

董事會報告

REPORT OF THE BOARD OF DIRECTORS

本董事會謹向股東提呈本公司二零零三年董事會報告和本公司及本集團截至二零零三年十二月三十一日止年度經審核之帳目。

經營管理研討與分析

1. 主營業務範圍及其經營狀況

本集團主要從事開發、製造和銷售化學原料藥、製劑、化工及其他產品。本集團利潤主要來源於主營業務。

銷售分析

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銷售額為人民幣1,328,471千元，其中化學原料藥、製劑、化工產品及其他銷售額所佔比重分別為59.00%、37.90%、3.10%，分別較上年下降4.90個百分點、上升4.50個百分點和上升0.40個百分點。本集團產品結構調整取得初步成效。

二零零三年本集團化學原料藥銷售總額完成人民幣783,758千元，較上年增長4.56%，增長的主要原因是本公司充分發揮自身競爭優勢，加大市場開拓力度，特別是加大國際醫藥市場開拓力度，產品出口持續多年保持增長；

製劑產品銷售額完成人民幣503,433千元，較上年增長28.43%，增長的主要原因是由於醫藥貿易分公司批發超市的成立，經營範圍擴大，代理品種增加所致。

The Board of Directors sincerely submits to the shareholders the report of the Board of Directors and the audited accounts of the Company and the Group for the year ended 31 December 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

1. The business scope and operating results of the Company

The Group is mainly engaged in the development, production and sales of bulk pharmaceuticals, preparations, chemical products and other products. The profit of the Group is mainly attributable to its principal operations.

Sales Analysis

Under PRC accounting standards, the Group achieved a turnover of RMB1,328,471,000 for the year ended 31 December 2003, in which sales of bulk pharmaceuticals accounted for 59.00% of the total sales of the Group, representing a decrease of 4.90 points as compared to last year. Sales of preparations, chemical and other products accounted for 37.90% and 3.10% respectively of the total sales of the Group, representing increases of 4.50 points and 0.40 points respectively as compared to 2002. The Company has achieved initial success in the adjustment of product mix.

Sales of bulk pharmaceuticals were increased by 4.56% to RMB783,758,000. The increase was mainly due to the deepening of market promotion and full utilization of the Company's advantages, especially in the international pharmaceutical markets which resulted in a consistent growth of the exports of the Company for many years.

Sales of preparations was RMB503,433,000, increased by 28.43% which was mainly attributable to the establishment of the wholesale bazaar and the enlargement of the business scope of its medical trade.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

化工產品及其他銷售額完成人民幣41,280千元，較上年增長28.98%，增長的主要原因是本公司子公司淄博新華大藥店連鎖有限公司和淄博新華醫藥設計院有限公司營業額增加所致。

業績分析

截止二零零三年十二月三十一日止年度，按香港普遍採納之會計原則審計的本集團股東應佔盈利為人民幣51,794千元，較上年度下降23.33%；按中國會計準則審計的淨利潤為人民幣42,076千元，較上年下降38.81%。利潤下降的主要原因為：

- (i) 伊拉克戰爭爆發引起的以石油為基礎的化工原料價格持續上漲，造成產品成本上升。
- (ii) 受「非典」影響，雖然「非典」時期與「非典」有關藥品銷售增長，但住院醫療的患者減少，臨床用藥量大幅下降，影響本公司部分新藥銷售。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. The business scope and operating results of the Company (continued)

The sales of chemical and other products were RMB41,280,000, increased by 28.98%. The increase was mainly attributable to the increase in turnover of the subsidiaries of the Company, Zibo Xinhua Pharmacy Chain Company Limited and Zibo Xinhua Medical Design Company Limited.

Results Analysis

The Group's profits attributable to shareholders for the year ended 31 December 2003 prepared in accordance with HKGAAP were RMB51,794,000 and the profit after taxation prepared in accordance with PRC accounting standards was RMB42,076,000, representing decreases of 23.33% and 38.81% respectively as compared to last year. The main reasons for the decreases were :

- (i) The production costs increased as a result of continued sharp rise in the prices of petrochemical products due to the Iraq War.
- (ii) Although the sales of medicines for the treatment of SARS increased, the reduction in the number of inpatients resulted in a plunge of dosages of clinical prescription drugs during the period of SARS, which eventually had an unfavorable influence on the sales of some of the new drugs of the Company.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

- (iii) 受國家調低部分製劑產品價格等政策影響，本公司部分製劑新產品價格下降；而國內投資過熱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，為適應日益複雜變化市場環境，擴大產品銷售市場，本公司主動下調產品價格，公司毛利水平降低。

主要產品及其於中國市場佔有率

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

- (iii) The prices of some of the new products of the Company were revised to a lower level due to the State policies promulgated for lowering the prices of preparations. On the other hand, the structural contradiction in excessive supply which was generated from the high level of investment in the domestic pharmaceutical market became more apparent. Competition resulting from the decrease in the price of pharmaceutical products became more severe. The Company had to actively adjust the price of its products to ensure the development of different markets. However, adjustment of prices will inevitably result in the reduction of the gross profit of the Company.

Major Products and the corresponding market share in the PRC

主要產品	Major Products	佔二零零三年 總銷售額百分比(%)	國內市場 佔有率(%)
		As % of total sales in 2003	Market share in the domestic market
A. 化學原料藥	A. Bulk Pharmaceuticals		
安乃近	Analgin	12.19	43.90
咖啡因	Caffeine	8.69	32.37
氨基比林	Aminopyrine	4.41	66.48
阿斯匹林	Aspirin	6.14	58.34
氫化可的松	Hydrocortisone	5.01	36.02
吡嘧酸	Pipemidic acid	2.33	100
布洛芬	Ibuprofen	2.05	33.56
茶碱	Theophylline	1.12	30.54
B. 製劑	B. Preparations		
吡嘧酸片	Pipemidic acid tablets	3.24	N/A
複方甘草片	Co-liquorice tablets	1.76	4.32
尼莫地平片	Nimodipine tablets	1.05	12.55

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

按中國會計準則財務狀況、經營成果分析

2003年本集團總資產為人民幣2,085,381千元，較年初人民幣1,896,271千元增加人民幣189,110千元，增長9.97%，總資產增長的主要原因是本集團固定資產增加。2003年年末股東權益為人民幣1,413,304千元，較年初人民幣1,397,923千元增加人民幣15,381千元，增長1.10%，增長的主要原因為2003年本集團經營產生盈利。

2003年度本集團實現主營業務利潤為人民幣292,631千元，較上年同期降低人民幣19,101千元，下降6.13%；淨利潤為人民幣42,076千元，較上年同期降低人民幣26,688千元，下降38.81%，下降的主要原因見「業績分析」。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

Financial and results analysis in accordance with PRC accounting standards

Total assets of the Group as at 31 December 2003 amounted to RMB2,085,381,000, an increase of RMB189,110,000 or 9.97%, as compared to the figure at the beginning of the year of RMB1,896,271,000. This increase in total assets was mainly attributable to the increase in fixed assets. Shareholders' equity of the Group as at 31 December 2003 was increased by RMB15,381,000 or 1.10% from RMB1,397,923,000 at the beginning of the year to RMB1,413,304,000. The increases in shareholders' equity were mainly attributable to the net profit generated in 2003.

Profit from principal operations and profit after taxation of the Group for 2003 amounted to RMB292,631,000 and RMB42,076,000 respectively, a decrease of 6.13% and 38.81% respectively, as compared to that of last year. The main reasons for such decreases are listed in the above section headed "Results Analysis".

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

2003年年度末本集團現金及現金等價物淨減少額為人民幣89,481千元，現金及現金等價物淨額變動的主要原因為：2001年A股份增發承諾項目陸續開工。

按中國會計準則2003年產品分佈情況如下：

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Net decreases in cash and cash equivalents were RMB89,481,000 as at 31 December 2003. The decrease was mainly attributable to the increase in investment for the construction projects using the proceeds raised from the issue of A Shares in 2001.

A broad analysis of the main products for 2003 prepared under PRC accounting standards is as follows:

產品分佈	By product	主營業務收入 Turnover 人民幣千元 RMB'000	主營業務成本 Cost of goods sold 人民幣千元 RMB'000	毛利率% Rate of gross margin %
化學原料藥	Bulk pharmaceuticals	783,758	628,397	19.82
製劑	Preparations	503,433	364,305	27.64
化工產品及其他	Chemical & other products	41,280	34,911	15.43
合計	Total	1,328,471	1,027,613	22.65

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

按香港普遍採納之會計原則分析

截至2003年12月31日，本集團流動比率為244.41%，速動比率為189.82%，年應收帳款周轉率為477.87%（年應收帳款周轉率＝營業額／平均應收帳款及票據淨額X100%），年存貨周轉率為438.16%，（年存貨周轉率＝產品銷售成本／平均存貨淨額X100%）。

本集團資金需求無明顯季節性規律。

本集團資金來源主要有兩部分，一是本集團實現的利潤，二是向金融機構借款。於2003年12月31日，本集團所有銀行借款均為無抵押、固定利率貸款，總額為人民幣374,156千元。於2003年12月31日本集團共有貨幣資金人民幣413,986千元。本集團資金流動性較好，償債能力較強。

截至2003年12月31日，本公司分別投入資金300萬美元、50萬歐元成立了兩家合資公司，本集團分別佔其註冊資本的50%、70%。我們對這兩家公司的發展前景充滿信心。

截至2003年12月31日，本公司無抵押的資產。

公司未來計劃內重大投資項目均為A股增發招股說明書承諾項目，資金主要來源於A股增發所募集資金。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

Analysis of the Group's performance under HKGAAP

As at 31 December 2003, the current ratio and the quick ratio of the Group were 244.41% and 189.82% respectively, and the rate of accounts receivable turnover (turnover / average trade and bill receivables X100%) and rate of stock turnover (cost of goods sold/average inventories X100%) for the year were 477.87% and 438.16% respectively.

The Group's demand for working capital was constant throughout the year.

The source of funds of the Group comprised mainly two parts, namely profit achieved in the year and loans from financial institutions. As at 31 December 2003, the total amount of the bank loans was RMB374,156,000 which were unsecured and bear interest at fixed rate. As at 31 December 2003, cash on hand and in bank amounted to RMB413,986,000. The Group maintained good liquidity and has the ability to repay its debt as they fall due.

During the year, the Company invested USD3,000,000 and Euro 500,000 in two joint ventures which represent 50% and 70% of their total equity interests respectively. The Company is confident of the future development of these two companies.

As at 31 December 2003, there was no charge on the Group's assets.

In the coming year, significant investment plans will be focused on the projects as described in the prospectus on issue of Company's A Shares using the proceeds from the issue of new A Shares in 2001.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

截至2003年12月31日，本集團的資本負債率為26.01%。(資本負債率=借款總額/股本及儲備總額X100%)

集團現有的銀行存款主要目的是為生產經營及科研開發投入作資金準備。

截至2003年12月31日，集團無或有負債。

本集團之資產及負債主要以人民幣為主，故本集團無須承擔重大匯率波動風險。

2. 控股子公司經營及業績情況

- (i) 本公司享有山東淄博新華大藥店連鎖有限公司88%的股東權益。該公司於1999年11月19日由淄博工商行政管理局批准正式登記設立，經營範圍包括：中成藥、中藥飲片、化學藥製劑、診斷藥品、保健食品、計劃生育藥品、醫療器械、化妝品的零售。

2003年實現銷售收入人民幣27,412千元，較上年度增長31.48%，實現淨利潤人民幣-629千元，比去年同期下降298%，下降的主要原因為新開辦7家連鎖店，攤銷開辦費用增加以及藥店GSP達標費用增加所致。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

The gearing ratio of the Group was 26.01% as at 31 December 2003. (The gearing ratio = Total borrowings / Share capital & total reserves X100%)

The cash and bank balances of the Group will mainly be used as working capital for production, sales and research.

As at 31 December 2003, the Group had no significant contingent liabilities.

The Group's assets and liabilities are recorded as Renminbi. Therefore, it is not necessary for the Group to undertake any hedge against risks associated with foreign exchange fluctuation.

2. Operations and Results of subsidiaries of the Company

- (i) Shandong Zibo Xinhua Pharmacy Chain Company Limited ("Xinhua Pharmacy"), in which the Company holds 88% of the total equity interest, was approved for incorporation by the Zibo Municipal Industrial and Commercial Administration on 19 November 1999. The main operations of the subsidiary are the sale of traditional Chinese medicines, prepared herbal medicines for decoction, preparations, drugs for birth control, medical appliances, health foods and cosmetics.

In 2003, the total turnover of the subsidiary was RMB27,412,000, increased by 31.48% and the loss after taxation was RMB629,000, representing a decrease of 298% as compared to 2002. The decreases were mainly due to the higher start-up costs of 7 new drugstores and the standardization expenses for passing the GSP certification of the pharmacies.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

2. 控股子公司經營及業績情況 (續)

- (ii) 本公司與日本共和株式會社、北京三田化工技術開發有限公司成立「淄博新華一三和化工有限公司」，合資公司註冊資本50萬美元，本公司出資35萬美元，佔註冊資本70%，合資公司經營範圍為：醫藥中間體、香料中間體等化工產品(不含危險品)的研究、開發、生產和銷售，目前本公司產品處於試產階段。
- (iii) 本公司享有淄博新華醫藥設計院有限公司90%股東權益。該公司於2002年3月由本公司與山東新華醫藥集團有限責任公司合資成立，註冊資本人民幣200萬元，合資公司主要經營醫藥工程的設計等，2003年實現營業額人民幣3,692千元，比去年同期增長98.71%。增長的主要原因為業務規模不斷擴大。
- (iv) 2003年本公司與LI PENG先生於德國合資成立山東新華製藥(歐洲)有限公司，公司註冊資本總額為100萬歐元，本公司出資70萬歐元，合資方出資30萬歐元。截止到2003年12月31日，雙方分別出資50萬歐元、15萬歐元。合資公司主要經營醫藥原料藥及中間體。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. Operation and Results of subsidiaries of the Company (continued)

- (ii) Zibo-Xinhua Sanhe Chemical Company Limited is a subsidiary and joint venture established by the Company with Kyowa Pharmaceutical Co., Ltd. and Beijing Mita Chemical Technology Development Co., Ltd. The registered capital of the joint venture is USD500,000, in which the Company invested USD350,000 that accounted for 70% of the total equity interests. The operating scope of this joint venture includes research, development, production and sale of chemical products including pharmaceutical intermediates, perfume intermediates etc, except for dangerous materials. At present, this joint venture has come into trial production.
- (iii) Zibo Xinhua Pharmaceutical Design Institute Company Limited is another subsidiary of the Company. This subsidiary was established with SXPGC in March 2002. The total registered capital of the subsidiary is RMB2,000,000 in which the Company invested RMB1,800,000 and accounted for 90% of total equity interests. This subsidiary is mainly engaged in the business of the design of projects and achieved a turnover of RMB3,692,000 in 2003, an increase of 98.71% as compared to that of last year, which was mainly attributable to the development of its business.
- (iv) Shandong Xinhua Pharmaceutical (Europe) GmbH is a subsidiary established in Germany with Mr. Li Peng in 2003. The total capital of this subsidiary is Euro1,000,000 in which the Company invested Euro700,000 and Mr. Li invested Euro300,000. As at 31 December 2003, the two parties have contributed Euro500,000 and Euro150,000 respectively. The subsidiary is mainly engaged in the business of bulk pharmaceutical intermediates.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

3. 募集資金使用情況

公司於2001年9月3日增發3,300萬股A股(含國有股減持300萬股)，募集資金淨額為人民幣370,517千元，截止2003年12月31日，共使用募集資金人民幣269,875千元，主要用於以下項目：

3. Use of Proceeds

On 3 September 2001, the Company raised an amount of RMB370,517,000 from the issue and offer of 33,000,000 A Shares (including the offer of 3,000,000 state-owned shares). As at 31 December 2003, a total of RMB269,875,000 from the proceeds of the above issue of A Shares was used in the following projects:

募集資金投資項目名稱 Name of project	募集資金 投入計劃 Total investment 人民幣千元 RMB'000	2003年 實際投入 Investment in 2003 人民幣千元 RMB'000	累計投資額 Accumulated investment 人民幣千元 RMB'000	完成計劃投 資額的比例 % of the total investment	備註 Remark
國家級技術中心改造項目 State-level technical centre	74,500	2,890	10,123	13.59%	
針劑GMP改造項目 Injection workshop GMP renovation	80,000	22,278	30,045	37.56%	
咖啡因技術改造項目 Caffeine technical renovation	160,000	109,252	176,081	110.05%	完工，其中16,081千元為自有資金投入 Completed and RMB16,081,000 financed by the Company
L-350技術改造項目 L-350 technical renovation	29,980	483	23,442	78.19%	完工 Completed
安乃近精幹包(GMP)改造項目 Analgin GMP renovation	39,800	2,138	46,265	116.24%	完工 Completed 其中16,081千元為自有資金投入 RMB16,081,000 financed by the Company
合計 Total	384,280	137,041	285,956		

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

3. 募集資金使用情況 (續)

附註：

1. 安乃近精幹包 (GMP) 改造項目已經完工，並達到設計能力，但由於受市場競爭影響，銷售價格下降，從而導致該項目未達到盈利預測收益水平。
2. L-350項目已經完工並達到設計能力，預計2004年達到盈利預測水平。
3. 咖啡因技術改造項目已經完工，正處於達產達效技術攻關階段。
4. 針劑 (GMP) 改造項目目前正處於緊張建設過程中。
5. 國家級技術改造項目處於前期準備階段。

尚未使用的募集資金存於銀行，將按照承諾投資項目使用。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

3. Use of Proceeds (continued)

Note:

1. Analgin GMP renovation project has finished and reached its designed productivity. However, because of the effects of the drop in the price of Analgin, the profit forecast of this project has still not been realized.
2. L-350 renovation project was finished and reached its designed productivity. It is anticipated that the profit forecast of this project will be realized in 2004.
3. Caffeine technical renovation project was finished and has come into trial production.
4. Injection GMP renovation project is under construction.
5. The Company is preparing for the construction of a State-level technical center.

The unused proceeds were deposited in banks and will be used in accordance with project commitments as stated in the prospectus.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

董事會工作報告

1. 在本年度內，本公司董事會於公司住所召開了五次會議：

A. 本公司於二零零三年一月十七日在公司住所召開第一次董事會會議，通過如下決議：

- (i) 關於管理層調整的議案；
- (ii) 關於2003年財務預算草案；
- (iii) 關於建立合資公司的議案；
- (iv) 關於設立山東新華製藥(歐洲)有限公司的議案；
- (v) 關於設立大連辦事處的議案；
- (vi) 關於向淄博新華大藥店有限公司增資的議案。

Working Report of the Board

1. During the year, the Board of Directors convened five meetings at the Company's registered office:

A. On 17 January 2003, the first meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the change of management of the Company;
- (ii) To approve the budget of the Company for the year 2003;
- (iii) To approve the establishment of a joint venture in the PRC;
- (iv) To approve the establishment of Shandong Xinhua Pharmaceutical (Europe) GmbH;
- (v) To approve the establishment of a Dalian Office of the Company;
- (vi) To approve the increase in the capital of Zibo Xinhua Pharmacy Co., Ltd.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

董事會工作報告 (續)

1. 在本年度內，本公司董事會於公司住所召開了五次會議 (續)

B. 本公司於二零零三年三月二十一日在公司住所召開第二次董事會會議，通過如下決議：

- (i) 通過本公司二零零二年度的報告和業績公告；
- (ii) 通過本公司高級管理人員二零零二年度薪酬的議案；
- (iii) 通過本公司二零零二年度利潤分配方案；
- (iv) 通過本公司二零零三年度的利潤分配政策；
- (v) 通過續聘國際及國內核數師並授權董事會釐定其酬金提案；
- (vi) 審議並通過二零零二年度發生的關聯交易；
- (vii) 批准公司總經理提交的有關核銷和計提資產減值準備的書面報告。

Working Report of the Board (continued)

1. During the year, the Board of Directors convened five meetings at the Company's registered office: (continued)

B. On 21 March 2003, the second meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the annual report and results announcement of the Company for the year 2002;
- (ii) To approve the remuneration of the Senior Officers of the Company for the year 2002;
- (iii) To approve the profit appropriation of the Company for the year 2002;
- (iv) To approve the profit appropriation budget plan of the Company for the year 2003;
- (v) To approve the re-appointment of the international and domestic auditors for year 2003 and authorize the Directors to determine their remuneration;
- (vi) To approve the connected transactions for the year 2002;
- (vii) To approve the written report on the provisions for diminution in value of assets and treatment of related losses submitted by the general manager;

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

董事會工作報告 (續)

1. 在本年度內，本公司董事會於公司住所召開了五次會議 (續)

C. 本公司於二零零三年四月二十一日在公司住所召開第三次董事會會議，通過決議如下：

- (i) 通過本公司二零零三年第一季度報告；
- (ii) 通過二零零三年度董事、監事酬金的議案；
- (iii) 通過二零零三年高級管理人員酬金的議案；
- (iv) 通過關於擴大董事長對外投資許可權的議案；
- (v) 通過關於增補獨立董事的議案；
- (vi) 通過關於召開二零零二年度周年股東大會的議案；
- (vii) 通過關於二零零二年股息派發有關事宜的議案。

Working Report of the Board (continued)

1. During the year, the Board of Directors convened five meetings at the Company's registered office: (continued)

C. On 21 April 2003, the third meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the quarterly report of the Directors of the Company for the first quarter of 2003;
- (ii) To approve the remuneration of the Directors and Supervisors for the year 2003;
- (iii) To approve the proposal in respect of the remuneration of the Senior Officers for the year 2003;
- (iv) To approve the expansion of authorization of investment to the Chairman of the Company;
- (v) To approve the proposal in respect of the election of a new independent non-executive director;
- (vi) To approve the notice convening the 2002 Annual General Meeting;
- (vii) To approve the Company's profit distribution plan for the year 2002.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

董事會工作報告 (續)

1. 在本年度內，本公司董事會於公司住所召開了五次會議 (續)

D. 本公司於二零零三年七月二十五日在公司住所召開第四次董事會會議，通過如下決議：

- (i) 審議通過截至二零零三年六月三十日止六個月的中期報告；
- (ii) 建議不派發二零零三年中期股息，也不進行公積金轉增股本；
- (iii) 批准對董事會專門委員會進行調整的議案。

E. 本公司於二零零三年十月十七日在公司住所召開第五次董事會會議，通過如下決議：

- (i) 審議通過2003年第三季度報告及財務報告；
- (ii) 審議通過本公司與關聯方資金往來、對外擔保情況的自查報告；
- (iii) 審議通過本公司董事會秘書職責範圍 (修訂)；
- (iv) 審議通過本公司投資者關係管理制度。

2. 二零零二年度公司股息已於二零零三年七月十七日前派發完畢。

Working Report of the Board (continued)

1. During the year, the Board of Directors convened five meetings at the Company's registered office: (continued)

D. On 25 July 2003, the fourth meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the interim report of the Company for the six months ended 30 June 2003;
- (ii) To recommend neither the distribution of an interim dividend, nor any transfer from the Company's capital reserve into share capital;
- (iii) To approve the change in members of professional committees of the Board of Directors.

E. On 17 October 2003, the fifth meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the third quarter report of 2003 of the Company;
- (ii) To approve the report submitted to the CSRC in respect of the self-examination in respect of the current account with connected parties and the guarantee with other parties made by the Company;
- (iii) To approve the amendments to the rules in respect of the company secretary;
- (iv) To approve the working rules in respect of investors' relations with the Company.

2. The dividends for 2002 were fully paid before 17 July 2003.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

董事、監事及高級管理人員簡介

董事、監事及高級管理人員簡介見「**董事、監事、高級管理人員和員工情況**」

董事、監事及高級管理人員在股份中的權益

就公司之董事、高級管理人員及監事所知悉，本公司董事、監事及其他高級管理人員持有根據《證券及期貨條例》第352條規定而記錄於本公司保存的登記冊的股份權益或淡倉，或根據上市規則附錄十中的「上市公司董事進行證券交易的標準規則」須知會本公司及香港聯交所的權益或淡倉見「**董事、監事、高級管理人員和員工情況**」之「**董事、監事及高級管理人員持有本公司股份情況**」。

主要股東在股份中的權益

除上文所披露外，就公司董事、高級管理人員及監事所知悉，於二零零三年十二月三十一日，沒有其他董事、高級管理人員及監事以外的任何人士於本公司股份或相關股份（視情況而定）中擁有根據《證券及期貨條例》第XV部第2和第3分部之規定須向本公司及香港聯交所披露的權益或淡倉，或根據《證券及期貨條例》第336條規定記錄於本公司保存的登記冊的權益或淡倉。

Brief Introduction of Directors, Supervisors and Senior Officers

Brief introduction of Directors, Supervisors and Senior Officers are listed in the above section headed “**DIRECTORS, SUPERVISORS, SENIOR OFFICERS AND STAFF**”.

Directors', Supervisors' and Senior Officers' Interests in Shares

As far as the Directors, Senior Officers and Supervisors of the Company are aware, the interests or short position in shares of the Directors, Supervisors and Senior Officers according to the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules are stated in the above subsection headed “**Directors' and Supervisors' and Senior Officers' Interests in Shares of the Company**” under the section “**DIRECTORS', SUPERVISORS', SENIOR OFFICERS' AND STAFF**”.

Substantial Shareholders' Interests in Shares

Save as disclosed above and so far as the Directors, Senior Officers and Supervisors of the Company are aware, as at 31 December 2003, no other person (other than a Director, Senior Officer or Supervisor of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

董事、監事的酬金

本年度本公司董事、監事的酬金詳情載於按香港普遍採納之會計原則編制帳目附註10。

最高酬金人士

本年度本集團及本公司獲最高酬金的前五名人士均為本公司董事。

董事、監事購買股份或債券之權利中取得之利益

本公司、其控股公司及控股公司其他附屬公司概無於本年度內任何時間訂立任何安排、致使本公司之任何董事、監事或其配偶或其未滿十八歲子女通過購入本公司或任何其他公司之股份或債券而獲得利益。

董事、監事之服務合約

所有董事、監事與本公司訂立由二零零二年六月七日開始，為期三年的服務合約。並於同日開始生效。雙方可根據合約條文重訂該服務合約。

現任董事或監事與本公司概無訂立若於一年內作出賠償(法定賠償除外)方可終止之服務合約。

管理合約

本年度內，本公司並無就整體業務或任何重要業務的管理或行政工作簽訂或存有任何合約。

Remuneration of Directors and Supervisors

Details of the remuneration of the Company's Directors and Supervisors are set out in note 10 to the Accounts prepared under HKGAPP.

Individuals with the Highest Remuneration

All the five individuals with the highest salaries paid by the Group and the Company during the year 2003 were Directors of the Company.

Directors' and Supervisors' Rights to Acquire Shares

At no time during the year was the Company, its holding company or its fellow subsidiaries a party to any arrangements to enable any of the Company's Directors, Supervisors, or their spouses or children under 18 years of age to acquire shares in, or debentures of, the Company or any other body corporate.

Service Contracts of Directors and Supervisors

Each of the Directors and Supervisors entered into a service contract with the Company for a period of three years which commenced on 7 June 2002. The terms of the service contracts may be renewed by both parties pursuant to the terms thereof.

No existing Directors or Supervisors have a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

董事與監事之合約中的利益

本公司、其所屬公司、其控股股東或控股公司其他附屬公司之間沒有於本年度內訂立任何重要合約而於本年度年終或年內任何時間沒有任何董事直接或間接享有任何重大合約的重大利益。

帳目

根據香港普遍採納之會計原則及中國會計準則編制的有關本集團及本公司截至二零零三年十二月三十一日止年度業績和於二零零三年十二月三十一日財務狀況載於「根據香港普遍採納之會計原則編制的賬目」和「按中國會計準則編制之賬目」。

財務摘要

本集團根據香港普遍採納之會計原則和中國會計準則編制的於過去五個財政年度的業績、資產及負債載於「會計數據和業務數據摘要」。

利潤分配

根據中國會計準則編制本集團截至二零零三年十二月三十一日止年度實現淨利潤人民幣42,076千元，按10%提取法定盈餘公積金人民幣4,208千元；按5%提取公益金人民幣2,103千元；按10%提取任意盈餘公積金人民幣4,208千元；建議派發末期股息每10股人民幣0.4元（折合港幣約0.374元，A股含稅），按已發行的307,312,830股A股及150,000,000股H股計算，共計人民幣18,293千元。

Directors' and Supervisors' Interests in Contracts

None of the Company, its subsidiary, its controlling shareholder or any of its subsidiaries entered into any contract of significant with each other at any time during the year and no contract of significance in which any Directors or Supervisors had a material interest, whether directly or indirectly, existed at the end of the reporting year or at any time during the year.

Accounts

The Group's results for the year ended 31 December 2003 and the financial position of the Group and the Company as at 31 December 2003 prepared in accordance with HKGAAP and PRC accounting standards are set out in section headed **"ACCOUNTS PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPALS"** and **"ACCOUNTS PREPARED UNDER PRC ACCOUNTING STANDARDS"**.

Financial Summary

A summary of the results, assets and liabilities of the Group prepared in accordance with HKGAAP and PRC accounting standards for the last five financial years is set out in section headed **"SUMMARY OF FINANCIAL AND OPERATING RESULTS"**.

Profit Appropriation for the Year 2003

In accordance with PRC accounting standards, the Group realised a net profit of RMB42,076,000 of which 10% is appropriated to the statutory surplus reserve, 5% is appropriated to the statutory public welfare reserve, and 10% is appropriated to the discretionary surplus reserve. These reserves amounted to RMB4,208,000, RMB2,103,000 and RMB4,208,000, respectively. The proposed final dividend for 2003 of RMB0.4 (approximately equal to HK\$0.374, including tax for A Shares) per 10 shares, which represents a total final dividend payable of RMB18,293,000 on 307,312,830 A Shares and 150,000,000 H Shares.

主要業務及按地區劃分的營業額

本集團及本公司本年度按地區分析之營業額載於按香港普遍採納之會計原則編制帳目附註2。

股本變動及股東情況介紹

本公司於本年度內股本變動及股東情況介紹見「股東變動及股東情況」

儲備

本集團及本公司本年度內儲備的變動情況分別載於按香港普遍採納之會計原則編制帳目附註23及按中國會計準則編制帳目附註28及29。

固定資產

本集團及本公司固定資產變動情況載於按香港普遍採納之會計原則編制帳目附註12及按中國會計準則編制帳目附註13。

銀行貸款及其他借款

本集團及本公司於二零零三年十二月三十一日的銀行貸款及其他借款情況之詳情載於按香港普遍採納之會計原則編制帳目附註25及中國會計準則編制帳目附註16、24和25。

資本化利息

本年度內本集團無有關在建工程所借貸款的資本化利息。

Principal Activities and Geographical Analysis of Operations

The turnover of the Group and the Company in various geographical locations is set out in note 2 to the Accounts prepared in accordance with the HKGAAP.

Changes in Share Capital and Shareholders

Changes in share capital and shareholders are set out in the above section headed “**CHANGES IN SHARE CAPITAL AND SHAREHOLDERS**”

Reserves

Movements in the reserves of the Group and the Company during the year 2003 are set out in note 23 to the Accounts prepared in accordance with the HKGAAP, and notes 28 and 29 to the Accounts prepared in accordance with PRC accounting standards, respectively.

Fixed Assets

Details of the movement in the fixed assets of the Group and the Company during the year 2003 are set out in notes 12 to the Accounts prepared in accordance with the HKGAAP, and note 13 to the Accounts prepared in accordance with PRC accounting standards.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2003 are set out in note 25 to the Accounts prepared in accordance with the HKGAAP, and notes 16, 24 and 25 to the Accounts prepared in accordance with the PRC accounting standards.

Interest Capitalised

During the year, no interest was capitalized in respect of loans borrowed by the Group and the Company for financing its construction-in-progress.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

職工宿舍

本集團截至二零零三年十二月三十一日止年度內並無出售職工宿舍予本集團員工。但自一九九八年一月一日起，本集團已根據中國政府有關規定，按員工工資5%繳納由山東省淄博市財政局管理的住房公積金，截至二零零三年十二月三十一日止年度本集團共繳納職工住房公積金人民幣3,247千元。

職工基本醫療保險

根據《山東省建立城鎮職工基本醫療保險制度的實施方案》和《淄博市關於建立城鎮職工醫療保險制度的實施方案》等文件要求，本公司計劃於2004年度內實行職工基本醫療保險制度。該制度的實施對本集團的業績及財務狀況不會產生重大影響。

稅收優惠問題

根據山東省淄博市地方稅務局高新技術產業開發區分局淄高新地稅發200314號文件批覆，本公司2003年度減按15%的稅率繳納企業所得稅。但本公司不能保證以後年度仍然享受該等稅收優惠。

委託存款問題

截至二零零三年十二月三十一日止年度，本集團沒有於非銀行金融機構的存款及屬於委託性質的存款，也不存在到期不能收回的定期存款。

Staff Quarters

All staff quarters of the Group were owned by SXPGC. The Group did not sell any staff quarters to its employees during the year ended 31 December 2003 but was required to contribute 5% of the basic wages of the Group's staff to the accommodation scheme managed by the Shandong Province Zibo Municipal Finance Bureau in accordance with the relevant regulations implemented by the PRC government authorities since 1 January 1998. For the year ended 31 December 2003 contributions to the accommodation scheme made by the Group in this respect amounted to RMB3,247,000.

Staff Basic Medical Insurance

Pursuant to the Plan for Implementation of Basic Medical Insurance System for Urban Employees promulgated by the Shandong Provincial Government and the Schedule for Establishment of Medical Insurance System for Urban Employees implemented by Zibo Municipal Government, the Company plans to join the above-mentioned Medical Insurance System for Urban Employees in 2004. In the opinion of the Directors, the implementation of such Medical Insurance System for Urban Employees will not have any significant effect on the results and financial position of the Group.

Preferential Tax Treatment

Pursuant to the notice from Shandong Province Zibo Municipal Local Taxation Bureau Development Zone Sub-Division, the Company is entitled to a preferential enterprise income tax at the rate of 15% for the years ending 31 December 2003. However, there is no assurance that the preferential tax treatment will be maintained beyond the financial year 2003.

Designated Deposits

For the year ended 31 December 2003, the Group had neither placed any deposits with any non-banking financial institutions, nor had it placed any designated deposits. The Group does not have any overdue time-deposits.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

最佳應用守則

本公司董事確認本公司於截至二零零三年十二月三十一日止年度已遵守最佳應用守則。最佳應用守則包括上市規則附錄十四所載的條款。

審核委員會

根據香港聯交所上市規則，本公司董事會轄下審核委員會於一九九九年七月一日成立，其目前成員包括四名非執行董事（即戴慶駿、肖瑜、莫仲堃及孫華）。

本公司董事會參照香港會計師公會印製的《成立審核委員會指引》，制定了《審核委員會職責範圍》，其中包括審核委員會的職權和責任。

重要事項

2003年度內本公司的重要事項見「**重要事項**」

主要客戶及供應商

本集團五大原料供應商的採購費用及五大客戶的銷售額分別佔本集團於截至二零零三年十二月三十一日止年度總採購額及總銷售額之比重分別為15.91%和11.32%。

Compliance with the Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules issued by The Stock Exchange of Hong Kong Limited during the year.

Audit Committee

Pursuant to the Listing Rules, an audit committee was established on 1 July 1999, and its present members are four non-executive directors, namely Mr. Dai Qingjun, Mr. Xiao Yu, Mr. Stephen Mok and Mr. Sun Hua.

By reference to “A Guide for the Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the Audit committee were prepared and adopted by the Board.

Important Issues

Important issues of the Company for the year 2003 are set out in the section headed “**IMPORTANT ISSUES**”.

Major Customers and Suppliers

The percentages of purchases and sales attributable to the Group's five largest suppliers and five largest customers were 15.91% and 11.32% of the Group's total purchases and total sales, respectively, for the year ended 31 December 2003.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

購買、出售及贖回本公司之上市股份

截至二零零三年十二月三十一日止年度內本公司並無贖回本公司之上市股份。本公司及其附屬公司於年度內並無購買任何本公司股份。

優先認股權

本公司的公司章程及中國法律並無優先認股權條款。

員工退休金計劃

本集團參加國家管理的社會養老及退休保險基金，並按照當地政府的規定繳納保險費。本集團目前向社會養老及退休保險基金繳納的保險費為所有員工每年工資及獎金總額的23%。當地政府承諾支付所有現在和將來退休員工的退休福利支出。所有向社會養老及退休保險基金繳納的保險費將於損益表內作為開支。於截至二零零三年十二月三十一日止之年度內，本集團繳納的社會養老及退休保險費為人民幣19,377千元。

關聯交易

本集團在正常業務範圍內進行之重大有關連人士交易摘要如下：

a.

Purchase, Sale and Redemption of the Company's Listed Securities

The Company did not redeem any of its listed shares during the year. Neither the Company nor any of its subsidiaries purchased any of the Company's shares during the year ended 31 December 2003.

Pre-emptive Rights

According to the Company's Articles of Association and the laws of the PRC, there is no provision for pre-emptive rights.

Retirement Scheme Arrangements

The Group participates in the State Social Retirement Scheme (the "Scheme") and pays the insurance premium in accordance with the particular regulation issued by the local municipal government whereby it is required to make an annual contribution of 23% of the total salaries and bonuses paid to staff. In turn, the local municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. Contributions to the Scheme are charged to the profit and loss account as and when they are incurred. For the year ended 31 December 2003, the total contribution of the Group to the Scheme was RMB19,377,000.

Connected Transactions

Significant connected transactions, which were carried out in the normal course of the Group's business are as follows:

a.

		二零零三 2003 人民幣千元 RMB'000	二零零二 2002 人民幣千元 RMB'000
與控股公司的附屬公司	With SXP GC's fellow subsidiaries		
— 銷售製成品及原材料	— Sale of finished goods and raw materials	30,769	24,337
— 採購原材料	— Purchase of raw materials	62,807	75,726
— 租金收入	— Rental income	1,355	1,630
— 支付勞務及其他服務	— Payment of labour and other services	6,900	12,156

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

關聯交易 (續)

本公司董事確認上述的交易乃於日常業務過程中進行而上述交易於2002年及2003年度之總額並不超過該有關年度經審核之綜合營業額的12%。本公司獨立非執行董事已經審閱上述關聯交易，並確認該等交易乃本公司在日常業務中按約束該等交易的協議條款訂立而上述交易於2002年及2003年度之總額並不超過該有關年度經審核之綜合營業額的12%。

本公司之審計師已致函本公司董事會列明該等交易已遵守香港聯交所給予有關豁免所規定的條件，有關規定的詳情已載於本公司二零零二年十月十七日刊發之通函中。

- b. 本公司為山東新華醫藥集團有限責任公司代墊費用約人民幣4,254,000元(二零零二年：人民幣5,806,000元)，截至二零零三年十二月三十一日，有關代墊費用的餘額為人民幣6,821,000元(二零零二年：人民幣6,874,000元)。此等款項無抵押、無利息及無指定還款日期。

- c. 於年結日後向新華集團收購物業及土地使用權的關連交易

本公司與新華集團於2004年3月26日就向新華集團收購部分土地使用權和物業訂立一項價值人民幣6,210,000元資產轉讓協議。新華集團為本公司的控股股東，持有本公司已發行股份的46.89%，上述土地使用權和物業的收購構成「關聯交易」。

Connected Transactions (continued)

In the opinion of the Directors, the above transactions were carried out in the ordinary and usual course of the Group's business and the aggregate amount of the above transactions for each of the years 2002 and 2003 did not exceed 12% of the audited consolidated turnover of the Group in the relevant financial year. The independent non-executive directors have reviewed the above connected transactions and are of the opinion that the transactions are in the ordinary course of business of the Group and carried out in accordance with the terms of agreements governing the transactions and that the aggregate amount of the above transactions for each of the years 2002 and 2003 did not exceed 12% of the audited consolidated turnover of the Group in the relevant financial year.

The auditors of the Company have also issued a letter to the Directors in relation to compliance with the conditions prescribed by The Stock Exchange of Hong Kong Limited in granting the new waiver to the Company in respect of such transactions which are more particularly set out in the circular issued by the Company on 17 October 2002.

- b. During the year, the Company paid certain expenses on behalf of its immediate holding company totalling RMB4,254,000 (2002: RMB5,806,000), which were charged back to the immediate holding company on a cost reimbursement basis. As at 31st December 2003, the amount due from the immediate holding company in connection with such transactions amounted to RMB6,821,000 (2002: RMB6,874,000) which is unsecured, interest-free and has no fixed term of repayment.

- c. Acquisition of property and land use rights from SXPGC subsequent to the year-end

The Company entered into a transfer of assets agreement ("Agreement") with SXPGC on 26th March 2004 for the acquisition of certain land use rights and property by the Company from SXPGC for a total consideration of RMB6,210,000. As SXPGC is the controlling shareholder of the Company holding approximately 46.89% of the issued share capital of the Company, the acquisition of the aforesaid land use rights and property constitutes a connected transaction for the Company.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

關聯交易 (續)

本公司收購的權益包括：

1. 由新華集團擁有的位於淄博市張店區南定張南路面積為4,040.84平方米用作工業生產廠房的物業(其擁有權見號碼為淄博市房權證張店區第01-0104599號和第01-0104583號的產權證明號)，價值為人民幣1,851,600元；
2. 由新華集團擁有的位於淄博市張店區南定朝陽路宗地，面積16,254.19平方米，土地使用年限剩餘13.42年(其擁有權見號碼為淄國用(2003)字第A00569號的土地使用權證)，主要是為本公司提供額外的工廠場地。價值為人民幣1,925,100元；及
3. 由新華集團擁有的位於淄博市高新技術開發區東區工業路宗地，面積11,583.6平方米，土地使用年限剩餘26.75年(其擁有權見號碼為淄國用(2001)字第F00049號的土地使用權證)，主要為本公司環保廠房提供場地。價值為人民幣2,434,900元；

該等權益需支付的總價格為人民幣6,210,000元須於有關交易完成時，即協議日後一個月內支付。

根據公司生產規劃和業務發展需要，公司須擴大其位於淄博市的生產能力。而土地使用權的收購不僅會增加公司的工廠場地，也為建設符合公司內部環境保護政策的環保廠房提供了場地。

Connected Transactions (continued)

The interests to be acquired by the Company comprise the following:

1. a property owned by SXPGC, as evidenced by the property ownership certificate no. 01-0104599 (淄博市房權證張店區第01-0104599) and 01-0104583 (淄博市房權證張店區第01-0104583) to be used as an industrial production plant, situated at Zhangnan Road, Nanding, Zhangdian District, Zibo City of 4,040.48 square metres, for a consideration of RMB1,851,600;
2. the land use right in relation to a piece of land of 16,254.19 square metres in Chaoyang Road, Nanding, Zhangdian District, Zibo City, owned by SXPGC, as evidenced by the land use right certificate no. Ziguoyong (2003) A00569 (淄國用(2003)字第A00569號) for a remaining term of 13.42 years from 6 March 2004, which will provide additional factory space to the Company for a consideration of RMB1,925,100; and
3. the land use right in relation to a piece of land in Industry Road, Eastern Area of Zibo High-tech Development Zone of 11,583.6 square metres, owned by SXPGC, as evidenced by the land use right certificate no. Ziguoyong (2001) F00049 (淄國用(2001)字第F00049號)) for a remaining term of 26.75 years from 15 March 2004, which will provide additional space to be used for the building of environmental protection facilities, for a consideration of RMB2,434,900.

The total consideration for the above interests is RMB6,210,000 payable in full on completion of the transaction, which is scheduled to be within one month from the date of the Agreement.

The Company intends to use the property acquired to extend its production facilities in Zibo. Moreover, the acquisition of the land use rights would not only provide additional factory space for the Company but would also provide additional space for the building of environmental protection facilities in accordance with the Company's internal environmental protection policies.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

核數師

本公司及本集團本年度按照香港普遍採納之會計原則及中國會計準則編制的帳目已分別由羅兵咸永道會計師事務所(香港執業會計師)和信永中和會計師事務所(中國註冊會計師)審核。

本公司擬於二零零四年召開的本公司二零零三年度周年股東大會上建議續聘羅兵咸永道會計師事務所和信永中和會計師事務所分別為本公司二零零四年度國際和中國核數師。

其他報告事項

- a. 北京信永中和會計師事務所對本公司與關聯方資金往來出具專項說明：

「經審核，截至2003年12月31日，貴公司應收控股股東及其他關聯方資金往來餘額共計4,120.86萬元，其中，應收控股股東山東新華醫藥集團有限責任公司資金往來餘額為682.08萬元；應收控股股東的子公司資金往來餘額為3,411.87萬元；應收合營企業資金往來餘額為26.91萬元。」

- b. 獨立董事對本公司累計和當期對外擔保、執行證監發200356號規定情況的專項說明和獨立意見：

Auditors

The accounts of the Company and the Group for the year 2003 prepared in accordance with HKGAAP and the PRC accounting standards have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("PricewaterhouseCoopers") and Shine Wing, Certified Public Accountants, PRC ("Shine Wing") respectively.

The Company intends to re-appoint PricewaterhouseCoopers and Shine Wing as international auditors and PRC auditors of the Company for the year ending 31 December 2004, respectively, at the Annual General Meeting for the year 2003.

Other Issues Reported

- a. The special explanation made by the auditors of the Company, Shine Wing (Certified Public Accountants in the PRC), for the cash flow between the controlling shareholder and other related parties and the Company is as follows:

"As at 31 December 2003, audited accounts receivable from the holding company and other related parties amounted to RMB41,208,600, amongst which the accounts receivable from the holding company, Shandong Xinhua Pharmaceutical Group Company Limited were RMB6,820,800, the accounts receivable from the holding company were RMB34,118,700 and the accounts receivable from the joint ventures of the Company were RMB269,100.

- b. The independent directors' special explanation and independent opinions in respect of the existing guarantee of the Company and the execution of the notice Zhengjianfa2003No.56 issued by the CSRC are as follows:

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

其他報告事項 (續)

作為山東新華製藥股份有限公司(「公司」)獨立董事，我們根據《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》(證監發200356號)和《公開發行證券的公司信息披露內容與格式準則第2號—年度報告的內容與格式》(證監公司字200356號)的有關規定，在對有關情況進行調查了解，並聽取公司董事會、監事會和經理層有關人員的相關意見的基礎上，就公司累計和當期對外擔保、執行證監發200356號規定情況的專項說明和獨立意見：

1. 公司已經組織全體董事、監事及高級管理人員認真學習證監發2003 56號文等有關文件，公司第四屆董事會第八次會議審議通過了《山東新華製藥股份有限公司關於與關聯方資金往來、對外擔保情況的自查報告》，並將報告及時遞交中國證監會濟南證管辦。
2. 公司能夠嚴格遵守相關法律法規的規定，沒有為其他公司、單位或個人提供任何形式擔保。
3. 2003年公司應收控股股東及其他關聯方資金往來餘額共計4,120.86萬元，其中，應收控股股東山東新華醫藥集團有限責任公司資金往來餘額為682.08萬元；應收控股股東的子公司資金往來餘額為3,411.87萬元；應收合營企業資金往來餘額為26.91萬元。應收控股公司往來資金餘額將從公司應付國有股現金紅利中抵扣。

Other Issues Reported (continued)

Being the independent directors of Shandong Xinhua Pharmaceutical Company Limited, we have investigated and reviewed the Company's existing guarantee and the execution of the notice Zhengjianfa 2003 No.56 issued by the CSRC in accordance with the regulations stipulated in "The Notice on the standardization in respect of Cash Flow between the listed companies and their related parties and guarantee of listed companies" (Zhengjianfa 2003 No.56) and "The Standard of Content And Format of Disclosure Information of listed companies - The Content And Format of Annual Report (Zhengjiangongsizi 2003 No.56). At the same time, we also communicated with the Board of Directors, the Supervisory Committee and the management in respect of the above information. On the basis of the information we have collected, we formulated our opinion as follows:

1. The Directors, the Supervisors and the Senior Officers have studied the relevant documents such as the Notice of Zhengjianfa 2003 No.56. At the eighth meeting of the fourth Board of Directors of the Company "The Self-Examination Report on the cash flow between the Company and its related parties and the guarantee of the Company" was approved and this report was submitted to the Jinan Office of the CSRC.
2. The Company strictly conformed to the relevant laws and regulations and did not provide any guarantee in any forms to any company, entity or individuals.
3. As at 31 December 2003, accounts receivable from the holding company and other related parties amounted to RMB41,208,600, amongst which the accounts receivable from the holding company, Shandong Xinhua Pharmaceutical Group Company Limited were RMB6,820,800, the accounts receivable from the subsidiaries of the holding companies was RMB34,118,700 and the accounts receivable from the joint ventures of the Company were RMB269,100. The amount paid by the Company on behalf of its immediate holding company will be deducted from the dividend payable to the holding company of the Company.

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

其他報告事項 (續)

4. 公司與其他關聯公司之間發生的資金往來主要為公司在日常經營活動中，向關聯公司銷售副產品、提供動力、勞務及技術服務，以及其他關聯公司向公司提供原材料、勞務等。該等資金往來均按照有關合同條款公平合理地與關聯公司進行結算。
5. 公司不存在下列將資金直接或間接提供給關聯方使用的情形：
- (i) 公司沒有以任何方式有償或無償地拆借公司的資金給控股股東及其他關聯方使用。
 - (ii) 公司沒有通過銀行或非銀行金融機構向關聯方提供委託貸款。
 - (iii) 公司沒有委託控股股東及其他關聯方進行投資活動。
 - (iv) 公司沒有為控股股東及其他關聯方開具沒有真實交易的商業承兌匯票。
 - (v) 公司沒有以任何形式代控股股東及其他關聯方償還債務。

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

Other Issues Reported (continued)

4. The cash flow between the Company and the related parties mainly resulted from the ordinary and usual course of business such as sales of by-products, providing powers, and service in terms of labour and technology by the Company to related parties and the purchase of raw materials and services by the Company from related parties. Such cash flow between the Company and related parties is settled fairly and reasonably in accordance with the terms and conditions of the relevant agreements.
5. The Company did not provide any direct or indirect means of funds to related parties by any of the following:
- (i) The Company did not lend any funds to the holding company and related parties with interest or without interest;
 - (ii) The Company did not provide any designated loans to related parties with any banks or non-banking financial institutions.
 - (iii) The Company did not entrust its holding company or other related parties to make any investment.
 - (iv) The Company did not make any commercial acceptance bill without any bona fide transaction for the holding company or other related parties.
 - (v) The Company did not repay any debts on behalf of its holding company and other related parties.

By order of the Board
He Duanshi
Chairman

Zibo, Shandong, PRC
26 March 2004