

董事長報告

CHAIRMAN'S STATEMENT

本人謹此提呈本公司截至二零零三年十二月三十一日止年度報告書，敬請各位股東省覽。

I hereby present for your review the annual report of the Company for the year ended 31 December 2003.



董事長
Chairman

賀端澍先生
Mr. He Duanshi

業績與股息

本公司及其附屬公司（簡稱「本集團」）截至二零零三年十二月三十一日止年度按中國會計準則編制的營業額為人民幣1,328,471千元，較二零零二年度增長13.20%；淨利潤為人民幣42,076千元，較二零零二年度下降38.81%；每股盈利人民幣0.09元。

按香港普遍採納之會計原則編制的營業額為人民幣1,341,788千元，較二零零二年度增長14.34%；股東應佔盈利為人民幣51,794千元，較二零零二年度下降23.33%；每股盈利人民幣0.11元。

董事會建議派發二零零三年末期現金股利每10股人民幣0.4元（約折合港幣0.374元，A股含稅）。

Results and Dividends

In the fiscal year ended 31 December 2003, in accordance with PRC accountings standards, the sales of the Company and its subsidiaries (the "Group") increased 13.20% to RMB1,328,471,000. Net income was RMB42,076,000, a decrease of 38.81% compared to last year. Earnings per share were RMB0.09.

In accordance with HKGAAP, the Company's sales were RMB1,341,788,000, an increase of 14.34% and net income was RMB51,794,000, showing a decrease of 23.33%, compared to that of last year. Earnings per share were RMB0.11.

The Directors have proposed a final dividend for 2003 of RMB 0.4 per 10 shares (approximately HK\$0.374 per 10 shares), including income tax of A shares, to be paid in cash.

董事長報告 (續)

CHAIRMAN'S STATEMENT (continued)

業務回顧

2003年本公司遇到了自1996年上市以來最大的經營困難，國際形勢變化引起的以石油為基礎的化工原料價格上漲，導致產品成本上升；而「非典」突發，住院患者減少，臨床用藥量下降，本公司承受了很大的經營壓力。雖然上半年經過全公司艱苦努力取得效益增長，但由於醫藥行業低水平重覆建設加劇所導致的結構性供過於求矛盾在下半年表現日益突出，產品降價競銷局勢愈演愈烈，加上化工原料持續漲價，致使本集團全年淨利潤出現較大幅度下滑。面對嚴峻的經營環境，本公司積極採取應對措施，強化基礎管理，嚴格控制費用，進一步擴大經營規模。在全體員工的共同努力下，2003年本集團實現銷售收入超過人民幣13億元，取得兩位數增長，按中國會計準則編制經營活動產生的現金流量淨額達到人民幣131,318千元，較上年增長兩倍以上，生產經營工作仍然保持了良性發展態勢。

1. 主動調整營銷策略，積極應對市場競爭

面對日益複雜多變的市場競爭環境，公司主動調整營銷策略，增強市場應變能力。充分發揮產品質量優勢、服務優勢、品牌優勢，積極開拓市場，產品銷售規模進一步擴大。全年化學原料藥生產總量達1.9萬噸，較上年增長8.8%，本公司於化學原料藥市場主導地位進一步增強。

2003年在部分主導產品價格下調的情況下，本公司出口創匯額突破60,000千美元，較上年增長4.41%，當年又有兩個產品出口創匯突破百萬美元，使本公司銷售額過百萬美元品種增加到10個。

Review of Operations

In 2003, the Company encountered the greatest difficulties to date since its listing in Hong Kong in 1996. In the first half of the year, the costs of production increased significantly due to the rising price of petrochemical products as a result of a complex and volatile international situation. On the other hand, the reduction in the number of inpatients resulted in a plunge in dosages of prescription drugs during the period of SARS. Despite the above favourable factors, the Company recorded growth in the first half of 2003. In the second half of the year, the structural contradiction of excessive supply which was generated from the low-level, redundant construction in the domestic pharmaceutical industry came to the fore. Competition resulting from the decrease in the price of pharmaceutical products became more severe. At the same time, the prices of petrochemical products continued to increase. This difficult situation finally resulted in a rapid decline in profit of the Company. However, the Company achieved a stable situation in its operations through enhanced basic management, control over expenses and expansion of the scale of operations. Turnover and net increase in cash and cash equivalent of the Group prepared in accordance with PRC accounting standards realized in 2003 was more than RMB1.3 billion and RMB131,318,000, respectively which was over 10% and 200% more than the amounts in last year respectively. The production and business of the Group still maintained a healthy development trend.

1. Actively adjusting marketing strategies to deal with competition

Facing such complicated and ever changing market competition conditions, the Company actively changed its marketing strategies for the purpose of strengthening its ability to cope with an emergency in changing market conditions. By making full use of its advantages in quality, service and brand name, the Company improved its sales volume. The production volume of bulk pharmaceuticals reached 19,000 tons, representing an increase of 8.8% as compared to that of last year. The leading position of the Company in the bulk pharmaceuticals market was further strengthened.

The export sales of the Company exceeded USD60,000,000 in 2003, increased by 4.41% as compared to last year despite the decrease in prices of its leading products. During the year, two more products had sales exceeding USD1,000,000 and the total number of products of the Company with sales exceeding USD1,000,000 increased to 10.

董事長報告 (續)

CHAIRMAN'S STATEMENT (continued)

業務回顧 (續)

1. 主動調整營銷策略，積極應對市場競爭 (續)

製劑產品銷售網絡進一步完善。製劑新產品銷售額完成人民幣113,760千元，較上年增長11.6%。

醫藥產品商業銷售取得了長足進步，銷售額實現人民幣159,155千元，較上一年增長186%，並呈現良好發展勢頭，成為本公司經營規模擴大新的亮點。

2. 抓管理促綜合競爭力提高

2003年本公司遇到了前所未有的經營困難，但通過不斷強化內部管理，完善各項管理制度，本公司有效地控制了費用支出；狠抓風險管理，繼續推行產銷平衡營銷政策，本公司經營活動現金淨流量增加。

年度內本公司又有10個原料藥品種類順利通過GMP認證，布洛芬取得美國FDA認證，咖啡因、安替比林獲得歐洲COS證書，山東淄博新華大藥店連鎖有限公司也於2004年初通過了GSP認證。

2003年本公司先後接受來自國際大公司25次顧客質量審計，並獲得順利通過，從而進一步增強與客戶間相互信任，有利於建立長期合作夥伴關係。

多項認證及顧客審計工作的順利完成，為進一步拓展國內外醫藥市場創造了良好的條件。

Review of Operations (continued)

1. Actively adjusting marketing strategies to deal with competition (continued)

The distribution network of preparations of the Company was further improved. Sales of new products increased by 11.6% to RMB113,760,000.

Commercial sales of medical products also made great progress and total sales were RMB159,155,000, an increase of 186% as compared to last year. This shows that commercial sales will have a good tendency for development and become a new source for revenue.

2. Further improving comprehensive competitiveness

Although the Company encountered unprecedented difficulties in 2003, it had many achievements through determined improvement and modification of regulations and rules in terms of internal management. For example, the Company successfully controlled expenditure by means of strict internal management. Net increases in cash and cash equivalent benefited from the policies implemented to balance the production, sales and accounts receivable.

During the year, there were 10 bulk pharmaceutical products of the Company which passed domestic GMP certification. Ibuprofen in bulk form passed the examination by the FDA of the USA. Caffeine and Antipyrine both in bulk form obtained COS certification in Europe. Our medicine trading company Shandong Zibo Xinhua Pharmacy Chain Company Limited also passed GSP certification in the beginning of 2004.

The Company successfully passed 25 quality audits carried out by certain multinational companies in 2003, which enhanced the existing relationship between the Company and customers and will be favourable for their long-term partnership.

Multinomial certifications and customer audits finished in the year established a good foundation for marketing promotion in both domestic and overseas markets.

董事長報告 (續)

CHAIRMAN'S STATEMENT (continued)

業務回顧 (續)

3. 積極開展「技術進步年」活動，注重科研開發和產品技術進步。

隨著市場競爭的日益激烈，公司一方面注重多元化開發產品市場，一方面注重產品技術進步。積極開展「技術進步年」活動，進一步提高產品質量，全年原料消耗節約人民幣6,600千元，動力能源消耗節約人民幣4,630千元。

2003年本公司獲得國家藥品監督管理局頒發的新藥文號10個，是歷年來取得新產品批准文號最多的一年，將為公司今後發展增添強大的後勁。

4. 技術改造項目順利進展

2003年是本公司工程項目投入最多的一年。A股增發投資額最大的咖啡因技術改造項目已經改造完工，進入達產達效技術攻關階段，布洛芬、阿司匹林等多個擴產改造項目進展順利，並已達到預期目標。技術改造、擴產項目順利完成，將為公司大發展奠定堅實基礎，將有利於鞏固和發展公司於解熱鎮痛類藥物、化學原料藥市場地位。

未來展望

根據預測，世界經濟經過幾年調整，2004年將恢復正常增長，而中國經濟正處於經濟周期的上升階段，2004年仍然保持在7%以上增長率。2003年中國人均GDP超過1,000美元，在這一階段人們將更加關注生活質量和健康水平。國家提出大力改善農村醫療衛生條件，推行農村合作醫療制度，均將為醫藥企業創造良好發展機遇。

Review of Operations (continued)

3. Actively involved in the activity of “Technological Improvement Year” emphasizing R&D and improvements in technology

With more intense competition, the Company paid more attention to market diversification and improvements in technology. In the program “Technological Improvement Year”, the quality of products was improved and costs of raw materials and power consumption were reduced by RMB6,600,000 and RMB4,630,000 respectively for the year.

The Company obtained 10 new drug certificates granted by the State Drug and Food Administration of the PRC in 2003 which is the highest recorded in recent years. This will provide strong support for the future development of the Company.

4. Making new progress in technical renovation

The Company made significant investments in renovation projects in 2003. The Caffeine Technical Renovation Project, the biggest investment using the proceeds raised from the issue of A shares was completed and put into normal operation. Scale-enlarging projects such as the Ibuprofen Project and Aspirin Project were carried out smoothly and reached the expected goals. The completion of the technical renovation and enlargement projects laid down solid foundations for future development of the Company and is favourable for the consolidation and development of the Company's position in the antipyretic analgesic drugs and bulk pharmaceutical markets.

Prospects

After a few years' adjustments in the world economy, it is anticipated that the world economy will recover and will achieve increases in 2004. The Chinese economy is in an upward stage of the economic cycle and will maintain a growth rate at 7% or above. Per capita GDP exceeded USD1,000 in the year 2003. The Chinese people will pay more attention to their life quality and health. The State has called for improvement of rural medical and health conditions and the implementation of rural cooperative medical systems. These will create splendid opportunities for pharmaceutical enterprises in the future.

董事長報告 (續)

CHAIRMAN'S STATEMENT (continued)

未來展望 (續)

但企業發展仍面臨諸多不利和不確定因素，原材料、能源價格仍呈現上漲趨勢，國家下調產品出口退稅率，醫藥產業結構性產大於銷導致的降價競銷局面短期內不會改變，國家加強對藥品價格，特別是新藥價格的控制，均對本公司全年效益增長帶來不利影響。

為此，2004年本公司將突出開發產品市場，特別是製劑產品市場；積極調整產品結構，大力開發新產品；進一步強化企業管理，努力降低產品成本，嚴格預算管理，控制費用支出。

1. 傾全公司之力，加大市場開拓力度，特別是製劑產品銷售力度

積極調整和修訂營銷策略，搞好市場整體策劃。進一步完善快速反應機制，以市場為導向，以顧客為中心，充分發揮公司產品質量優勢、品牌優勢，多元化開發產品市場；利用系列化產品營銷策略，通過市場細分，拓展銷售渠道。

原料藥出口方面，鞏固發展傳統市場，培育新興市場，開發空白市場，努力打造國際解熱鎮痛藥知名品牌。

製劑銷售方面，充分發揮市場部統一策劃職能，整合有效資源，做到終端開發與代理銷售並舉，加大新藥終端網絡建設力度，採取多樣化銷售手段，擴大產品銷售。

2. 調整產品結構，提高綜合實力

突出發展化學原料藥主導產品，培育戰略品種，圍繞「把新華建設成為全球解熱鎮痛類藥物生產基地和世界級原料藥優秀供應商」戰略目標，發揮本公司技術、質量及規模競爭優勢。

Prospects (continued)

However, the Company is still facing numerous unfavourable and uncertain factors, such as an uptrend in prices of raw materials and energy and the reduction in the export tax rebate rate. The structural contradiction in excessive supply, which makes competitors decrease their prices, will continue to exist in the near future. Meanwhile, the State government is regulating the price for new drugs. All of these will exert unfavourable effects on the profits of the Company.

Hence, the Company will give priority to the development of its products and markets, especially the market for preparations. The Company hopes to exploit the market for new products by adjusting existing products mix, strengthening management to reduce costs and tightening the budget to control expenditure.

1. By doing the Company's utmost to enhance its market position, particularly in the sales of preparations

The Company plans to adjust and revise its marketing strategies and marketing scheme. It will improve the market-oriented rapid feedback system to obtain a view of customer needs. By taking advantage of its quality and brand name, the Company will develop the markets through diversified measures. Through market subdivision, the Company will review the relevant marketing strategies for different product groups in order to develop more sales channels.

Meanwhile, the Company will continue to develop the market for bulk pharmaceuticals to consolidate its traditional advantages. It will also develop emerging markets and access to potential markets. The Company will promote "Xinhua" as a well-known brand in international antipyretic and analgesic drug markets.

In the sales of preparations, the marketing department of the Company will play a key role in sales by mapping out the marketing strategies of the Company. Through the reorganization of the existing marketing resources and the optimization of existing sales channels, the Company hopes to enlarge its sales networks and stimulate an increase in sales of new drugs by adopting various other sales measures.

2. To adjust the product mix and improve the comprehensive competitiveness

The Company's strategic target is to become the largest producer of antipyretic and analgesic drugs and the best global supplier of bulk pharmaceuticals. Focusing on such target, the Company will emphasize the development of the leading bulk pharmaceutical products and strategic products by making full use of its advantages in production technologies, quality and scale.

董事長報告 (續)

CHAIRMAN'S STATEMENT (continued)

未來展望 (續)

2. 調整產品結構，提高綜合實力 (續)

加快產品技術改造步伐，提高產品工藝水平和裝備水平，發揮本公司產品技術優勢、成本優勢，積極參與競爭。

圍繞「鞏固發展化學原料藥市場主導地位，不斷提高製劑產品銷售比重」戰略目標，培育製劑品牌，發揮系列化劑型配套優勢，滿足不同用藥習慣患者群需要。

3. 強化基礎管理，提高管理水平

加強產品質量管理，爭取更多產品獲得歐洲COS證書和美國FDA認證，為進一步開拓國際醫藥市場奠定基礎；加強基礎管理，為順利通過跨國公司質量審計做好充分準備，爭取更多訂單。認真組織好現有產品GMP認證工作，加強硬件及軟件管理。

樹立「大人才」觀，營造一個人才輩出的氛圍。不拘一格選用人才，培養、吸引、用好人才，進一步開展「當專家做能手」活動。制訂、完善激勵約束機制，加強對企業管理人員考核工作，激發全體員工積極性、增強凝聚力。

繼續推行比質比價、招標採購管理辦法，配套出台相關規章制度和程序，最大限度控制採購成本；建設資源節約型企業，繼續強化產品技術攻關活動，有目標、有節奏、有措施地降低產品成本。

Prospects (continued)

2. To adjust the product mix and improve comprehensive competitiveness (continued)

The Company will accelerate the progress of its existing technological renovation projects, improve production technologies and renew equipment to bring its ascendancy in technology and costs into play and compete with other companies in the same industry.

In 2004, the Company will aim at the strategic targets of maintaining its leading position in bulk pharmaceuticals and increasing the proportion of preparations in total sales. The Company will focus on the sales of its famous brand of preparation products and utilize its advantages in systematic preparation forms to develop different kinds of products to satisfy the diversified dosage habits of patients.

3. To strengthen basic management and to improve management standards

For the purpose of developing international pharmaceutical markets, the quality of products of the Company will be further improved and the Company will aim to achieve more European COS certification and approval of the FDA examination of the USA for exported products. The basic management of the Company will be strengthened so as to pass the quality audit by multinational companies and to obtain more orders. The Company is ready to pass the GMP certifications in respect of existing products and will update the software and hardware used in production and management.

The Company will recruit talented and able persons. In relation to the process of selection and promotion of the staff, the Company will formulate a plan to develop its staff and recruit some other persons from outside to occupy key management positions in sales and scientific research. The Company also encourages employees to become experts in their work. Through the amendment of the incentive scheme, the Company will enhance the assessment of the management's and the officers' work to stimulate their enthusiasm for work and build up a team spirit.

The Company will formulate the corresponding rules and procedures for the implementation of policies of inviting public tenders in its procurements to reduce costs to the utmost. Aiming at being a resource economising oriented enterprise, the Company plans to reduce production costs through the improvement of technology.

董事長報告 (續)

CHAIRMAN'S STATEMENT (continued)

未來展望 (續)

3. 強化基礎管理，提高管理水平 (續)

進一步完善預算管理制度，嚴格管理程序，加強預算執行和考核力度，控制預算費用支出。嚴格執行風險管理制度，確保經營工作良性循環。

加大科研投入，加強與科研院校合作，貼近市場開發新產品，爭取2004年取得6個新藥批文。

4. 抓住機遇，積極尋求更多合作合資機會

抓住全球經濟一體化發展、產業轉移機遇，充分發揮化學合成技術優勢，在L-350、AEA等醫藥中間體成功合作的基礎上，爭取更多醫藥中間體合作機會；同時積極與歐美等地區國際著名製藥公司進行接觸，採取多種方式，尋求原料藥和製劑產品合資合作可能性，積極融入全球經濟一體化進程中，培植新的效益增長點。

最後，我謹代表本公司全體董事，向一直以來關心本公司發展的廣大投資者表示感謝，向一年來為公司發展兢兢業業工作的全體員工表示感謝。在新的一年裡，本董事會將繼續帶領全體員工努力工作，爭取給股東較好回報。

承董事會命
賀端湜
董事長

中國山東淄博
二零零四年三月二十六日

Prospects (continued)

3. To strengthen basic management and to improve management standards (continued)

The Company will revise the rules of budget management policies, rectify budget procedures and strengthen the execution and examination of budgets in order to control expenditure. Meanwhile, the Company plans to strictly enforce risk management procedures to protect its regular operations.

In order to satisfy the needs of the market, the Company will increase investment in research and development of new products and reinforce cooperation with scientific research institutes. It is possible for the Company to obtain 6 new drugs certificates in 2004.

4. To seek and seize more opportunities for cooperation and set up joint-ventures with domestic and foreign companies

Along with the globalization of the world economy and industrial diversification, the Company will seek more cooperation with domestic and foreign companies and make full use of its advantages in chemical-synthetic technology. Based on the success of products such as L-350 and AEA, the Company will seize more opportunities for cooperation. Meanwhile, the Company is actively contacting famous pharmaceutical corporations from USA and Europe. The patterns of cooperation can be of various types and will focus on bulk pharmaceuticals and preparations products. The Company hopes to make and develop new sources for its revenue.

Finally, I myself, and on behalf of the Board of Directors, sincerely express our appreciation to the investors and employees who are mindful of and work hard for the development of the Company. In the coming year, we, the Board of Directors and the employees, will do our best to provide a good return to the shareholders.

By order of the Board
He Duanshi
Chairman

Zibo, Shandong, PRC
26 March 2004