branch, project manager in Shanghai Liuli Modern-Life Park Development Corp., and assistant to general manager of Shanghai Zhangjiang Venture Capital Co., Ltd.

**Zhang Man Juan**, aged 41, graduated from China Broadcast & Television University in finance and accounting. She used to be a deputy chief of the finance department of Shanghai Huaihai Medical Factory. She is currently an Assistant Manager of the Finance Department of the Company.

### Special resolutions

#### Resolution no. 8

To consider and, if appropriate, pass the proposal to amend the Articles of Association of the Company by way of a special resolution by amending the number of directors of the board of directors of the Company in article 97 from 10 to 11 and to authorize the Board of Directors of the Company to deal with all necessary matters concerning the amendment;

## Resolution no. 9

To consider and, if thought fit, approve the following by way of 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 and/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 make or grant offers, agreements or options during the Relevant Period which might require the exercise of such powers after the end of the Relevant Period;
  - (b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of Directors of the Company otherwise than pursuant to the share option scheme adopted by the Company for the grant or issue of shares of the Company, shall not exceed:
    - (i) 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and / 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” means 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” means 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) Provided that the Board of Directors resolves to issue shares pursuant to paragraph (1) of this Resolution, authorized the Board of Directors:
    - (a) to approve, enter into, procure to enter into and engage in all documents, agreements and matters which it deems to be in connection with the issue of such new shares, including but not limited to the time and place for such issue, to make all necessary applications to the relevant authorities, to enter into underwriting agreement (or any other agreements);
    - (b) to determine the 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 deemed 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.