

CHAIRMAN'S STATEMENT

On behalf of the board (“**Board**”) of directors (“**Directors**”) of Hua Han Bio-Pharmaceutical Holdings Limited (“**Company**”), I am pleased to present the annual report of the Company for the year ended 30 June 2003 (“**Year**”).

Despite the unpredictable outbreak of the severe acute respiratory syndrome (“**SARS**”) which has impacted on the pharmaceutical industry, the Company and its subsidiaries (collectively, the “**Group**”) still managed to achieve satisfactory operating results in the year under review despite such challenge. Given the keen market competition, we are determined to improve and boost the sales of existing products, to speed up the work for launching new products in order to keep up with the market demand, to further increase the market share of the Group's pharmaceutical products and to expand and improve its existing product mix. With the launch of three new types of anti-tumour medicines in early 2003, namely, **Matrine Injection** (苦參素注射液), **Etoposide Injection** (足葉乙甙注射液) and **Shunbo Injection** (順鉑注射液), the Group's product mix of anti-tumour medicines was expanded. The Group now focuses on the development of the extensive over-the-counter (“**OTC**”) retail market. The Group has launched a series of products since the middle of 2003, including **Cefadroxil Capsules** (穀達膠囊) (for eliminating infections of the upper respiratory system, mouth and alimentary canal), **Bingpeng Throat Powder** (冰硼咽喉散) (for relieving throat inflammation, swelling and pain of gums and sores on the mouth and tongue), **Youdi Lotion** (疣迪搽劑) (for detoxifying, resolving blood stasis and activating blood circulation), **Biejia Xiaozhi Capsules** (鰲甲消痔膠囊) (for eliminating heat, detoxifying detumescence and relieving pain) and **Hoholan Natural Medicine Lotion** (火鶴蘭天然藥物洗液) and **Hoholan Moistened Toilet Towel** (火鶴蘭天然藥物濕巾) (applying to the genitalia for the prevention of bacteria infection and for pain relief for women). Not only will the unrelenting launch of new products effectively broaden the category and choice of the Group's products, it will also establish a solid foundation for the persistent growth of the Group.

To maintain our competitive edge and assure profit growth in the future, we will devote resources in the research and development of new medicines, which is one of the core strategies to maintain our competitiveness. The Group's **Zhitong Jiangu Capsules** (止痛健骨膠囊), a Chinese pharmaceutical product classified as a Third category new medicine, has already obtained clinical trial approval from the State Food and Drug Administration of the People's Republic of China (“**PRC**”) (中國國家食品藥品監督管理局) (“**SFDA**”). The Group has engaged the State Clinical Trial Base for Drugs of the Affiliated Hospital of Liaoning University of Traditional Chinese Medicine (遼寧中醫學院附屬醫院國家藥品臨床研究基地) to conduct phases II and III of the clinical tests, which are expected to be completed by the end of 2004. The pre-clinical research of the Group's joint development of **Etoposide Phosphate Injection** (足葉乙甙(依托泊甙)磷酸酯), an anti-tumour medicine classified as a Second category new medicine, with the Institute of Materia Medica of the Chinese Academy of Medical Sciences (中國醫學科學院藥物研究所) has been completed, and the Group has applied to the SFDA for its clinical trial. At the same time, the pre-clinical research of a pharmaceutical product classified as a Fourth category new medicine, **Secnidazole** (塞克硝唑), which was solely developed by the Group, has also been completed, and the Group is applying for its clinical trial at the moment. In the year under review, the Group also successfully obtained approved pharmaceutical number granted by the SFDA (國家藥品批准文號) for three products, namely, **Youdi Lotion** (疣迪搽劑), **Jinshan Xiaoke Granules** (金鱉消渴顆粒) and **Biejia Xiaozhi Capsules** (鰲甲消痔膠囊). The

technology for the production of these products were acquired from various research institutes. Meanwhile, the Group is working with the Institute of Materia Medica of the Chinese Academy of Medical Sciences (中國醫學科學院藥物研究所) in the research and development of two clinical-use pharmaceutical products, namely, **Iopromide** (碘普羅胺) and **Ioversol** (碘佛醇), which have great market potential.

In order to explore the prospective OTC market, to raise the brand awareness and to build the positive image of our products, we have undertaken various advertising campaigns to promote the Group's **Huangqi Granules** (黃芪顆粒) in Guizhou, Hubei, Sichuan, Guangdong and Guangxi since early 2003. The public awareness of Chinese pharmaceutical products was reinforced during the outbreak of SARS. As a result, the Group's **Huangqi Granules** (黃芪顆粒), containing a two-way immunity regulating agent which facilitates the reaction of a weak immune system and improves vitality effectively, was well recognized and received right after its introduction and its projected sales target was met. In addition, the Group has collaborated with marketing agencies and advertising firms to embark on advertising campaigns in the Guangdong Province, the Guangxi Province and Shanghai since the second half of the year under review. The campaigns mainly promote "**Hoholan** (火鶴蘭)" natural medicine lotion and moistened toilet towel, products of the same prescription as **Yeosure** (日舒安) which are developed for sales in retail pharmacies and general shopping centres. These campaigns aim at enlarging the market share of the Group's products in the retail market through the building of a healthy brand image targeted at modern women.

To enhance our marketing capacity and strengthen our sales network, we have set up sales offices in 10 cities in the PRC, namely, Shanghai, Nanjing, Hanzhou, Wuhan, Fuzhou, Harbin, Shenyang, Changchun, Jinan and Guiyang. We target to standardize the sales of our anti-tumour products and gynecological products as well as the sales to hospitals. Furthermore, the Group is planning to establish offices in Shenzhen and Guangzhou and other areas of the Guangdong Province to explore the OTC market, with an intention to establish the Group's corporate image in the manufacture and sale of healthy drugs, nursing products, keep-fit products for women and the healthcare products for women in the PRC. The implementation of such plan will streamline the resources of the Group's marketing teams, lower sales expenses and increase sales.

Under the continuous rapid growth of the PRC economy, the consistent upgrade in human resources and cultural living standards, there are unlimited and brilliant development prospects in the PRC pharmaceutical industry. We will do our best to become one of the top manufacturing and sales enterprises specialised in women health medicine, nursing products, women keep-fit products and healthcare products for women in the PRC.

Our strategies:

Prestigious brand name: With the well-established reputation of its brand names, the Group aims to further project the positive image of Hua Han Bio-Pharmaceutical as the premium brand of quality healthcare products for women to its customers.

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Legend products: Anticipating the demand of healthcare products for women, the Group will strive to enlarge its product mix through acquisition, alliance or establishment of its research and development platform and network of healthcare products for women, especially traditional Chinese medicines. Meanwhile we target at introducing three to five new products to the market annually, which add momentum in developing some major healthcare products for women with the annual turnover exceeding HK\$100 million.

Nationwide network: Through the establishment and acquisition of pharmaceutical distribution companies, the Group has established an extensive marketing network by integrating points of sales and market coverage and built up a competitive distribution network of pharmaceutical products at a regional level, which connects hospitals throughout PRC and extends the OTC marketing network. With the support of such a distribution channel, our strategies in relation to brand name and product variety can be successfully realised.

Looking ahead, the Group is confident to leverage on its profound experience and competitiveness so as to capitalise on the unlimited opportunities generated from the promising industry, and to achieve outstanding results with a view to realising the highest return and raising the value of the shares in the Company. To conclude, I would like to express my appreciation to the shareholders and our clients for their trust and support, and also to our management and staff for their dedicated endeavour throughout the year.

Zhang Peter Y.

Chairman and Chief Executive

Hong Kong, 29 October 2003