



On behalf of the Board of Directors (the “Directors”), I am pleased to present the annual report of the Company for the year ended December 31, 2003.

#### **RESULTS AND DIVIDENDS**

The Group delivered an outstanding overall performance and reported record results in 2003.

In 2003, the Group’s turnover and net profit amounted to HK\$2,478 million and HK\$504 million, representing increases of HK\$853 million or 53% and HK\$276 million or 121% compared with 2002 respectively.

The Board of Directors recommends the payment of a final dividend for 2003 of HK7.0 cents per share (2002: HK6.0 cents). The final dividend is payable on May 28, 2004 to shareholders whose names appear on the register of members of the Company on May 14, 2004. Including the interim dividend of HK7.0 cents paid (2002: Nil), the total dividends for the year will be HK14.0 cents per share (2002: HK6.0 cents).

#### **BUSINESS REVIEW AND OUTLOOK**

##### **Vitamin C Series**

With gradual diminution in overseas manufacturers’ output and market share, PRC manufacturers found their position in the global market of vitamin C further enhanced and product prices rapidly surged from previously low levels. In 2003, the average price of the Group’s vitamin C rose from US\$3.2 per kg in 2002 to US\$5.9 per kg, an increase of 84%. On the other hand, cost of production increased slightly by 6% to US\$2.3 per kg.

Output for the year amounted to 14,219 tonnes, an increase of 2,075 tonnes compared with previous year. Sales revenue of the entire series reached HK\$684 million, accounting for 28% of the Group's total revenue. Gross profit margin of the entire series was 60.2%, an increase of 28.1 percentage points compared with previous year.

We are building a new production line of vitamin C with an annual capacity of 15,000 tonnes. Operation of this production line is expected to commence by the middle of this year. By then, the Group will become one of the few largest manufacturers of vitamin C in the world.

Leveraging capacity expansion and the advantage of low production costs, the Group will further enhance its leading position in the global market of vitamin C. This line of business will remain a major source of profit for the Group.

### **Penicillin Series**

Due to oversupply in the domestic penicillin market, product prices began to fall since the third quarter of the year. The average price of the Group's penicillin industrial salt fell from US\$15.6 per kg in 2002 to US\$12.7 per kg in 2003, a decrease of 19%. Through various cost control measures and improvement in production technology, the production cost of penicillin industrial salt fell to US\$8.9 per kg, a decrease of 17% compared with previous year.

Output for the year reached 5,245 tonnes, an increase of 1,442 tonnes compared with previous year. Sales revenue of the entire series amounted to HK\$549 million, accounting for 22% of the Group's total revenue. Gross profit margin of the entire series was 32.6%, which was the same as the margin of previous year.

Given the fact that the market of penicillin is now in the process of consolidation, the Group will further reduce production costs and increase the proportion of downstream products, with the aim to maintain the advantage of having the lowest production cost in the industry. On the other hand, the Group intends to build a production base for penicillin in the north-western part of the PRC in the near future. Upon the completion of the new plant, the Group will become one of the few largest penicillin manufacturers in the world. At the same time, the Group will leverage the favourable local policies and the low cost operating environment there to substantially cut its production costs in order to further enhance its competitiveness, which will be instrumental in establishing the Group as a leading manufacturer in the market of penicillin.

### **Cephalosporin Series**

In 2003, competition in the domestic market of cephalosporin was very intense, leading to a significant drop in the price of 7-ACA. The average price of the Group's 7-ACA for the year was US\$82.2 per kg, a decrease of 29% from US\$115.3 per kg in 2002. However, the Group managed to cut its production costs by 15% to US\$63.8 per kg.

In 2003, the Group's output of 7-ACA amounted to 648 tonnes, which was 149 tonnes more compared with previous year. Sales revenue of the entire series was HK\$456 million, accounting for 18% of the Group's total revenue. Gross profit margin of the entire series was 22.6%, a decrease of 8 percentage points compared with previous year.

At present, there are still not many major manufacturers of 7-ACA in the PRC. After the severe competition in 2003, the Group anticipates that prices will gradually pick up from its lowest level. On the other hand, the Group will continue to lower its production costs in order to maintain the profitability of this line of business.

### **Finished Drugs**

In 2003, the finished drug business reported sales revenue of HK\$786 million in its first full year, accounting for 32% of the Group's total revenue. Through the development of higher gross profit margin products and production cost reduction of bulk drugs, the gross profit margin of this business reached 29.3%, an increase of 2.6 percentage points compared with previous year.

The Group is seeking overseas accreditation for certain products with the aim to develop the markets in Europe and America. On the other hand, we will actively look for overseas partners or acquisition opportunities in order to speed up our expansion into those markets.

The development of butylphthalide, a patent drug, has reached the final stage of clinical trial. Meanwhile, we are constructing a production line in order to be able to make an official launch of the patent drug to the market in the second half of 2005.

### **FINANCIAL REVIEW**

The Group maintained a solid financial position throughout the year. At December 31, 2003, the Group had total bank balances and cash of HK\$552 million. Total borrowings amounted HK\$408 million, representing 19% of the shareholders' funds at the year-end date.

The borrowings of the Group comprise loan from ultimate holding company of HK\$102 million and bank loans of HK\$306 million. The maturity profile of the bank loans spread over a period of two years with HK\$161 million repayable within one year and HK\$145 million between one to two years.

52% of the Group's borrowings is denominated in Renminbi and the remaining 48% in Hong Kong dollars. Except for export sales which are denominated in US dollars, the sales of the Group are denominated in Renminbi. Hence the exposure of the Group to foreign exchange rate fluctuations is not significant.

At December 31, 2003, the Group had pledged all the equity interests of a wholly-owned subsidiary to a bank to secure bank loan granted to the Group. In addition, the Group had also pledged HK\$78 million of its bank deposits for the acquisition of production facilities and securing short-term banking facilities granted to the Group.

At December 31, 2003, the Group had capital commitments of HK\$233 million in respect of capital expenditure contracted but not provided for in the financial statements in respect of acquisition of property, plant and equipment.

### **EMPLOYEES**

At the year-end date, the Group had about 8,150 employees, the majority of them are employed in the PRC. They are remunerated by reference to the market, performance of individual employee and overall performance of the Group.

**ACKNOWLEDGEMENT**

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

**CAI DONG CHEN**

*Chairman*

Hong Kong, March 22, 2004