



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

A composite image featuring a hand in a white glove holding a syringe, and a pile of various colored pills (yellow, blue, green, pink) in the foreground. The background is a light pink with a faint grid pattern.

2003

**ANNUAL
REPORT**

Contents

Corporate Profile	2
Financial Summary	3
Corporate Information	6
Chairman's Statement	8
Management Discussion and Analysis	13
Report of the Directors	18
Directors and Senior Management Profile	32
Comparison of Use of Proceeds Raised from the Company's Initial Public Offering with Actual Application	38
Awards and Rewards	39
Report of the Auditors	40
Audited Financial Statements	
Consolidated:	
Profit and Loss Account	41
Balance Sheet	42
Summary Statement of Changes in Equity	43
Cash Flow Statement	44
Company:	
Balance Sheet	46
Notes to Financial Statements	47
Notice to Annual General Meeting	96

Corporate Profile

The Company, together with its subsidiaries and a jointly-controlled entity (the "Group"), is one of the leading pharmaceutical entities principally engaged in the research and development, manufacturing and sales of biopharmaceutical, modernized Chinese pharmaceutical and chemical medicines in the People's Republic of China (the "PRC").

The Group's aim: bring healthier lives to people and greater value to its shareholders by developing innovative biopharmaceuticals and modernized Chinese medicines.

The Group's focus is on therapeutics for liver diseases, ophthalmic diseases, illnesses associated with aging, external use to treat skin diseases, cardio-cerebral diseases and osteoarthritis.

The Group's principal products: Moisten eyedrops, Mioclear eyedrops, Diammonium Glycyrrhizinate injections and capsules, Tianqingfuxin injections and capsules, Alproxladiol injections, Spring injections, Sofast injections, Carnet injections, Zegui Longshuang capsules and Hepudiod cream.

The Group, managed by experienced senior management, is supported by some of the country's top researchers and an extensive sales network. It has been awarded 14 Good Manufacturing Practice ("GMP") in respect of its production facilities for large volume injections, small volume injections, powder injections, ointments, tablets, capsules, eye ointments, eye drops, nose drops, ear drops, powders, granules, liniments and PVC-free soft bags for intravenous injection.

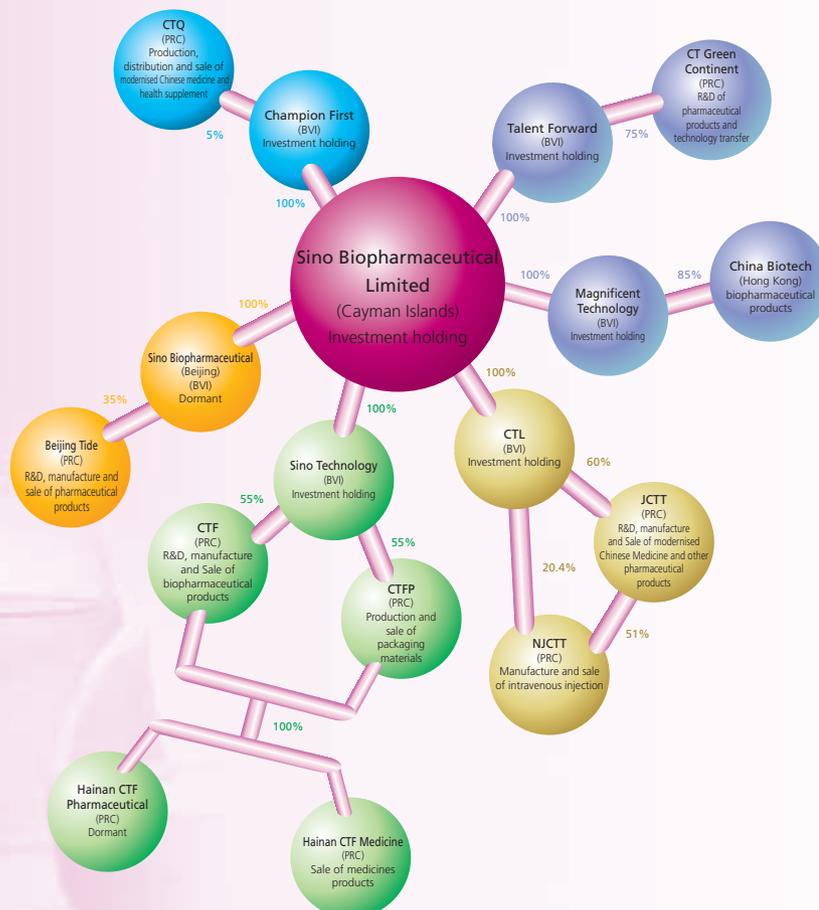
Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF"), Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") and Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CT Green Continent") are the principal subsidiaries of the Group, while Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide") is a jointly-controlled entity of the Group.

According to statistics in Chinese Medicine Statistics Annual Report 2003, CTF, JCTT, Chia Tai Qingshunbao Pharmaceutical Co., Ltd. ("CTQ") and Beijing Tide were ranked among the top 100 Chinese medicine entirely independent audited enterprises based on aggregated profit.

The Company moved the listing from the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board on 8 December, 2003.

Stock Code: 1177

Website: www.sino-biopharm.com



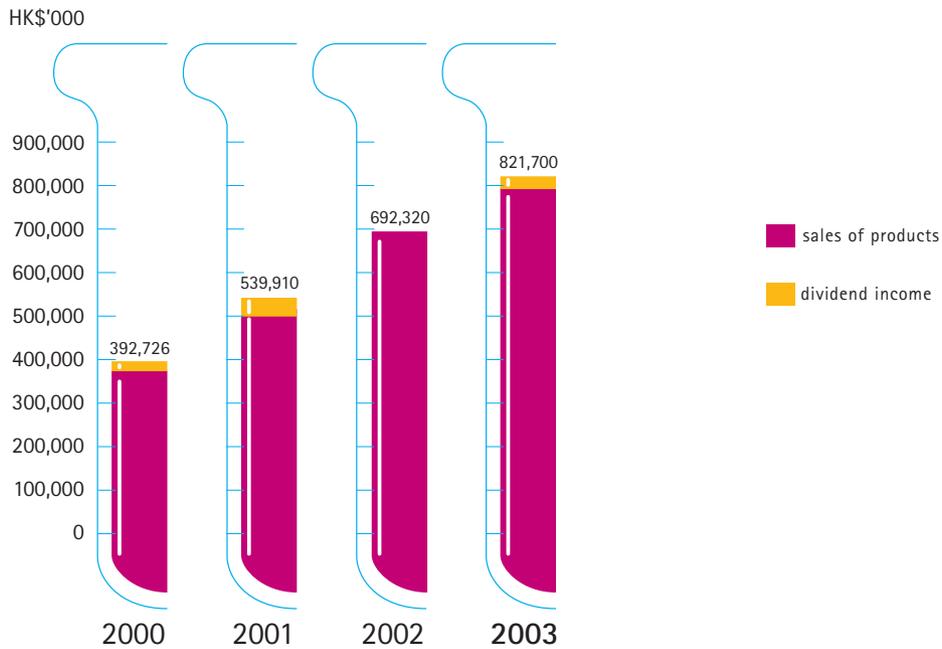
Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

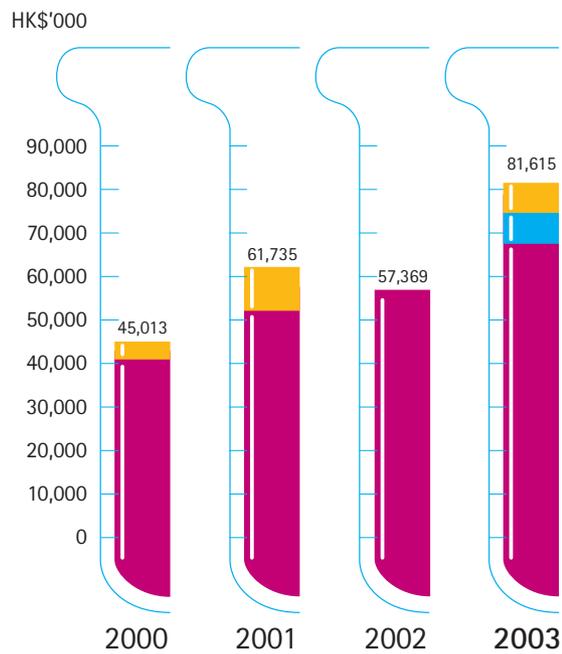
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS				
TURNOVER	821,700	692,320	539,910	392,726
Cost of sales	(168,696)	(145,286)	(101,436)	(83,222)
Gross profit	653,004	547,034	438,474	309,504
Other revenue	9,318	3,932	5,092	2,314
Selling and distribution costs	(338,446)	(309,437)	(237,601)	(163,740)
Administrative expenses	(116,215)	(84,257)	(78,610)	(54,987)
Other operating expenses	(40,191)	(20,562)	(7,793)	(5,400)
PROFIT FROM OPERATING ACTIVITIES	167,470	136,710	119,562	87,691
Finance costs	(1,380)	(1,124)	(1,913)	(2,483)
Share of profit of:				
A jointly-controlled entity	7,411	-	-	-
Amortisation of goodwill on acquisition of a jointly controlled entity	(267)	-	-	-
PROFIT BEFORE TAX	173,234	135,586	117,649	85,208
Tax	(23,299)	(17,175)	(8,184)	(6,767)
PROFIT BEFORE MINORITY INTERESTS	149,935	118,411	109,465	78,441
Minority interests	(68,320)	(61,042)	(47,730)	(33,428)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	81,615	57,369	61,735	45,013
ASSETS, LIABILITIES AND MINORITY INTERESTS				
TOTAL ASSETS	736,003	593,986	433,129	377,232
TOTAL LIABILITIES (exclude convertible bonds)	(161,669)	(124,653)	(91,800)	(98,609)
MINORITY INTERESTS	(156,348)	(129,725)	(96,790)	(68,819)
CONVERTIBLE BONDS	(78,000)	(46,800)	-	-
NET ASSETS	339,986	292,808	244,539	209,804

Financial Summary

SALES GROWTH



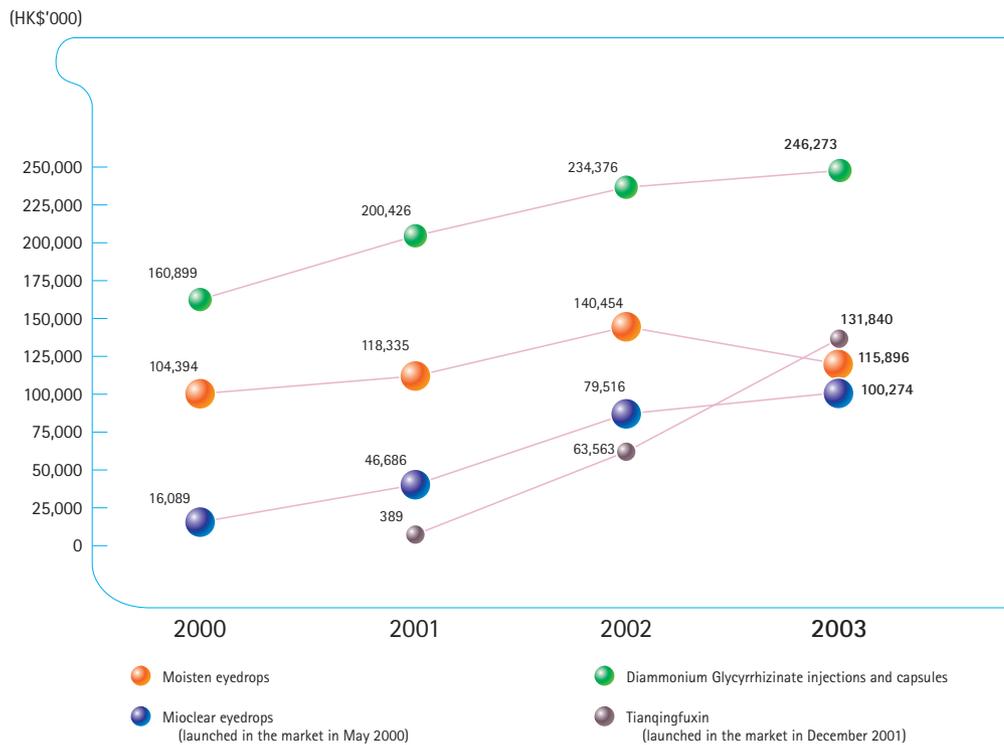
PROFIT GROWTH



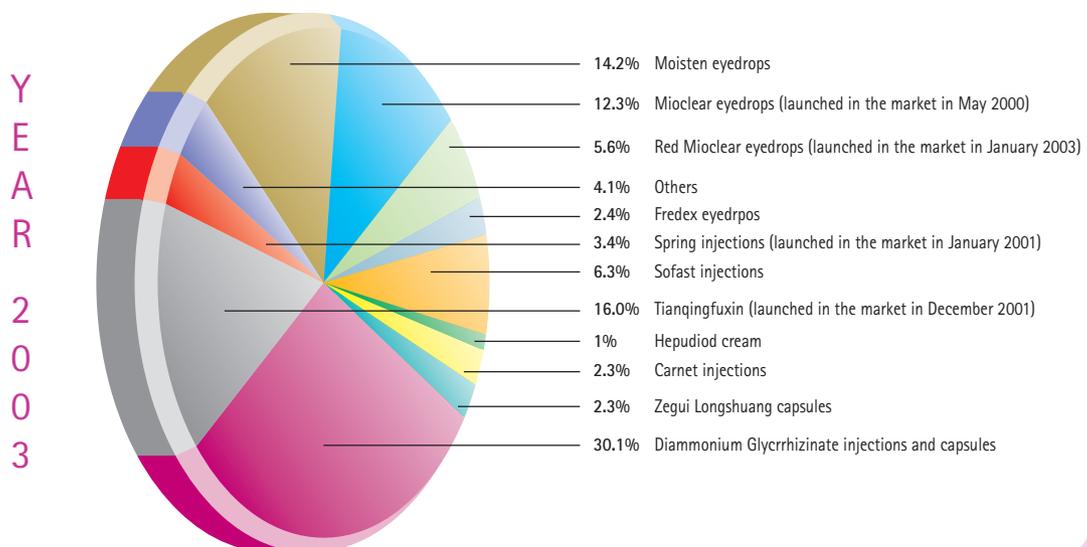
- net profit of products
- dividend income
- share of profit of a jointly-controlled entity

Financial Summary

SALES GROWTH OF PRINCIPAL PRODUCTS



PRODUCT MIX



Corporate Information

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sino-biopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DIRECTORS

Executive Directors

Mr. Tse Ping (Chairman)

Mr. Tao Huiqi

Mr. Wang Jinyu

Non-executive Director

Ms. Josephine Price

Independent non-executive Directors

Ms. Zheng Qun, Grace

Mr. Hu Ximing

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Yu Chau Ling, FCCA, AHKSA

AUDIT COMMITTEE

Ms. Zheng Qun, Grace (Chairwoman)

Mr. Hu Ximing

AUTHORISED REPRESENTATIVES

Mr. Tse Ping

Ms. Yu Chau Ling

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

166 Hennessy Road

Wanchai

Hong Kong

Agricultural Bank of China, Lianyungang Branch

No. 43 North Tong-guan Road

Xinpu, Lianyungang

Jiangsu Province

PRC

Bank of China, Jinan Branch

22 Luoyuan Street, Jinan

Shandong Province

PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited

P.O. Box 705

Butterfield House

Fort Street

George Town

Grand Cayman

Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Century Yard
Cricket Square
Hutchins Drive
P.O.Box 2681GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:

Morrison & Foerster
21st Floor
Entertainment Building
30 Queen's Road Central
Hong Kong

As to Cayman Islands Law:

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

As to PRC Law:

Tianping Law Office
Unit 1107/08, CNT Manhattan Building
6 Chaoyangmen Beidajie
Beijing
PRC

Chairman's Statement



*Mr. Tse Ping (chairman)
attending the Main Board
Listing Ceremony in the Stock
Exchange
(8 December, 2003)*

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 31 December, 2003 for the Group.

The year 2003 was the first year of the Company successfully listed on the Main Board in place of the GEM of the Stock Exchange and was also a year of the Group achieving greatest success in research and development. Sales from new products amounted to 39.6% of the Group's total turnover, and the Group continuously shows the strong capabilities in the future development. Despite the impact of the Severe Acute Respiratory Syndrome ("SARS"), the Group recorded a turnover of approximately HK\$821.70 million this year, representing an increase of 18.7% over the corresponding period last year. Profit attributable to shareholders amounted to approximately HK\$81.62 million, representing an increase of approximately 42.3% over the corresponding period last year. Basic earnings per share amounted to approximately HK24.6 cents, representing an increase of approximately 30.2% over the corresponding period last year.

In October, 2003, the Group successfully acquired 35% equity interests in Beijing Tide, which provides another growth platform for the Group and establishes a solid foundation for its sustainable development.

The Company announced a proposal for the Share Subdivision of every issued and unissued Shares of HK\$0.10 each into four shares of HK\$0.025 each, subject to the approval by shareholders of the Company. It is believed that the Share Subdivision should improve liquidity of the trading in the shares of the Company in the market and will enable the Company to attract more investors and widen its shareholder base.

Chairman's Statement

INDUSTRY OVERVIEW

In 2003, there were no significant changes in the operating environment of the pharmaceutical industry. The PRC continued to impose controls over the price of basic medical drugs and medical advertisements and promotions, while medical institutions continued to step up the implementation of drug purchases by tendering. Market competition has been intensified and there was a structural change in the pharmaceutical industry during the SARS outbreak. In 2003, the macro-economy of the industry in the PRC as a whole was optimistic. Consumption continued to increase, especially in the rural medical market and non-prescription (OTC) sales market due to the increasingly aging population and the improvement in people's living standards in the PRC (excluding Taiwan, Hong Kong and Macau). The imminent implementation deadline for GMP has accelerated the reconstruction of pharmaceutical enterprises and integration of drug production. Intensifying competition polarizes the pharmaceutical enterprises into two district areas. Enterprises which lack market strength in technology, quality and price will encounter more problems. Market share and effectiveness will become concentrated on strong enterprises within the industry, while the external environment in pharmaceutical production enterprises will gradually optimize.

BUSINESS REVIEW

In view of these conditions in the PRC's pharmaceutical market, the Group continued to strengthen its management and its own corporate culture to establish a strong and comprehensive management systems, and continually refine its products structure and marketing strategies.

1. Research and Development: Focus R&D on "principal" products with turnover of over HK\$100 million; follow up on the effects of developed products; carry out innovative self development; combine co-development with non-patent drug development.



Beijing Tide's new factory and its principal product

Chairman's Statement

2. Sales and Marketing: Operational entities formulate their respective sales strategies based on their own product structure – promoting the branding impact of principal products, brand management and brand extension; emphasizing on the academic promotion; enhancing the sales of middle end products; fostering new products with clear market potential; seeking market expansion and developing point-of-sales;
3. Management: Focus on developing management and crisis management. In addition, the Group adopted a human resource policy, in which the talent allocation is based upon the individual's contributions within the Group. Systematic yet people-oriented management; insight into the market and rapid response capabilities; good incentive mechanisms, all facilitate the continuous improvement of the Group's operating results.

According to the Chinese Medicine Annual Report 2003, CTF, JCTT, CTQ and Beijing Tide were ranked among the Top 100 entirely independent audited enterprises in terms of aggregate profit.

BUSINESS STRATEGIES

1. Technology: Develop biotechnology and modernized Chinese medical technology as core technologies, together with innovation in the co-development of non-patent drugs. Introduce advanced domestic and international pharmaceutical technologies to enhance existing technologies for pharmaceutical development, integrate the R&D capabilities of JCTT, CTF and CT Green Continent, improving product development and enhancing the Group's capabilities in R&D, and the Group's innovation and ability to obtain invention patents. Leverage the integration of internal and external technological resources, the application of high-throughput molecule screening systems and high-throughput molecule specification systems, to explore Monoclonal Antibodies and other new genetic engineering medicines thereby enhancing the Group's technological exclusiveness.



Workshop of NJCTT



R&D centre of CT Green Continent

Chairman's Statement

2. Human Resources: Fully capitalize on JCTT and CTF's core business to explore market potential. The Group aims to strengthen corporate management by advocating innovations in sales and marketing, internal management and financial management, to stimulate creativity among employees and achieve effectiveness both in the market and within the Group.
3. Forming alliances with strategic partners via acquisitions and mergers, while also streamlining product structure and enhancing product quality. Take advantage of the Group's existing distribution network to form strong alliances. By complementing the Group's strengths, corporate economic effectiveness will be enhanced, the core business strengthened and the Group will become one of the leading enterprises in biopharmaceutical and modernized Chinese medicine industry.

OUTLOOK AND PROSPECT

The core business of the Group is the production of biopharmaceutical products and modernized Chinese medicines, which represent the high technology and fast growing potential in the pharmaceutical industry. The Group will continue to operate in these high tech areas, building a stable earnings base, a popular brandname, obtaining 14 GMP certificates granted to production workshops as well as its solid and expanding market share. The Group has established a clear competitive edge sufficient to maintain a strong position in the PRC pharmaceutical industry, and to attract established alliances which will add to its corporate strength.



JCTT's principal products

Chairman's Statement

The Directors believe that continuous improvement in the Group's R&D capabilities will facilitate the launch of new products. The Group will strengthen its innovative R&D power as the successful experience of new medicines developed in cooperation with domestic and foreign R&D institutes sets a good basis for future cooperation with those domestic and foreign R&D institutes. The Group will also increase and improve its production facilities for satisfying GMP requirement to ensure the quality of the Group's products and its production capabilities, foster and build up the sales network and form strategic alliances with business partners through acquisitions and mergers, creating new growth drivers for the Group's business. Meanwhile, the Group will strengthen internal management and improve the quality of corporate management. It will also work to capture a bigger market share through effective management and marketing strategies in order to enhance the ability of the Group for continuous development. The Group believes that these developments will bring profitable returns to shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to extend my thanks to our shareholders for their full trust, support and understanding, and to all our staff for their hard work, diligence, creativity and loyalty.



Tse Ping
Chairman

23 March, 2004



CTF's principal products

Management Discussion and Analysis

The Company obtained a listing on the GEM of the Stock Exchange on 29 September, 2000, and on the Main Board of the Stock Exchange on 8 December, 2003. Over the past three years, the Group has been developing rapidly, with turnover increasing from approximately HK\$392.73 million in 2000 to approximately HK\$821.70 million in 2003, representing an increase of approximately 109.2%. Profit attributable to shareholders surged 81.3% from approximately HK\$45.13 million in 2000 to approximately HK\$81.62 million in 2003. Basic earnings per share increased from approximately HK17.6 cents in 2000 to approximately HK24.6 cents in 2003, representing an increase of approximately 39.8%. In addition to the constant sales increase from its principal products, a total of 19 new products have been successfully launched in the market since 2000. These products, contributed significantly to sales in 2003, amounting to HK\$325.50 million and accounted for 39.6% of total turnover in 2003. Among these, Mioclear eyedrops for treating eye fatigue and Tianqingfuxin for treating hepatitis, successfully launched in May, 2000 and December, 2001 respectively, have become the Group's principal products with turnover of over HK\$100 million each in 2003, while the Spring injections for the treatment of cardio-cerebral diseases and Naphazoline eyedrops (red Mioclear) for treating eye fatigue, launched in January, 2001 and January, 2003 respectively, showed strong growth potential. It is anticipated that they will become another principal products with individual turnover in excess of HK\$100 million in the near future.

The Group has five products with sales over HK\$100 million. They are namely Moisten eyedrops, Mioclear eyedrops, Diammonium Glycyrrhizinate injections and capsules, Tianqingfuxin injections and capsules, and Alprostadiil injections.

CTF, JCTT, CTQ and Beijing Tide were the principal sources of earnings for the Group.

CTF

CTF is a pharmaceutical company which uses biological product—hyaluronic acid (HA) as its principal raw material and supplementary material, and holds several patents for HA-containing formulae and production methods.

For the year ended 31 December, 2003, CTF experienced steady growth in turnover by 15.1% as compared with corresponding period last year, which rose to approximately HK\$378.47 million and accounted for approximately 46.1% of the Group's turnover. Sales of principal products are expected to be promising due to an experienced and established sales team for non-prescription drugs and prescription drugs, advertising and promotion of the products and the enhancement of the corporate image. Sales of Moisten eyedrops for anti-bacteria and anti-inflammation remained stable with a sales of HK\$116 million. Sales of Mioclear eyedrops for the relief of eye fatigue continued to grow, reaching HK\$100 million. A new product, red Mioclear eyedrops also for the relief of eye fatigue, was launched in the market in 2003, and achieved annual sales of over HK\$45 million. Sales from the newly launched Helen eyedrops (Levofloxacin Hydrochloride Eye Drops) for anti-bacteria and anti-inflammation problems reached over HK\$10 million. The Group currently manufactures 18

Management Discussion and Analysis

products for eye treatments, which contribute over 80% of total sales of CTF. During the review period, the osteoarthritis medicine Sofast (Sodium Hyaluronate) Injection also flourished, with sales of over HK\$50 million, an increase of over 27% against the corresponding period last year. The new product Jiarui (Butenafine Hydrochloride Ointment) for anti-epiphyte, a medicine for external use to treat skin diseases, has been granted new medicine production approval from the State Food and Drug Administration of the PRC ("SFDA"), and is scheduled for launch in April, 2004. It is forecast to be yet another principal product for CTF along with its other products for the treatment of eye diseases.

CTF's raw material synthesis workshops, HA refining workshops, heparin sodium refining workshops, bottle production, filling and sealing three-in-one eyedrops workshops are under construction in Jinan High and New Technology Development Zone (濟南高新技術開發區). Their respective GMP Certificates are expected to be obtained in the first half of 2004.

JCTT

JCTT is a pharmaceutical company that focuses mainly on the modernised Chinese medicine, chemical medicine and modern health-care products.

For the year ended 31 December, 2003, JCTT continuously achieved a satisfactory performance with turnover increasing 19.4% to approximately HK\$434.96 million, accounting for 52.9% of the Group's total turnover. In 2003, JCTT reorganized its sales structure, and divided its sales teams by product into different departments. All the departments shared market resources and operated with total professionalism. The hepatitis medicines department, which accounted for over 80% of the sales income of the division, has been able to focus more strongly on the market development of hepatitis medicines. With increased human resources and marketing effort, JCTT also increased the number of its sales representative offices by 38. Though overall sales performance was affected by SARS outbreak, adversely affecting the sales of prescription medicines such as medicines for treating hepatitis, sales from hepatitis medicines still experienced significant growth during the period under review. Sales of its principal products, Diammonium Glycyrrhizinate injections and capsules, also recorded a stable increase. Tianqingfuxin, launched in December, 2001, sales was increased by 106.3% as compared with last year and amounted to HK\$131 million (representing approximately 16.0% of the total turnover of the Group) becoming another principal product of the Group. The new drugs department also put 16 sales representative offices into place, which led to encouraging sales. Sales of Spring injections amounted to HK\$28 million, representing an increase of 72% over the corresponding period last year.

JCTT increased workshop capacity for powder and granule medicines in 2003, and obtained GMP certification from SFDA for its material synthesis medicines, power medicines and granule medicines in July, 2003.

Management Discussion and Analysis

In September, 2003, JCTT received the "Torch Programme Best High and New Tech Enterprise" award upon the 15th anniversary of the Torch Programme, by the PRC's Ministry of Science and Technology.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT")

The production workshops for PVC-free soft bags for intravenous injections were certified on 9 October, 2003, receiving their GMP certificates from the SFDA. Production officially commenced after a year of trial production, with adjustments in the product structure and training of the sales team. In December, 2003, NJCTT also obtained approval for production of Puerarin glucose (Spring) PVC-free soft bags for intravenous injections. In view of these developments, NJCTT expects to enjoy promising performances and market expansion this year.

Beijing Tide

Beijing Tide, restructured in October, 2003, is principally engaged in the production and sales of Alprostadil (凱時) injection, a kind of target and sustained release preparation of Prostaglandin E1 ("PGE1") (脂微球靶向緩釋製劑) that active substance of Lipo-microspheres PGE1 can be used for angiocardiopathy. This product has adopted an internationally-advanced target preparation of PGE1 invented by, and patent technology of which was transferred from, Professor Mizushima Yataka, a renowned medical scientist in Japan. Capitalizing on this start-of-the-art technology and its exclusiveness, the product shows improved treatment results when compared to other similar products. With an effective marketing strategy, Alprostadil recorded significant growth in sales and profit. Turnover for 2003 rose to approximately HK\$183.32 million, representing an increase of approximately 39.4% over the corresponding period last year.

The new factory, located in Beijing Economy Development Zone (北京經濟開發區), is under construction, and it is expected to be completed by the end of 2004. It will be capable of producing 10 million injections, 500 million tablets and capsules, per annum.

R&D

The year 2003 saw the greatest successes for the Group in R&D. Numerous R&D projects came to a positive conclusion leading to successful completed results. The Group also has the largest numbers of cases under research, in its history. It also obtained numerous patents and received substantial governmental scientific research funding.

There were 12 approvals for production of new drugs and 22 approvals for clinical research from the SFDA, one health-care food certificate from the Ministry of Public Health of the PRC, 30 research cases are, and soon will be under, clinical trials, 32 invention patent application acceptance notifications have been received from the State Intellectual Property Office together with 3 new

Management Discussion and Analysis

practical patent acceptance notifications. Among these achievements are 18 invention patent application acceptance notifications, involving 22 new products awarded to Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CT Green Continent") by the State Intellectual Property Office. In March, 2003, CT Green Continent was certified as a high and new technology enterprise by Beijing Science and Technology Committee.

JCTT was granted a clinical research fund for drugs innovation and modernization of a significant range of traditional Chinese medicines, with RMB1.2 million being received under the National High-Tech Research and Development Plan of the PRC (the National Plan-863). The funds are intended for use in the clinical research of hepatitis medication, under the Tenth Five-Year Plan.

JCTT's postdoctoral R&D center is currently staffed by 3 researchers who hold doctor's degrees.

The pharmaceutical research project for the treatment of hepatitis using biotechnology in genetic engineering was jointly developed by China Biotech & Drug Development Limited in conjunction with Hong Kong Polytechnic University. The project has been granted a subsidy of HK\$1.56 million by the Innovation and Technology Commission of Hong Kong Special Administrative Region.

CAPTIAL STRUCTURE

On 8 January, 2003, a total of 12,000,000 share options of HK\$0.10 each had been exercised at HK\$0.74 per share. The proceeds before expenses amounted to HK\$8,880,000 and the share capital and share premium were increased by HK\$1,200,000 and HK\$7,680,000 respectively.

The Group repaid all the bank loans during the year (2002: approximately HK\$4.71 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year, the Group's primary source of funds was cash derived from operating activities and funds raised by the issuance of convertible bonds in 2003. As at 31 December, 2003, the Group's bank balance and cash in hand was approximately HK\$288.85 million (2002: approximately HK\$280.53 million).

CAPITAL COMMITMENT

The Group's capital expenditure commitments amounted to approximately HK\$64.18 million as at 31 December, 2003 (2002: approximately HK\$21.38 million). The Group has adequate financial resources to fund its capital expenditure commitment from existing cash resources and cash flows generated from its operations.

Management Discussion and Analysis

CHARGE ON ASSETS

The Group did not have any charges on assets as at 31 December, 2003 (2002: nil).

CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities (2002: nil).

ASSETS AND GEARING RATIO

As at 31 December, 2003, total assets of the Group amounted to approximately HK\$736.00 million (2002: approximately HK\$593.99 million) whereas total liabilities amounted to approximately HK\$239.67 million (2002: approximately HK\$171.45 million). The gearing ratio (total liabilities over total assets) was approximately 32.6% (2002: approximately 28.9%).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December, 2003, the Group had about 2,629 employees (2002: 2,227). The Group remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme.

Total staff costs (including Directors' remuneration) for the year were HK\$105,541,000 (2002: HK\$97,062,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 95.

An interim dividend of HK\$0.05 per ordinary share totalling HK\$16,600,000 was paid during 2003.

The directors recommend the payment of a final dividend of HK\$0.10 per ordinary share in respect of the year ended 31 December 2003 to shareholders on the register of members on Tuesday, 27 April 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in September 2000, after deduction of related issuance expenses, amounted to approximately HK\$61,973,000. Application of proceeds up to 31 December 2003 and comparison with the proposed applications set out in the listing document of the Company dated 30 October 2003 (the "Listing Document") is set out on page 38 of this report.

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

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Administrative expenses	(116,215)	(84,257)	(78,610)	(54,987)
Other operating expenses	(40,191)	(20,562)	(7,793)	(5,400)
PROFIT FROM OPERATING ACTIVITIES	167,470	136,710	119,562	87,691
Finance costs	(1,380)	(1,124)	(1,913)	(2,483)
Share of profit of:				
A jointly-controlled entity	7,411	-	-	-
Amortisation of goodwill on acquisition of a jointly controlled entity	(267)	-	-	-
PROFIT BEFORE TAX	173,234	135,586	117,649	85,208
Tax	(23,299)	(17,175)	(8,184)	(6,767)
PROFIT BEFORE MINORITY INTERESTS	149,935	118,411	109,465	78,441
Minority interests	(68,320)	(61,042)	(47,730)	(33,428)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	81,615	57,369	61,735	45,013
ASSETS, LIABILITIES AND MINORITY INTERESTS				
TOTAL ASSETS	736,003	593,986	433,129	377,232
TOTAL LIABILITIES (exclude convertible bonds)	(161,669)	(124,653)	(91,800)	(98,609)
MINORITY INTERESTS	(156,348)	(129,725)	(96,790)	(68,819)
CONVERTIBLE BONDS	(78,000)	(46,800)	-	-
NET ASSETS	339,986	292,808	244,539	209,804

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in note 33 to the financial statements.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December, 2003, there were covenants in certain agreements of the Group relating to specific performance obligations of the Company's controlling shareholders. The following information is hereby disclosed pursuant to Practice Note 19 of the Listing Rules:

The Company has issued the one per cent. convertible bonds due 2006 in the aggregate principal account of US\$6 million to Jian Kang Ltd. and one per cent. convertible bonds due 2006 in the aggregate principal account of US\$4 million to Super Demand Investments Limited on 22 October, 2002 and 31 March, 2003 respectively. Pursuant to the convertible bonds instrument, if Mr. Tse Ping together with any family trust the beneficiaries of which include Mr. Tse Ping and/or his spouse and/or his children shall cease to hold (directly or indirectly) at least 30% of the Equity Share Capital or Mr. Tse Ping ceases to be the single largest shareholder of the Company except where such cessation occurs as a result of the issue or transfer of shares to a long term investor which carries on a similar business to that currently conducted by the Company and its Subsidiaries, a default premium will be charged which is equal to 13 per cent. per annum compounded annually calculated from the date of the instrument to the date of payment on the outstanding principal amount of bonds.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of HK\$33,200,000 (2002: HK\$29,880,000), amounted to HK\$126,038,000 (2002: HK\$157,585,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Tse Ping

Mr. Ling Peixue

(resigned on 23 April 2003)

Mr. Tao Huiqi

Mr. Wang Jinyu

Non-executive director:

Ms. Josephine Price

Report of the Directors

DIRECTORS (Cont'd)

Independent non-executive directors:

Ms. Peng Yu (resigned on 30 June 2003)

Mr. Hu Xi Ming

Ms. Zheng Qun, Grace (appointed on 30 June 2003)

In accordance with articles 86(3) and 88 of the Company's articles of association, Ms. Zheng Qun, Grace will retire and, being eligible, offer herself for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 32 to 37 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing on 8 December 2003 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2003, the interests and short positions of each director and chief executive of the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company

Name of director	Notes	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
		Directly beneficial owned	Through controlled corporations	Total	
Mr. Tse Ping	(1)	3,000,000	231,120,000	234,120,000	70.52%
Mr. Wang Jinyu	(2)	–	8,880,000	8,880,000	2.67%
Mr. Tao Huiqi		400,000	–	400,000	0.12%
		3,400,000	240,000,000	243,400,000	73.31%

Notes:

- (1) Mr. Tse Ping held these shares through Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping.
- (2) Mr. Wang Jinyu held these shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Long position in underlying shares

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 September 2000, certain Directors, being Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, were granted options on 2 January 2001 to subscribe for 7,500,000 shares, 1,000,000 shares and 1,000,000 shares of the Company, respectively, at a subscription price of HK\$0.74 per share exercisable during the period from 3 January 2003 to 1 January 2007 (both days inclusive). On 8 January 2003, Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu exercised part of their respective share options and subscribed 3,000,000 shares, 400,000 shares and 400,000 shares of the Company, respectively. As at 31 December 2003, 4,500,000 shares, 600,000 shares and 600,000 shares remained issuable upon the exercise in full of all the respective share options of Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu granted under the Scheme which were yet to be exercised.

Save as disclosed above, none of the directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the following interests and short positions of 5% or more of the issued share capital and underlying shares under equity derivatives of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in shares

Name	Capacity/Nature of Interest	Number of shares of the Company	Approximate percentage of issued share capital of the Company
Conspicuous Group Limited	Beneficial owner	108,000,000	32.53%
Remarkable Industries Limited	Beneficial owner	57,317,760	17.26%
Validated Profits Limited	Beneficial owner	65,802,240	19.82%

Note: Each of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited is an investment holding company wholly-owned by Mr. Tse Ping who is a Director.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

Long position in underlying shares under equity derivatives

Name	Notes	Capacity/Nature of Interest	Number of Underlying shares of the Company	Approximate percentage of issued share capital of the Company
Jian Kang Ltd.		Beneficial owner	27,368,421	8.24%
Aria Investment Partners, L.P.	(1)	Interest of a controlled corporation	27,368,421	8.24%
CLSA Private Equity Management Limited	(2)	Investment manager	27,368,421	8.24%
CLSA (S.E.A) Limited	(3)	Interest of a controlled corporation	27,368,421	8.24%
Credit Lyonnais Securities Asia BV	(4)	Interest of a controlled corporation	27,368,421	8.24%
Credit Lyonnais Capital Markets Asia BV	(5)	Interest of a controlled corporation	27,368,421	8.24%
Credit Lyonnais Capital Markets International SASU	(6)	Interest of a controlled corporation	27,368,421	8.24%
Credit Lyonnais S.A.	(7)	Interest of a controlled corporation	27,368,421	8.24%
Credit Agricole S.A.	(8)	Interest of a controlled corporation	27,368,421	8.24%
SAS Rue La Boetie	(9)	Interest of a controlled corporation	27,368,421	8.24%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

Long position in underlying shares under equity derivatives (Cont'd)

Notes:

1. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Jian Kang Ltd. And is deemed or taken to be interested in the 27,368,421 underlying shares in which Jian Kang Ltd. Has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P..
3. CLSA (S.E.A.) Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
4. Credit Lyonnais Securities Asia BV is indirectly interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
5. Credit Lyonnais Capital Markets Asia BV is beneficially interested in 65% of the share capital of Credit Lyonnais Securities Asia BV and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4 and 5 above.
7. Credit Lyonnais S.A. is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4, 5 and 6 above.
8. Credit Agricole S.A. is beneficially interested in 94.82% of the share capital of Credit Lyonnais S.A and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4, 5, 6 and 7 above.
9. SAS Rue La Boetie is beneficially interested in 51.50% of the share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4, 5, 6, 7 and 8 above.

Save as disclosed above, as at 31 December 2003, no person, other than the directors and chief executive, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' and Chief Executives' interests and short positions in share, underlying shares and debentures" above and in the "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

In connection with the approval of the listing on the Main Board of the Stock Exchange of, and permission to deal on the Main Board of the Stock Exchange in, the Shares of the Company in issue and any Shares which may fall to be issued upon the exercise of options which have granted under the Old Share Option Scheme (as defined in the Listing Document) or the Existing Share Option Scheme (as defined in the Listing Document) or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the proposed share option scheme of the Company (the "Proposed Share Option Scheme"), the Proposed Share Option Scheme be approved and adopted and the board of directors of the Company be authorized to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Proposed Share Option Scheme including, but without limitation:

- (1) to administer the Proposed Share Option Scheme under which options may be granted to Participants (as defined in the Proposed Share Option Scheme) to subscribe for Shares;
- (2) to modify and/or amend the Proposed Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Proposed Share Option Scheme relating to modification and/or amendment;
- (3) to make application at the appropriate time or times to the Stock Exchange, and any other stock exchanges upon which the issued Shares may for the time being be listed, for listing of and permission to deal in any Shares which may hereafter from time to time be issued and allotted pursuant to the exercise of any options granted under the Proposed Share Option Scheme; and

Report of the Directors

SHARE OPTION SCHEME (Cont'd)

- (4) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Proposed Share Option Scheme, and accordingly that the Existing Share Option Scheme be terminated with effect from the approval and the adoption of the Proposed Share Option Scheme as aforesaid becoming unconditional (without prejudice to the rights and benefits of and attached to any such options as may have been granted under the Existing Share Option Scheme which are outstanding).

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as further detailed in note 37 to the financial statements, which also constituted connected transactions under the Listing Rules. The independent non-executive Directors have reviewed the terms and transactions and conformed to the Board of Directors that, in their opinion, the transactions, and the arrangements governing those transactions, are entered into by the relevant members of the Group in the ordinary and usual course of business and on normal commercial terms, and were fair and reasonable so far as the shareholders of the Company are concerned.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below.

Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian"), Ankang Chia Tai Pharmaceutical Co., Ltd. ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC") and ABH Nature's Products Inc. ("ABH").

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Ankang is principally engaged in the production and distribution of a medicine reducing blood-fat level, gynaecomastia medicines, medicines for treating cardiovascular disease and other chemical medicines. CT Ankang acquired a PRC pharmaceutical company which has one product for the treatment of cardiovascular namely, Puerain injections which may compete with an existing product namely, Spring (Puerain glucose injections) produced by the Group. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States.

Report of the Directors

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Cont'd)

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group.

Mr. Tse Ping has signed a deed of non-competition undertaking in favour of the Company dated 19 September 2000 ("2000 Deed of Undertaking") under which he has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities in which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature ("Mr. Tse Ping's Companies") (excluding for this purpose the Group) will:

- (a) within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, carry on, become engaged or otherwise become interested (save through Mr. Tse Ping's interest in the Company), directly or indirectly, in any business activities involving the business of the Company; and
- (b) in the PRC, other than within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC (save through Mr. Tse Ping's interest in the Company), become engaged or otherwise become interested, directly or indirectly, in or otherwise commence any business activities involving the business of the Company, if to do so will result in competition or likely to compete with any part of the business of the Company already carried on by the Group in such territory at the time Mr. Tse Ping and/or Mr. Tse Ping's Companies (excluding for this purpose the Group) propose to invest in such business activities.

Mr. Tse Ping has also executed a new deed of non-competition undertaking in favour of the Company on 9 September 2003 which will become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange, details of which are set out in the Listing Document. The 2000 Deed of Undertaking would terminate upon the aforesaid deed of non-competition undertaking becoming effective.

Save as disclosed above, none of the directors of the Company had an interest in a business which competes or may compete with the business of the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

Report of the Directors

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period from 1 January 2003 to 8 December 2003. The Company has also complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the period from 8 December 2003 to 31 December 2003, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code of Best Practice. The primary duties of the Committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the board of directors. The Committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Committee has two members comprising the two independent non-executive directors, Ms. Zheng Qun, Grace and Mr. Hu Ximing.

The Group's financial statements for the year ended 31 December 2003 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Tse Ping
Chairman

PRC, 23 March 2004

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. Tse Ping (謝炳先生), aged 52, is the Founder, Chairman and President of the Company. He is responsible for the overall operations of the Group. With more than 10 years of pharmaceutical related investment and management experience, Mr. Tse was formerly the vice-chairman of Shenzhen 999 Pharmaceutical Co. Ltd. (深圳三九藥業有限公司), and was involved in the management of Hainan Qingqihaiyao Stock Company Limited (海南輕騎海藥股份有限公司) (formerly known as Hainan Pharmaceutical Industrial Joint-Stock Company Limited (海南海藥實業股份有限公司), and is now listed on the Shenzhen Stock Exchange in the PRC. Mr. Tse was also the chairman of CTQ which is now a subsidiary of SIIC Medical and the executive chairman of TM International Bank Co., Ltd, based in Shanghai. Mr. Tse is also the Chairman of Xian C. P. Pharmaceutical Co. Ltd., a director of CTQ, a committee member of the Association of Pharmaceutical Biotechnology of China and an honest professor of Shenyang University of Pharmacy. Beyond the drugs and biotechnology field, Mr. Tse is the vice-chairman of Chia Tai Enterprises International Limited, an investment holding company listed on the Main Board. He is also a member of the Ninth and the Tenth National Committee of the Chinese People's Political Consultative Conference (CPPCC).

Mr. Tao Huiqi (陶惠啟先生), aged 54, is responsible for the general operations of JCTT and NJCTT. He joined the Group in April 1997 and is the vice chairman and president of JCTT. He is a university graduate and senior economist. Mr. Tao has extensive experience in managing pharmaceutical companies. He has been awarded the title of an "Outstanding Entrepreneur" by the China Pharmaceutical Association, Association of Entrepreneur Medicine of China and the State Medicine Commission, the Jiangsu Economic Planning Commission, and Jiangsu Pharmaceutical Administration, respectively.

Mr. Wang Jinyu (王金宇先生), aged 34, is principally responsible for the business planning of the Group. He joined the Group in March 1999. Prior to joining the Group, Mr. Wang worked in the corporate finance division of BNP Prime Peregrine Capital Ltd., where he gained extensive experience in corporate finance, investment management and the development and promotion of high technology.

Non-executive Director

Ms. Josephine Price (潘佐芬女士), aged 49, is a non-executive Director. Ms. Price is the Managing Director of CLSA Private Equity Ltd. She joined CLSA in 1995 to set up its private equity activities from NatWest Markets where she had been a regional corporate finance director. She has been based in Asia for over 20 years. She is a graduate of the University of Kent in Canterbury, the United Kingdom. Ms. Price is a member of the Law Societies of England & Wales and Hong Kong. She is also a member of the Hong Kong Securities Institute and the Hong Kong Institute of Directors.

Directors and Senior Management Profile

Independent non-executive Directors

Ms. Zheng Qun, Grace (鄭群女士), aged 35, is an independent non-executive Director and the chairlady of the audit committee of the Company. She holds a Master of Business Administration from the University of California, Riverside and a Bachelor of Arts in English from Tianjin University of Technology. She has three years professional experience in internal and external audit with Ernst & Young, an international accounting firm. She was appointed as an independent non-executive Director on 30 June, 2003.

Mr. Hu Ximing (胡熙明先生), aged 70, is an independent non-executive Director. He was a member of the Ninth CPPCC and the chief editor of the Chinese Traditional Medicine Magazine of China. Mr. Hu has assumed a number of titles, including deputy minister of the Ministry of Health, and director of the State Administration of Traditional Chinese Medicine. He was appointed as an independent non-executive Director on 19 September, 2000.

SENIOR MANAGEMENT

Ms. Zhao Yanping (趙艷萍女士), aged 41, is the vice president of the Company. She is principally responsible for the Group's day-to-day administration. Ms. Zhao joined the Group in September 1992. Ms. Zhao graduated from the Shenyang Pharmaceutical College with a degree in science and completed the Master of Business Administration (MBA) course in the Business Administration department in Dalian University Technology. She was the executive director of CTF, and a visiting professor of Shenyang University of Pharmacy. She was the general manager of the research and development department of the Group. Ms. Zhao is also one of the editors of the "1998 National Development Guide for New Chemical Medicine". She is an editorial board member of Economic Report of Medicine. Ms. Zhao has 20 years of experience in the pharmaceutical industry.

Mr. Tse Hsin, Stephen (謝焯先生), aged 34, is the vice president of the Company. He is mainly responsible for the acquisition and merger as well as the corporate finance of the Group. He is also the Group's spokesman and the general manager of the audit department. Mr. Tse graduated from the University of Hong Kong with a bachelor degree in industrial engineering. He joined the Group in August 1995 as an assistant to the President of the Company and has served as the Managing Director of Xian C.P. Pharmaceutical Co., Ltd. for the period from July 1996 to June 2000. In 1999, he was awarded the "Outstanding Management Award for foreign-invested enterprises of Shanxi Province" by the Shanxi Provincial Government. He is also a director of JCTT, Xian C.P. Pharmaceutical Co., Ltd. and Ankang Chia Tai Pharmaceutical Co., Ltd.. He is a cousin of Mr. Tse Ping.

Directors and Senior Management Profile

Mr. Zhang Baowen (張寶文先生), aged 47, is the vice president and a senior engineer of the Company, and principally responsible for the Group's business development and management. He is a graduate of the Shenyang Pharmaceutical University with a bachelor degree in science. Mr. Zhang joined the Group in October 1994 and has extensive experience in the pharmaceutical industry. Mr. Zhang was previously appointed as the head of the Group's investment division. He is currently an executive director of JCTT, NJCTT and CT Green Continent. Mr. Zhang is a committee member of the Association of Chinese Medicine of China. He has over 20 years of experience in the pharmaceutical industry.

Ms. Yu Chau Ling (余秋玲女士), aged 35, is the company secretary and financial controller of the Company. She graduated from the University of Hong Kong with a bachelor degree in Social Sciences. She is the fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants respectively. Ms. Yu joined the Company in February 2003 and has working experience in the international audit firm and listed companies.

Ms. Chen Xiaofeng (陳曉楓女士), aged 50, is the financial controller of the Company in the PRC. She is principally responsible for the Group's auditing and financial issues in the PRC. Ms. Chen joined the Group in November 1993 and was the manager of the investment division, deputy controller of the accounting division, officer of the audit division and controller of the finance and accounting division. She is also a director of CTF and NJCTT. Ms. Chen is a certified accountant in the PRC and has over 24 years of experience in accounting and finance.

Mr. Ling Peixue (凌沛學先生), aged 41, joined the Group in October 1994 and is a director and president of CTF. He is responsible for the business of CTF. Mr. Ling graduated from the Shandong University of Medicine with a master degree. Mr. Ling is an accomplished expert on the therapeutic applications of HA. He has won numerous awards for his work on HA-based therapeutics including special subsidies from the State Council, "Outstanding Scientist" granted by China Association for Science and Technology, Mr. Ling was the deputy chairman of the Biochem Pharmaceutical Professionals Committee of the Association of Chinese Medicine, a deputy head of the Industrial Biochemistry Professionals Committee of the Association of Biochemistry and Molecular Biology of China, an executive director of the Association of Biochemical Pharmaceutical Manufacturers of China and a member of the editorial committee of the Chinese Medicine Magazine and Chinese Biochem Pharmaceutical Magazine.

Mr. Cheng Bo (程波先生), aged 43, is the vice president of CTF and responsible for the sales and operation of CTF. Mr. Cheng graduated from the University of Electronic Science and Technology of Sichuan and completed a post-graduate course relating to management science and engineering. He joined the Group in October 1994 and has been appointed as sales office representative in Chengdu, regional sales manager and marketing director. He has over 11 years of experience in sales management.

Directors and Senior Management Profile

Mr. Shun Jian (孫鍵先生), aged 43, is the vice president of JCTT and senior engineer. Mr. Shun joined the Group in April 1997 and is responsible for the sales and operation of JCTT. He graduated from Nanjing Polytechnic with a degree in engineering. He has 20 years of experience in pharmaceutical industry.

Mr. Zhang Xichang (張錫昌先生), aged 62, is the vice president of JCTT and responsible for the R&D of JCTT. Mr. Zhang has been a workshop officer and deputy factory director of JCTT. Mr. Zhang joined the Group in April 1997.

Ms. He Yanli (賀艷麗女士), aged 40, is the vice president of CTF. She joined the Group in October 1994 and is responsible for research and development of CTF. Ms. He graduated from Shandong Medical University with a master degree is currently pursuing her PhD degree in pharmaceutical chemistry. She has 16 years of experience in the R&D of pharmaceutical products and has published academic papers. She has been the head of Technology Division in CTF, the head of R&D division and the assistant to general manager of CTF.

Ms. Wu Ruizhen (吳瑞珍女士), aged 56, is the vice president of the finance department of JCTT. She graduated from Gansu Television Broadcast University with a degree in industrial accounting. Ms. Wu joined the Group in January 1997. Ms. Wu has over 30 years of experience in finance.

Mr. Pei Xinmin (裴新民先生), aged 38, is the financial controller of CTF. He graduated from Inner Mongolia Finance Institute with a bachelor degree in industrial accounting. Mr. Pei has 15 years of experience in finance. Mr. Pei joined the Group in August 1995.

Mr. Tian Zhoushan (田舟山先生), aged 40, joined the Group in April 1997 and is responsible for the business of NJCTT. Mr. Tian is the vice president of JCTT and the general manager of NJCTT. Mr. Tian completed a MBA course in Nanjing University. He was the production manager, assistant to the president and vice president of JCTT. Mr. Tian has 20 years of experience in the pharmaceutical industry.

Mr. Qu Yunzhi (曲韻智先生), aged 48, joined the Group in October 2002 and is responsible for the business of CT Green Continent. He is the vice chairman and the general manager of CT Green Continent. He obtained a master degree in medical science in Inner Mongolia Medical University. Mr. Qu has been the chairman of Huhehaote Natural Pharmacy Industrial Research Institute. Mr. Qu has 25 years of experience in the scientific research of medicines.

Ms. Li Mingqin (李名沁女士), aged 45, is the deputy general manager of the Company's R&D division in the Beijing Representative Office and the director and deputy general manager of CT Green Continent. She is principally responsible for the research and development of new medicines for the Group. Ms. Li graduated from the Faculty of Medicine of the Beijing Chinese Medicine University with a bachelor degree in medicine. Prior to joining the Company, Ms. Li has worked in

Directors and Senior Management Profile

Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in the teaching of medicines, R&D of new medicines and medicines management. During the period 1992 to 1995, Ms. Li has been engaged in Post-doctorate research in the Medicine Faculty of Colorado University, USA and the Medicine Faculty in Massachuset University. Ms. Li joined the Group in March 1997 and she has more than 20 years of experience in the pharmaceutical industry.

Mr. Bi Yong (畢勇先生), aged 42, is the vice president of CTF and is responsible for the management of CTF's production. He graduated from Shandong Industrial University with a bachelor degree in engineering. Mr. Bi joined the Group in November 1996. He has more than 21 years of experience in the management of pharmaceutical production and machinery equipment.

Mr. Ji Yanfeng (姬彥鋒先生), aged 39, is the vice president of the marketing division of CTF and is responsible for its market management. Mr. Ji graduated from Xian Medicine University. Mr. Ji was a chief doctor in Hua Ying Hospital and an area manager of Tianjing Smith Kline & French Laboratories Ltd. (SK&F). He has extensive experience in marketing and sales management. Mr. Ji joined the Group in August 2001.

Mr. Ye Wei Nong (葉衛農先生), aged 42, is the assistant president of the Company and deputy general manager of the technology department. He is responsible for the Group's development on Biotechnology. Mr. Ye graduated from Zhongshan (Dr. Sun Yat-Sen) University with a bachelor degree in science. In 1989, Mr. Ye obtained a doctoral degree (Ph.D.) in microbiology in Institut National des Sciences Appliquées de Toulouse of France. He also obtained a certificate of study for Masters specialised in marketing and food technology in Ecole Supérieure de Commerce de Toulouse of France. Prior to joining the Group in July 2002, Mr. Ye worked in Europe and Hong Kong for biotechnology and pharmaceutical companies.

Ms. Chia Fai (謝輝女士), aged 46, is an assistant to the chairman of the Company and personnel manager. Ms. Chia joined the Group in November 1991, she has more than 20 years of experience in financial industry. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Co., Ltd., Sino Concept Technology Ltd., Talent Forward Ltd., Sino Biopharmaceutical (Beijing) Ltd. and Magnificent Technology Ltd.

Ms. Tse Wun (謝瑗小姐), aged 37, is an assistant to the chairman of the Company. She joined the Group in November 1991. She is principally responsible for the Group's, administration and financial matters in Hong Kong. Ms. Tse graduated from the University of Oregon with a bachelor degree in science in the United States. She was formerly a director of 999 Pharmaceutical Co., Ltd. and has 10 years of experience in finance and investment.

Directors and Senior Management Profile

Ms. Cheng Hui (程惠女士), aged 40, joined the Group in May 1993 and is responsible for the Group's PRC financial and personnel issues. She is the deputy financial controller of the Company. She has been the head of the finance department in China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 20 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel in 1992, and ACCA Chinese finance and accounting qualification certificate issued by Chartered Association of Certified Accountants.

Ms. Gu Liping (顧莉萍女士), aged 42, is the vice president of JCTT and the secretary to the board of directors. She is principally responsible for the public relation affairs for JCTT. She graduated from the department of chemistry of Nanjing University and holds a bachelor degree in science and MBA degree. Ms Gu is a senior engineer and she joined the Group in December 2001. She was the vice commissioner of the finance commission of Jiangsu Agribusiness and the assistant manager of Jiangsu Juxin Investment Management Company Limited.

Mr. Tang Zhaocheng (唐兆成先生), aged 37, is the vice president of JCTT. He is responsible for the production management of JCTT. Mr. Tang joined JCTT in April 1997. He has a professional qualification in chemical engineering. Mr. Tang has been a vice officer in technological production, and a manager in quality control as well as a chief officer and an assistant-to-president in GMP. He has been a team leader in the production of Diammonium Glycyrrhizinate and Zegui Longshuang in JCTT. Mr. Tang has 14 years of experience in the pharmaceutical industry.

Mr. Wang Hong (王宏先生), aged 40, is the assistant to president and marketing director of JCTT. Mr. Wang graduated from Shanghai Medical University in 1991 with a master degree in medical science. He also holds a MBA degree from the Business School of the National University of Singapore. He was the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. where he had worked for 8 years. Mr. Wang has nearly 10 years of experience in sales and he joined JCTT in December 2002.

Mr. Zhang Xiquan (張喜全先生), aged 34, is the assistant chief engineer and supervisor of the R&D centre of JCTT. Mr. Zhang graduated from Nankai University in 1994 with a master degree in science. He has carried out studies of a number of new drugs and has experience in the organisation of joint development of new drugs. Mr. Zhang joined JCTT in April 1997.

Mr. Lu Yuehui (呂月輝先生), aged 51, is the financial controller NJCTT. He joined the Group in February, 1995. Mr. Lu graduated from the Department of Foreign Language Department in Beijing Xuanwu Hongqi Spare-Time University, Department of Accountancy in Beijing Finance and Trade Institute. He was a tutor of the Department of Accountancy in Beijing Economic Management Cadre College. Mr. Lu has been the manager of audit department and manger of finance and accountancy in the Group. Mr. Lu has 25 years of experience in finance and accounting profession and is a qualified accountant.

Comparison of Use of Proceeds Raised from the Company's Initial Public Offering with Actual Application

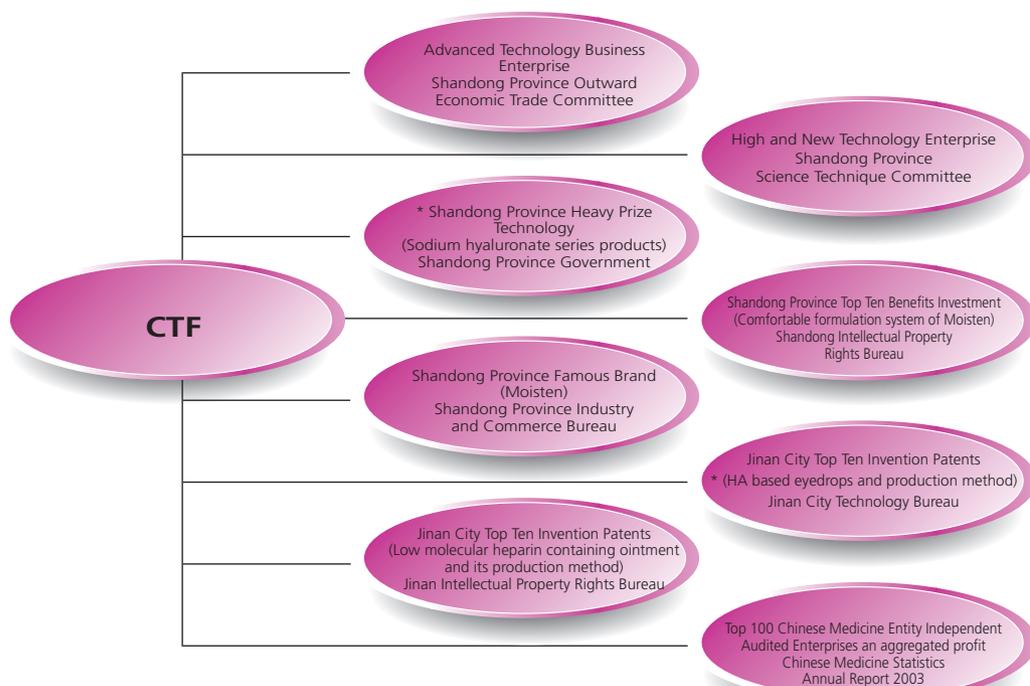
The Company raised net proceeds of approximately HK\$60 million from its initial public offering. The following table sets forth the intended use of the net proceeds as stated in the Listing Document and the actual application up to 31 December, 2003.

	Notes	Amount to be used up to 31 December, 2002 as disclosed in the Listing Document HK\$' million	Actual amount used up to 31 December, 2003 HK\$' million
For R&D activities including the establishment of a R&D center in Beijing	1	15.0	6.8
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceuticals, Chinese medicine and/or natural herbal products		20.0	20.0
For the expansion of the distribution networks of the Group	2	10.0	—
For the establishment of the Group's website and commencement of e-commerce	3	3.0	1.2
General working capital		12.0	12.0
Total		60.0	40.0

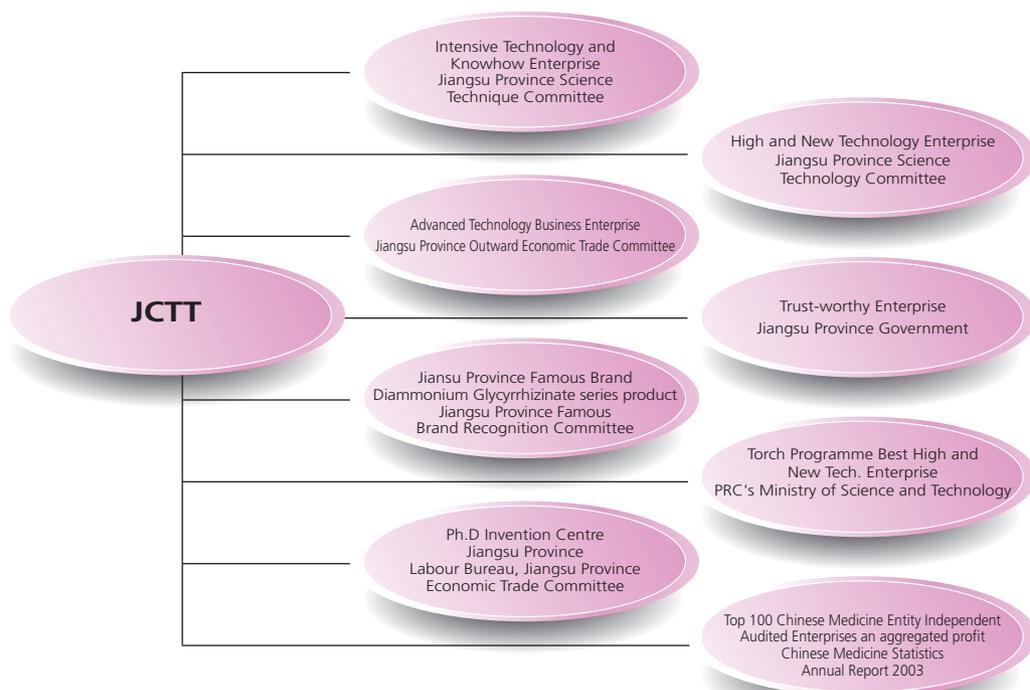
Notes:

- Due to the delay in establishing the research and development centre in Beijing, which was established in October 2002, and accordingly, the delay in research and development activities, the actual amount used up to 31 December, 2003 was only HK\$6.8 million. The Group intends to use the remaining funds for the future development of the research and development centre in Beijing, which is in accordance with the planned use of proceeds.
- The Company is in the process of negotiation with potential cooperative partners and no binding agreement has been reached.
- As at 31 December, 2003, the Group has not yet commenced its e-commerce business as the relevant PRC laws and regulations governing e-commerce business relating to pharmaceuticals in the PRC have not yet been published. Currently, the Company's principal subsidiaries have established their own websites for the purpose of advertising and promoting their pharmaceutical products. The Directors intend to use the remaining funds for the commencement of e-commerce as and when the relevant PRC laws and regulations have been developed.

Awards and Rewards



* Sodium hyaluronate is also known as Hyaluronan (HA)



Report of the Auditors



To the members

Sino Biopharmaceutical Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 41 to 95 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	821,700	692,320
Cost of sales		(168,696)	(145,286)
Gross profit		653,004	547,034
Other revenue	5	9,318	3,932
Selling and distribution costs		(338,446)	(309,437)
Administrative expenses		(116,215)	(84,257)
Other operating expenses		(40,191)	(20,562)
PROFIT FROM OPERATING ACTIVITIES	6	167,470	136,710
Finance costs	7	(1,380)	(1,124)
Share of profit of:			
A jointly-controlled entity		7,411	–
Amortisation of goodwill on acquisition of a jointly-controlled entity		(267)	–
PROFIT BEFORE TAX		173,234	135,586
Tax	10	(23,299)	(17,175)
PROFIT BEFORE MINORITY INTERESTS		149,935	118,411
Minority interests		(68,320)	(61,042)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	11, 32	81,615	57,369
DIVIDENDS			
Interim	12	16,600	15,000
Proposed final	12	33,200	29,880
		49,800	44,880
EARNINGS PER SHARE	13		
Basic		HK24.6 cents	HK18.9 cents
Diluted		HK22.3 cents	HK16.9 cents

Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	197,951	173,293
Intangible assets	15	3,784	2,389
Deferred development costs	16	11,024	–
Goodwill	17	2,937	2,388
Interest in a jointly-controlled entity	19	81,079	–
Long term investment	20	29,820	29,820
		326,595	207,890
CURRENT ASSETS			
Inventories	21	57,695	45,251
Trade receivables	22	54,550	51,667
Other receivables	23	8,314	8,637
Amount due from a related company	24	–	16
Cash and cash equivalents	25	288,849	280,525
		409,408	386,096
CURRENT LIABILITIES			
Trade payables	26	21,424	24,437
Profits tax payable		7,816	3,415
Taxes payable other than profits tax	27	11,100	14,347
Other payables and accruals	28	116,828	77,629
Interest-bearing bank loan, unsecured		–	4,712
Amounts due to related companies	29	4,501	113
		161,669	124,653
NET CURRENT ASSETS		247,739	261,443
TOTAL ASSETS LESS CURRENT LIABILITIES		574,334	469,333
NON-CURRENT LIABILITIES			
Convertible bonds	33	78,000	46,800
Minority Interests		156,348	129,725
		339,986	292,808
CAPITAL AND RESERVES			
Issued capital	30	33,200	32,000
Reserves	32	273,586	230,928
Proposed final dividend	12	33,200	29,880
		339,986	292,808



Tao Huiqi
Director



Wang Jinyu
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Total equity at 1 January		292,808	244,539
Exchange differences on translation of the financial statements of foreign entities	32	(1,392)	(165)
Surplus on revaluation of leasehold properties	32	4,555	-
Net gains/(losses) not recognised in the profit and loss account		3,163	(165)
Net profit for the year attributable to shareholders	11	81,615	57,369
Dividends		(46,480)	(45,000)
Issue of shares, including share premium	30	8,880	36,600
Share issue expenses	32	-	(535)
Total equity at 31 December		339,986	292,808

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		173,234	135,586
Adjustments for:			
Finance costs	7	1,380	1,124
Share of profit of a jointly-controlled entity		(7,411)	-
Interest income	5	(2,652)	(2,024)
Dividend income from an unlisted investment	5	(6,791)	-
Depreciation	6	24,049	13,703
Amortisation of goodwill		1,182	732
Amortisation of intangible assets	6	474	153
Loss on disposal and write-off of fixed assets	6	902	633
Deficit on revaluation of leasehold buildings	14	712	-
Operating profit before working capital changes		185,079	149,907
Increase in inventories		(12,444)	(7,693)
(Increase)/decrease in trade receivables		(2,883)	4,704
Decrease/(increase) in other receivables		323	(2,169)
Decrease in amount due from a related company		16	-
(Decrease)/increase in trade payables		(3,013)	8,052
(Decrease)/increase in taxes payable other than profits tax		(3,247)	3,755
Increase in other payables and accruals		39,199	18,437
Increase in amounts due to related companies		4,388	-
Cash generated from operations		207,418	174,993
PRC profits tax paid		(17,929)	(15,317)
Net cash inflow from operating activities		189,489	159,676
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	2,652	2,024
Dividend received from an unlisted investment	5	6,791	5,189
Purchases of fixed assets and construction in progress	14	(42,893)	(66,720)
Purchases of intangible assets	15	(1,869)	(1,994)
Addition of deferred development costs	16	(11,024)	-
Proceeds from disposal of fixed assets		478	1,097
Acquisition of interest in a jointly-controlled entity		(74,904)	-
Acquisition of minority interests		15	1,272
Net cash outflow from investing activities		(120,754)	(59,132)

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	30	8,880	36,600
Share issue expenses	32	–	(535)
New bank loans		–	80,095
Repayment of bank loans		(4,712)	(75,383)
Interest paid	7	(1,380)	(1,124)
Dividends paid		(46,480)	(45,000)
Dividends paid to minority shareholders		(46,890)	(33,673)
Proceeds from issue of a convertible bond	33	31,200	46,800
Repayment from a minority shareholder		–	325
Net cash (outflow)/inflow from financing activities		(59,382)	8,105
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		9,353	108,649
Cash and cash equivalents at beginning of year		280,525	171,960
Effect of foreign exchange rate changes, net		(1,029)	(84)
CASH AND CASH EQUIVALENTS AT END OF YEAR		288,849	280,525
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	170,313	141,983
Time deposits with original maturity of less than three months when acquired	25	118,536	138,542
		288,849	280,525

Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	3,177	622
Interests in subsidiaries	18	193,292	135,741
		196,469	136,363
CURRENT ASSETS			
Other receivables	23	2,101	400
Cash and cash equivalents	25	74,091	130,350
		76,192	130,750
CURRENT LIABILITIES			
Profits tax payable		19	23
Other payables and accruals	28	2,204	825
		2,223	848
NET CURRENT ASSETS		73,969	129,902
TOTAL ASSETS LESS CURRENT LIABILITIES		270,438	266,265
NON-CURRENT LIABILITIES			
Convertible bonds	33	78,000	46,800
		192,438	219,465
CAPITAL AND RESERVES			
Issued capital	30	33,200	32,000
Reserves	32	126,038	157,585
Proposed final dividend	12	33,200	29,880
		192,438	219,465



Tao Huiqi
Director



Wang Jinyu
Director

Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the main board from 8 December 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group has continued to be principally engaged in the research and development, production and sale of a series of biopharmaceutical products for the medical treatment of ophthalmic diseases and a series of modernised Chinese medicines and chemical medicines for the treatment of hepatitis; and the investment in Sino-foreign equity joint ventures, whose principal activities are the manufacture, distribution and sale of pharmaceutical products.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Notes to Financial Statements

31 December 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Cont'd)

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in note 3 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained in note 14.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly-controlled entity (Cont'd)

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of a jointly-controlled entity is included as part of the Group's interest in a jointly-controlled entity.

Goodwill

Goodwill arising on the acquisition of subsidiaries and a jointly-controlled entity represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over the respective estimated useful lives of 8 and 10 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and jointly-controlled entity, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior year. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the value of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of a previous valuation is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation (Cont'd)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	4%-5%
Leasehold improvements	5%-20%
Plant and machinery	5%-9%
Motor vehicles	9%-18%
Furniture and fixtures	18%

Land use rights are stated at valuation less accumulated amortisation and any impairment losses. Amortization is calculated on the straight-line basis to write off the costs of the land use rights over the respective period of land use rights.

Improvements to leasehold buildings are depreciated over the shorter of the lease term and the rate of 20% per annum.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction or installation, and is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over the respective estimated useful lives not exceeding 10 years.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is a lessee, rentals payables under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investment

Long term investment represents non-trading investment in unlisted equity securities intended to be held on a long term basis.

In the prior years, unlisted securities were stated at their estimated fair values at the balance sheet date with adjustments to the estimated fair value, if any, to the long term investment revaluation reserve. The estimated fair values of unlisted investments were determined by the directors having regard to, inter alia, comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Long term investment (Cont'd)

Effective from 1 January 2003, unlisted securities are stated at cost less any impairment losses, on an individual basis. An impairment loss is recognised only if the carrying amount exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. This is a change in the accounting policy for long term investment in non-trading unlisted equity securities from the prior years as the directors consider accounting for long term investment at cost less impairment losses present more fairly the initial intention of the Group's investment for clearly identified long term purpose. As this change does not have any significant impact on the financial statements for the current and prior years, there is no restatement to the comparatives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work-in-progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interest in a jointly-controlled entity, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interest in a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (iii) dividend income, when the shareholders' right to receive payment has been established; and
- (iv) government grants, when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

Pension schemes

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20-23% of the payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grants the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and a jointly-controlled entity in the People's Republic of China (the "PRC") are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries and the jointly-controlled entity in the PRC are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flow of subsidiaries in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the date of the cash flows. Frequently recurring cash flows of subsidiaries in the PRC which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's customers and operations are located in the PRC.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. During the year, the directors reviewed the segment information disclosure, and information on biopharmaceutical and modernised Chinese medicines and chemical medicines was further analysed. Summary details of the business segments are as follows:

- (a) the biopharmaceutical medicines segment comprises the manufacture, sale and distribution of the biopharmaceutical medicine products;
- (b) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine products and chemical medicine products; and
- (c) the investment segment is engaged in long term investment.

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Cont'd)

For the year ended 31 December

	2003 HK\$'000	2002 HK\$'000
Segment revenue:		
Biopharmaceutical medicines	378,553	335,692
Modernised Chinese medicines and chemical medicines	436,356	356,628
Investment	6,791	-
	821,700	692,320
Segment results:		
Biopharmaceutical medicines	88,051	81,913
Modernised Chinese medicines and chemical medicines	97,881	73,343
Investment	(1,580)	(1,812)
	184,352	153,444
Unallocated expenses	(26,200)	(20,666)
Other revenue	9,318	3,932
Profit from operating activities	167,470	136,710
Finance costs	(1,380)	(1,124)
Share of profit of:		
A jointly-controlled entity (modernised Chinese medicines and chemical medicines)	7,411	-
Amortisation of goodwill on acquisition of a jointly-controlled entity (modernised Chinese medicines and chemical medicines)	(267)	-
Profit before tax	173,234	135,586
Tax	(23,299)	(17,175)
Profit before minority interests	149,935	118,411
Minority interests	(68,320)	(61,042)
Net profit attributable to shareholders	81,615	57,369

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Cont'd)

As at 31 December

	2003 HK\$'000	2002 HK\$'000
Segment assets:		
Biopharmaceutical medicines	220,045	140,706
Modernised Chinese medicines and chemical medicines	302,780	291,240
Investment	213,178	162,040
	736,003	593,986
Segment liabilities:		
Biopharmaceutical medicines	73,903	32,153
Modernised Chinese medicines and chemical medicines	80,356	91,075
Investment	85,410	48,225
	239,669	171,453

For the year ended 31 December

	2003 HK\$'000	2002 HK\$'000
Other segment information:		
Depreciation and amortisation:		
Biopharmaceutical medicines	12,433	5,818
Modernised Chinese medicines and chemical medicines	12,126	8,574
Investment	1,146	196
	25,705	14,588

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Cont'd)

	2003 HK\$'000	2002 HK\$'000
Other non-cash expenses:		
Biopharmaceutical medicines	285	600
Modernised Chinese medicines and chemical medicines	617	33
	902	633
Capital expenditure:		
Biopharmaceutical medicines	39,875	21,561
Modernised Chinese medicines and chemical medicines	10,212	47,035
Investment	3,830	118
	53,917	68,714

5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for sales returns and discounts, and dividend income.

An analysis of turnover and other revenue is as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of goods	814,909	692,320
Dividend income from an unlisted investment	6,791	-
	821,700	692,320
Other revenue		
Interest income	2,652	2,024
Government grants	3,567	552
Sale of scrap materials	865	329
Technology transfer income	-	754
Others	2,234	273
	9,318	3,932

Notes to Financial Statements

31 December 2003

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold		168,696	145,286
Depreciation	14	24,049	13,703
Amortisation of intangible assets*	15	474	153
Amortisation of goodwill*		915	732
Minimum lease payments under operating leases:			
Land and buildings		9,522	10,016
Loss on disposal of fixed assets		902	149
Write-off of fixed assets		–	484
Provision for/(write-back of) doubtful debts		1,494	(600)
Research and development costs		32,070	19,793
Auditors' remuneration		627	540
Staff costs (including directors' remuneration, note 8)			
Wages and salaries		94,032	87,699
Pension contributions**		11,509	9,363
		105,541	97,062
Exchange losses, net		1,016	119

Notes:

* The amortisation of intangible assets (i.e. patents) and goodwill for the year are included in "Cost of sales" and "Other operating expenses" on the face of the consolidated profit and loss account, respectively.

** During the year, certain of the Company's subsidiaries in the PRC were members of a pension contribution scheme managed by their respective local governments. Contributions made during the year were based on 20%-23% (2002: 20%-23%) of the employees' salaries and were charged to the consolidated profit and loss account as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December 2003 (2002: 5%).

Notes to Financial Statements

31 December 2003

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans wholly repayable within one year	790	1,033
Interest on convertible bonds	590	91
	1,380	1,124

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	114	187
Other emoluments:		
Salaries, allowances and benefits in kind	3,238	2,888
Pension contributions	42	41
Discretionary bonuses	1,420	1,323
	4,700	4,252
	4,814	4,439

All the directors' fees were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: nil). The non-executive director did not receive any emoluments during the year (2002: nil).

Notes to Financial Statements

31 December 2003

8. DIRECTORS' REMUNERATION (Cont'd)

The number of directors whose remuneration fell within the following bands is as follows:

	2003	2002
Nil to HK\$1,000,000	5	6
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	1
	7	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and prior years.

No share options were granted to the directors for the current and prior years in respect of their services to the Group.

For the year ended 31 December 2003, an aggregate of 4,200,000 share options (2002: nil) were exercised by the directors. No value in respect of these options was charged to the consolidated profit and loss account or is otherwise included in the above disclosure in directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	946	905
Pension scheme contributions	21	22
Discretionary bonuses	728	726
	1,695	1,653

Notes to Financial Statements

31 December 2003

9. FIVE HIGHEST PAID EMPLOYEES (Cont'd)

The remuneration of all the non-director, highest paid employees fell within the band of nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join or upon joining the Group, or as compensation for loss of office (2002: nil).

During the year, no share options were granted to the non-director, highest paid employees (2002: nil).

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003 HK\$'000	2002 HK\$'000
Provision for the year		
PRC income tax	22,330	17,175
Share of tax attributable to:		
A jointly-controlled entity	969	-
Total tax charge for the year	23,299	17,175

Pursuant to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries are qualified "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% applies.

Notes to Financial Statements

31 December 2003

10. TAX (Cont'd)

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), one of the Group's principal operating subsidiaries, is exempted from corporate income tax for the two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% exemption from the full corporate income tax rate for the succeeding three years (the "Tax Exemption"). JCTT was entitled to the 50% exemption for its corporate income tax and therefore JCTT's corporate income tax rate was 7.5% for the year ended 31 December 2002. The Tax Exemption expired on 31 December 2002. As JCTT qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, JCTT is subject to a corporate income tax rate of 10% in 2003.

Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. The Tax Exemption expired on 31 December 2001. As CTF qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, CTF has been subject to a corporate income tax rate of 10% since 2002.

Deferred tax has not been provided because the taxable and deductible temporary differences are immaterial for the current and prior years.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Profit before tax	173,234	135,586
Tax at the statutory tax rate of 33%	57,167	44,744
Less: preferential tax rate reduction by 18%	(31,182)	(24,406)
Expenses not deductible for tax	7,425	8,496
Non-taxable income	(1,019)	–
Tax losses of subsidiaries	5,821	303
Tax exemptions/deductions	(14,913)	(11,962)
Actual tax expense	23,299	17,175

Notes to Financial Statements

31 December 2003

11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$10,573,000 (2002: HK\$32,034,000) (note 32).

12. DIVIDENDS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interim dividend		
– HK\$0.05 (2002: HK\$0.05) per ordinary share	16,600	15,000
Proposed final dividend		
– HK\$0.10 (2002: HK\$0.09) per ordinary share	33,200	29,880
	49,800	44,880

The proposed final dividend for the current year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend for the prior year was approved by the Company's shareholders at the annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$81,615,000 (2002: HK\$57,369,000), and the weighted average of 331,736,986 (2002: 304,166,667) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$81,615,000 (2002: HK\$57,369,000) and interest of HK\$590,000 (2002: HK\$91,000) on convertible bonds. The weighted average number of ordinary shares used in calculation is the 331,736,986 (2002: 304,166,667) ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 12,246,966 (2002: 19,416,476) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year and the weighted average of 24,639,077 (2002: 16,421,053) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all convertible bonds during the year.

Notes to Financial Statements

31 December 2003

14. FIXED ASSETS

Group

	Leasehold buildings	Land use rights	Leasehold improve- ments	Plant and machinery	Motor vehicles	Furniture and fixtures	Con- struction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:								
At beginning of year	57,420	3,566	15,937	96,446	11,340	21,533	22,239	228,481
Additions	69	44	605	5,186	7,616	2,738	26,635	42,893
Surplus/(deficit) on revaluation	(2,338)	2,504	-	-	-	-	-	166
Disposals	(322)	-	-	(1,272)	(1,544)	(804)	(184)	(4,126)
Transfers	5,508	-	6,502	6,110	-	794	(18,914)	-
Exchange realignment	(287)	(14)	(35)	(396)	(44)	(85)	(90)	(951)
At 31 December 2003	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Analysis of cost or valuation:								
At cost	-	-	23,009	106,074	17,368	24,176	29,686	200,313
At valuation	60,050	6,100	-	-	-	-	-	66,150
	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Accumulated depreciation:								
At beginning of year	4,500	-	8,973	28,745	5,204	7,766	-	55,188
Provided during the year	3,288	116	1,154	13,303	2,266	3,922	-	24,049
Disposals	(171)	-	-	(946)	(1,032)	(597)	-	(2,746)
Written back on revaluation	(7,539)	(116)	-	-	-	-	-	(7,655)
Exchange realignment	(78)	-	(24)	(157)	(26)	(39)	-	(324)
At 31 December 2003	-	-	10,103	40,945	6,412	11,052	-	68,512
Net book value:								
At 31 December 2003	60,050	6,100	12,906	65,129	10,956	13,124	29,686	197,951
At 31 December 2002	52,920	3,566	6,964	67,701	6,136	13,767	22,239	173,293

Notes to Financial Statements

31 December 2003

14. FIXED ASSETS (Cont'd)

Company	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost:			
At beginning of year	596	306	902
Additions	2,826	58	2,884
At 31 December 2003	3,422	364	3,786
Accumulated depreciation:			
At beginning of year	167	113	280
Provided during the year	248	81	329
At 31 December 2003	415	194	609
Net book value:			
At 31 December 2003	3,007	170	3,177
At 31 December 2002	429	193	622

The Group's leasehold buildings are all situated in the PRC and are held under long term leases.

The Group's leasehold buildings and land use rights as at 31 December 2003 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK\$66,150,000 based on their existing use. The revaluation resulted in a surplus of HK\$8,533,000 and a deficit of HK\$712,000. The Group has credited HK\$4,555,000 to the revaluation reserve and charged HK\$392,000 in the profit and loss account, respectively, in current year.

Had the leasehold buildings and land use rights been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$36,761,000 as at 31 December 2003 (2002: HK\$24,554,000).

As at 31 December 2003, the Group had not obtained title certificates for certain acquired leasehold buildings and land use rights at net book values of HK\$24,071,000 and HK\$3,113,000, respectively (2002: HK\$24,501,000 and HK\$3,566,000, respectively). The directors are of the opinion that the title certificates will be obtained in due course. In the opinion of the PRC lawyers, there is no legal impediment for the Group to obtain good title to these leasehold buildings and land use rights.

Notes to Financial Statements

31 December 2003

15. INTANGIBLE ASSETS

Patents

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost:		
At beginning of year	2,563	569
Additions	1,869	1,994
At 31 December 2003	4,432	2,563
Accumulated amortisation:		
At beginning of year	174	21
Provided during the year	474	153
At 31 December 2003	648	174
Net book value	3,784	2,389

16. DEFERRED DEVELOPMENT COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost:		
Additions, balance and net book value at 31 December	11,024	–

There is no amortisation for the year ended 31 December 2003 as the products have not yet been put into commercial production.

Notes to Financial Statements

31 December 2003

17. GOODWILL

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost:		
At beginning of year	6,781	6,781
Addition	1,464	-
At 31 December 2003	8,245	6,781
Accumulated amortisation:		
At beginning of year	4,393	3,661
Provided during the year	915	732
At 31 December 2003	5,308	4,393
Net book value	2,937	2,388

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	131,299	131,299
Due from subsidiaries	81,273	5,831
Due to subsidiaries	(19,280)	(1,389)
	193,292	135,741

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

31 December 2003

18. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.	PRC/Mainland China	US\$1,000,000	-	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US\$2 Ordinary	100	-	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited	British Virgin Islands/ Mainland China	US\$3 Ordinary	100	-	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK\$100 Ordinary	-	85	Research and development of biopharmaceutical products
Hainan Chia Tai Freda Medicine Co., Ltd.	PRC/Mainland China	Rmb1,000,000	-	55	Sale of medical products
Hainan Chia Tai Freda Pharmaceutical Co., Ltd.	PRC/Mainland China	Rmb12,000,000	-	55	Dormant
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd.	PRC/Mainland China	Rmb99,000,000	-	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	100	-	Investment holding

Notes to Financial Statements

31 December 2003

18. INTERESTS IN SUBSIDIARIES (Cont'd)

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	PRC/Mainland China	US\$5,050,000	-	51	Manufacture and sale of pharmaceutical products
Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF")	PRC/Mainland China	Rmb42,000,000	-	55	Development, manufacture and distribution of pharmaceutical products
Shandong Chia Tai Freda New Packaging Resources Co., Ltd.	PRC/Mainland China	Rmb11,000,000	-	55	Production and sale of packaging materials
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	-	Investment holding
Sino Concept Technology Limited	Hong Kong	HK\$10,100 Ordinary	100	-	Investment holding and provision of management services
Talent Forward Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	-	Investment holding

Notes to Financial Statements

31 December 2003

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	36,728	–
Goodwill on acquisition	44,351	–
	81,079	–

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Beijing Tide Pharmaceutical Co., Ltd.	Corporate	PRC/Mainland China	35	31	35	Development, manufacture and distribution of pharmaceutical products

Investment in the jointly-controlled entity is indirectly held by the Company. As at 31 December 2003, the aggregate amounts of current assets, non-current assets, current liabilities, turnover and net profit after tax of this jointly-controlled entity were as follows:

	2003 HK\$'000
Current assets	226,120
Non-current assets	35,710
Current liabilities	109,685
Turnover	180,617
Net profit after tax	87,519

Notes to Financial Statements

31 December 2003

20. LONG TERM INVESTMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity investment, at cost	29,820	29,820

The amount represents the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("CTQ"), which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily made from natural herbal ingredients in the PRC.

The Group's investment in CTQ is changed from the fair value stated in prior years to cost less impairment losses with effect from 1 January 2003 to present more fairly the directors' initial intention to hold the investment on a long term basis. As this change does not have any significant impact on the financial statements for the current and prior years, there is no restatement to the comparatives.

21. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	19,261	19,022
Work in progress	10,127	6,909
Finished goods	24,952	17,389
Spare parts and consumables	3,355	1,931
	57,695	45,251

No inventories were carried at net realisable value as at the balance sheet dates (2002: nil).

Notes to Financial Statements

31 December 2003

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit term is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet dates, based on invoice date and net of provisions, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	52,857	49,430
91 days to 180 days	1,669	1,985
Over 180 days	24	252
	54,550	51,667

23. OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Advances to suppliers	2,043	3,265	–	–
Other receivables	4,709	4,638	1,508	104
Prepaid expenses	1,562	734	593	296
	8,314	8,637	2,101	400

Notes to Financial Statements

31 December 2003

24. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Group	31 December	Maximum	1 January
	2003	amount	2003
	HK\$'000	outstanding	HK\$'000
		during the year	HK\$'000
		HK\$'000	
Chia Tai Pharmaceutical & Medicines Limited	-	16	16

Mr. Tse Ping, a director of the Company, has beneficial interests in this company.

The amount arose from non-trading transactions. The amount due was unsecured, interest-free and was fully repaid during the year.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	170,313	141,983	5,799	1,231
Time deposits	118,536	138,542	68,292	129,119
Cash and cash equivalents	288,849	280,525	74,091	130,350

Notes to Financial Statements

31 December 2003

26. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet dates, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	19,340	22,721
91 days to 180 days	578	1,073
Over 180 days	1,506	643
	21,424	24,437

27. TAXES PAYABLE OTHER THAN PROFITS TAX

	Group	
	2003 HK\$'000	2002 HK\$'000
Value-added tax	6,025	11,166
Individual income tax	4,708	2,859
Property tax	367	322
	11,100	14,347

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Advances from customers	8,797	726	–	–
Accrued payroll and bonus	25,194	11,686	149	119
Other payables	29,936	18,588	3	2
Accrued expenses	33,021	26,757	2,002	653
Housing fund	980	2,973	–	–
Staff welfare and bonus fund	18,900	16,899	50	51
	116,828	77,629	2,204	825

Notes to Financial Statements

31 December 2003

29. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

30. SHARE CAPITAL

	Company	
	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
<i>Issued and fully paid:</i>		
332,000,000 (2002: 320,000,000) ordinary shares of HK\$0.10 each	33,200	32,000

The movements in the Company's issued capital are summarised as follows:

	Number of ordinary shares	Amount HK\$'000
At 1 January 2002	300,000,000	30,000
Share placing (<i>note a</i>)	20,000,000	2,000
At 31 December 2002 and 1 January 2003	320,000,000	32,000
Shares issued on exercise of share options (<i>note b</i>)	12,000,000	1,200
At 31 December 2003	332,000,000	33,200

Notes:

- (a) On 13 September 2002, the Company issued 20,000,000 new shares of HK\$0.10 each at a price of HK\$1.83 per share for a total cash consideration, before expenses, of HK\$36,600,000.
- (b) On 8 January 2003, 12,000,000 share options were exercised and the Company issued 12,000,000 new shares of HK\$0.10 each at a price of HK\$0.74 per share for a total cash consideration, before expenses, of HK\$8,880,000.

Details of the Company's share option scheme are included in note 31 to the financial statements.

Notes to Financial Statements

31 December 2003

31. SHARE OPTION SCHEME

(a) *The Existing Scheme*

The Company adopted a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September 2000. On 26 April 2002, the Existing Scheme was terminated and replaced by a new share option scheme, as detailed below under the heading "The New Scheme". Upon the termination of the Existing Scheme, no further share options will be granted pursuant to the Existing Scheme, however the Existing Scheme will, in all other respects, remain in force to the extent necessary to give effect to the exercise of the outstanding share options previously granted pursuant thereto. The outstanding share options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries. The directors of the Company are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares of the Company (the "Shares"). Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing from 19 September 2000.

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the Shares in issue for a period of 10 consecutive years. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 10% of the Shares in issue at any time. No option may be granted to any eligible participants which, if exercised in full, would result in such eligible participants becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, which may commence from the date immediately following the date of grant and ending on such date as the directors of the Company may determine, but in any event not exceeding 10 years from the date of grant of such share options.

Notes to Financial Statements

31 December 2003

31. SHARE OPTION SCHEME (Cont'd)

(a) The Existing Scheme (Cont'd)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options as stated in the daily quotation sheet of the Stock Exchange; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer as stated in the daily quotation sheet of the Stock Exchange.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Existing Scheme during the year:

Name or category of participant	Number of share options						At 31 December 2003 HK\$	Date of grant of share options**	Exercise period of share options HK\$	Price of the Company's shares ****		
	At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Reclassi- fication*				Exercise price per share option*** HK\$	At grant date of options	At exercise date of options
Directors												
Mr. Tse Ping	7,500,000	-	3,000,000	-	-	-	4,500,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
Mr. Ling Peixue*	1,000,000	-	400,000	-	-	(600,000)	-	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
Mr. Tao Huiqi	1,000,000	-	400,000	-	-	-	600,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
Mr. Wang Jinyu	1,000,000	-	400,000	-	-	-	600,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
	10,500,000	-	4,200,000	-	-	(600,000)	5,700,000					
Other employees												
In aggregate	19,500,000	-	7,800,000	-	-	600,000	12,300,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	1.72
	30,000,000	-	12,000,000	-	-	-	18,000,000					

Notes to Financial Statements

31 December 2003

31. SHARE OPTION SCHEME (Cont'd)

(a) The Existing Scheme (Cont'd)

- * *Mr. Ling Peixue resigned as an executive director of the Company on 23 April 2003. As he remained as senior management of the Group, his interests in the Existing Scheme has been reclassified under the caption of "Other employees".*
- ** *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*
- *** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*
- **** *The price of the Company's shares disclosed as at the date of the share options is the Stock Exchange closing price on the date of grant of the options and the exercise date of the options.*

The 12,000,000 share options exercised during the year resulted in the issue of 12,000,000 ordinary shares of the Company and the new share capital of HK\$1,200,000 and share premium of HK\$7,680,000 (before issue expense), as detailed in note 30 to the financial statements.

At the balance sheet date, the Company had 18,000,000 share options outstanding under the Existing Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 18,000,000 additional ordinary shares of the Company and additional share capital of HK\$1,800,000 and share premium of HK\$11,520,000 (before issue expenses).

(b) The New Scheme

Following the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001, no share option may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new share option scheme (the "New Scheme") was adopted by the Company on 26 April 2002 and at the same time the Existing Scheme was terminated. The New Scheme remains in force for ten years commencing from 26 April, 2002. On approval by the Stock Exchange for listing of the Company's shares on the main board, the Company adopted a share option scheme (the "Scheme") and terminated the New Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 24 November 2003. No share options were granted under the New Scheme since 26 April 2002.

Notes to Financial Statements

31 December 2003

31. SHARE OPTION SCHEME (Cont'd)

(c) *The Scheme*

The Scheme became effective on 8 December 2003 upon the listing of the Company's shares on the Main Board. Unless otherwise cancelled or amended, the Scheme remains in force for 10 years from that date.

The purpose of the Scheme is to enable the directors of the Company to grant share options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group. Under the Scheme, the eligibility of the participants for the grant of any options shall be determined by the directors of the Company from time to time on the basis of their contribution or potential contribution to the development and growth of the Group and the directors may at their discretion, invite any person belonging to any of the following classes of participants to take up options for the Shares:

- (i) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Group or any controlling shareholder ("Controlling Shareholder" as defined under rules of the share option scheme adopted by the shareholders of the Company at an extraordinary general meeting on 24 November 2003) or any company controlled by a Controlling Shareholder ("Controlling Shareholder's Company");
- (ii) any individual for the time being selected to work for any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (iii) any holder of any securities issued by any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (iv) any business or joint venture partner, contractor, agent or representative of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (v) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services incidental to the business of the Company and/or its subsidiaries to any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

Notes to Financial Statements

31 December 2003

31. SHARE OPTION SCHEME (Cont'd)

(c) *The Scheme (Cont'd)*

- (vi) any investor, vendor, supplier, producer, developer, agent, licensor service provider of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (vii) any customer, licensee (including any sub-licensee), wholesaler, retailer, trader or distributor of goods or services of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (viii) any landlord or tenant (including sub-tenant) of any member of the Group, or any Controlling Shareholder or any Controlling Shareholder's Company; and
- (ix) any company controlled by one or more persons belonging to any of the above classes of participants.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding options, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Notes to Financial Statements

31 December 2003

31. SHARE OPTION SCHEME (Cont'd)

(c) *The Scheme (Cont'd)*

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. A share option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined on the date of offer of grant of share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the Scheme for the holding of a share option before it can be exercised.

The exercise price of the Shares under the Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No option has been granted under the Scheme during the year.

Notes to Financial Statements

31 December 2003

32. RESERVES

Group

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Leasehold properties revaluation reserve HK\$'000	Statutory reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002		55,973	52,605	21,687	2,546	3,412	498	47,818	184,539
Issue of shares	30	34,600	-	-	-	-	-	-	34,600
Share issue expenses		(535)	-	-	-	-	-	-	(535)
Interim dividend for 2002	12	-	-	-	-	-	-	(15,000)	(15,000)
Net profit for the year		-	-	-	-	-	-	57,369	57,369
Transfer from retained profits		-	-	-	-	8,418	-	(8,418)	-
Transfer from statutory reserve fund		-	-	7,256	-	(7,256)	-	-	-
Proposed final dividend 2002	12	-	-	-	-	-	-	(29,880)	(29,880)
Exchange realignment		-	-	(19)	-	(9)	(137)	-	(165)
At 31 December 2002 and 1 January 2003		90,038	52,605	28,924	2,546	4,565	361	51,889	230,928
Issue of shares	30	7,680	-	-	-	-	-	-	7,680
Interim dividend for 2003	12	-	-	-	-	-	-	(16,600)	(16,600)
Net profit for the year		-	-	-	-	-	-	81,615	81,615
Transfer from retained profits		-	-	-	-	16,339	-	(16,339)	-
Proposed final dividend 2003	12	-	-	-	-	-	-	(33,200)	(33,200)
Surplus on revaluation of leasehold properties	14	-	-	-	4,555	-	-	-	4,555
Exchange realignment		-	-	-	-	(51)	(1,341)	-	(1,392)
At 31 December 2003		97,718	52,605	28,924	7,101	20,853	(980)	67,365	273,586
Reserves retained by:									
Company and subsidiaries		97,718	52,605	28,924	7,101	20,853	(980)	60,923	267,144
A jointly-controlled entity		-	-	-	-	-	-	6,442	6,442
At 31 December 2003		97,718	52,605	28,924	7,101	20,853	(980)	67,365	273,586
Company and subsidiaries		90,038	52,605	28,924	2,546	4,565	361	51,889	230,928
At 31 December 2002		90,038	52,605	28,924	2,546	4,565	361	51,889	230,928

Notes to Financial Statements

31 December 2003

32. RESERVES (Cont'd)

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September 2000, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the PRC on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's PRC joint ventures, profits of the Group's PRC joint ventures as determined in accordance with the accounting rules and regulations in the PRC are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, enterprise expansion fund and staff welfare and bonus fund. According to the articles of association of the respective PRC joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective PRC joint ventures. The appropriation to staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective PRC joint ventures and has been reclassified as expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the PRC joint ventures.

Notes to Financial Statements

31 December 2003

32. RESERVES (Cont'd)

Company		Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
	Notes				
At 1 January 2002		55,973	107,299	(26,906)	136,366
Issue of shares	30	34,600	–	–	34,600
Share issue expenses		(535)	–	–	(535)
Interim dividend for 2002	12	–	–	(15,000)	(15,000)
Net profit for the year		–	–	32,034	32,034
Proposed final 2002 dividend	12	–	–	(29,880)	(29,880)
At 31 December 2002 and 1 January 2003		90,038	107,299	(39,752)	157,585
Issue of shares	30	7,680	–	–	7,680
Interim dividend for 2003	12	–	–	(16,600)	(16,600)
Net profit for the year		–	–	10,573	10,573
Proposed final 2003 dividend	12	–	–	(33,200)	(33,200)
At 31 December 2003		97,718	107,299	(78,979)	126,038

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation as set out in the Company's prospectus dated 22 September 2000, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account may be distributed to shareholders under certain circumstances.

Notes to Financial Statements

31 December 2003

33. CONVERTIBLE BONDS

On 14 August 2002, the Company entered into subscription agreements (the "Subscription Agreements") with Jian Kang Ltd. ("Jian Kang") and Super Demand Investments Limited ("Super Demand"), respectively. Pursuant to the Subscription Agreements, the Company agreed to issue to Jian Kang (the "2002 Convertible Bond") and Super Demand (the "2003 Convertible Bond") convertible bonds for principal amount of US\$6,000,000 (equivalent to approximately HK\$46,800,000) and US\$4,000,000 (equivalent to approximately HK\$31,200,000), respectively.

The 2002 Convertible Bond was issued for gross cash proceeds of approximately HK\$46,800,000 on 22 October 2002 and bears interest at 1% per annum which is payable every three months in arrears. The 2002 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2002 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2002 Convertible Bond (both dates inclusive) at an initial conversion price of HK\$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 16,421,053 new shares would be issued upon the full conversion of the 2002 Convertible Bond.

On 30 December 2002, the Company and Super Demand agreed to defer the issuance of the 2003 Convertible Bond to 31 March 2003 or such other date as both parties agree in writing. The 2003 Convertible Bond was issued for gross cash proceeds of approximately HK\$31,200,000 on 31 March 2003, and bears interest at 1% per annum which is payable every three months in arrears. The 2003 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2003 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2003 Convertible Bond (both dates inclusive) at an initial conversion price of HK\$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 10,947,368 new shares would be issued upon the full conversion of the 2003 Convertible Bond.

Notes to Financial Statements

31 December 2003

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, a joint venture partner contributed a technical know-how in the amount of HK\$2,119,000 into a subsidiary as capital contribution.

In the prior year, the registered capital of CTF was increased from Rmb28,000,000 to Rmb42,000,000. The increase in the registered capital was satisfied by the capitalisation of the general reserve fund and enterprise expansion fund for an aggregate amount of Rmb14,000,000, equivalent to approximately HK\$13,192,727.

35. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

Notes to Financial Statements

31 December 2003

36. COMMITMENTS

At the balance sheet dates, the Group had the following commitments:

(a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted, but not provided for the acquisition of:		
– fixed assets	25,583	9,929
– product technology	3,054	4,156
	28,637	14,085
Authorised, but not contracted for the acquisition of:		
– fixed assets	35,545	7,293

In addition, the Group's share of the jointly-controlled entity's own capital commitments, which are not included in the above, were as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted, but not provided for the acquisition of:		
– fixed assets	19,233	–

The Company did not have any capital commitments at the balance sheet dates.

Notes to Financial Statements

31 December 2003

36. COMMITMENTS (Cont'd)

(b) Commitments under operating leases

As at 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	2,862	2,559	832	725
In the second to fifth years, inclusive	4,089	4,153	55	275
After five years	24,037	21,888	–	–
	30,988	28,600	887	1,000

The Group's operating leases for land and buildings are entered into for terms from one to fifty years.

37. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	2003 HK\$'000	2002 HK\$'000
Sales of products to:		
– a Chinese joint venture partner of a subsidiary (<i>note a</i>)	3,632	2,147
– a related party with a common shareholder of a subsidiary (<i>note a</i>)	445	–

Notes to Financial Statements

31 December 2003

37. RELATED PARTY TRANSACTIONS (Cont'd)

	2003 HK\$'000	2002 HK\$'000
Purchases of raw materials from a related party with a common shareholder of a subsidiary (note b)	15,056	12,880
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary (note b)	1,834	1,289
– a company indirectly owned by a director (note b)	317	–
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note c)	4,340	4,525
– a Chinese joint venture partner of a subsidiary (note c)	561	562
– a company beneficially owned by a director (note c)	660	660
Research and development expenses to a fellow subsidiary of a subsidiary's Chinese joint venture partner (note d)	6,406	3,978

Notes:

- (a) Sales of products to the Chinese joint venture partner of the subsidiary and a related party with a common shareholder of a subsidiary were conducted with reference to the market prices.
- (b) Purchases of raw materials were conducted with reference to the market prices.
- (c) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.
- (d) Research and development expenses were based on the terms of the agreements entered into with the related party.

Notes to Financial Statements

31 December 2003

38. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 18 March 2004, the Company announced a proposal for the subdivision of every issued and unissued shares of HK\$0.10 each into four shares of HK\$0.025 each. The proposed subdivision is conditional upon fulfillment of various conditions, including the approval by the shareholders. The respective subscription price of the share options and convertible bonds will be adjusted in accordance with the relevant instruments. Details of the proposed subdivision are set out in the Company's press announcement.

In addition, the directors of the Company proposed a final dividend of HK\$0.10 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 12 and 32).

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items in the notes to the financial statements have been revised to comply with the new requirements to conform with the current year's presentation. In addition, as explained in note 4 to the financial statements, disclosure on segment information has been revised to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2004.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Sino Biopharmaceutical Limited (the "Company") will be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 27 April, 2004 at 2:00 p.m. for the following purposes:

1. To receive, consider and adopt the audited consolidated financial statements of the Company and the reports of the Directors and the auditors of the Company for the year ended 31 December, 2003;
2. To approve the payment of a final dividend for the year ended 31 December, 2003;
3. To re-elect the Directors and to authorize the Board of Directors to fix the remuneration of the Directors of the Company; and
4. To re-appoint the auditors of the Company and to authorize the Board of Directors to fix the remuneration of the auditors of the Company.

By Order of the Board
Yu Chau Ling
Company Secretary

Hong Kong, 23 March, 2004

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Unit 09, 41st Floor, Office Tower Convention Plaza, 1 Harbour Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. The register of members of the Company will be closed from Friday, 23 April, 2004 to Tuesday, 27 April, 2004 (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 22 April, 2004 for registration.



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

(the "Company")

Form of Proxy for use at the Annual General Meeting (or any adjournment thereof)

I/We ^(Note 1) _____
of _____
being the registered holders(s) of _____ shares^(Note 2) of
HK\$0.10 each in the share capital of the Company (the "Shares") HEREBY APPOINT^(Note 3) _____ of

or failing him, the chairman of the meeting as my/our proxy/proxies to attend and vote and act for me/us and on my/our behalf at the Annual General Meeting (or at any adjournment thereof) of the Company to be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 27 April, 2004 at 2:00 p.m. for the purpose of considering and, if thought fit, passing the ordinary resolutions set out in the notice convening such meeting and at such meeting (or at any adjournment thereof) to vote for me/us in my/our name(s) in respect of the said resolutions as hereunder indicated or, if no such indication is given, as my/our proxy thinks fit.

RESOLUTIONS	FOR ^(Note 4)	AGAINST ^(Note 4)
1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December, 2003.		
2. To approve the payment of a final dividend for the year ended 31 December, 2003.		
3. (a) To re-elect Ms. Zheng Qun, Grace as a Director of the Company.		
(b) To authorise the Board of Directors to fix their remuneration.		
4. To re-appoint Messrs. Ernst & Young as the Company's auditors and to authorise the Board of Directors to fix their remuneration.		

Dated this _____ day of _____ 2004.

Signed ^(Note 2) _____

Notes:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of Shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the Shares registered in your name(s).
3. Please insert the name and address of the proxy desired. IF NO NAME IS INSERTED. THE CHAIRMAN OF THE MEETING WILL ACT TO YOUR PROXY. The proxy need not be a member of the Company but must attend the meeting in person to represent you. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
4. IMPORTANT: IF YOU WISH TO VOTE FOR ANY RESOLUTIONS, PUT A TICK IN THE APPROPRIATE BOXES MARKED "FOR". IF YOU WISH TO VOTE AGAINST ANY RESOLUTIONS, PUT A TICK IN THE APPROPRIATE BOXES MARKED "AGAINST". Failure to do so will entitle your proxy to cast his votes at his discretion. Your proxy will also be entitled to vote at his discretion on any amendment to the resolutions referred to in the notice convening the meeting and on any resolutions which have been properly put to the meeting other than those referred to in the notice convening the meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be signed under the hand of an officer duly authorised on that behalf together with a company chop.
6. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s), and for this purpose, seniority will be determined by the order in which the names stand in the register of members.
7. To be valid, this form of proxy, together with any power of attorney of other authority (if any under which is signed, or a notarially certified copy or such power of authority must be deposited at the principal office of the Company at Unit 09, 41st Floor, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be).
8. Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.