



上海復旦張江生物醫藥股份有限公司
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(STOCK CODE: 8231)

**Annual Results Announcement
For the Year ended 31 December 2003**

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This announcement, for which the directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: -1. the information contained in this announcement is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

** For identification only*

AUDITED RESULTS

The Board of Directors (the “Board”) of 上海復旦張江生物醫藥股份有限公司 (Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.) (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2003 as follows:

		Year ended 31 December	
	<i>Notes</i>	2003	2002
		<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenues			
Turnover		8,131	22,518
Other revenue		<u>2,394</u>	<u>718</u>
Total revenues	3	10,525	23,236
Costs and expenses			
Cost of sales		(6,155)	(9,828)
Research and development costs		(17,970)	(10,095)
Distribution costs		(2,074)	(1,679)
Administrative expenses		(9,261)	(6,916)
Other operating expenses		<u>(656)</u>	<u>(822)</u>
Total costs and expenses		(36,116)	(29,340)
Other income		<u>5,385</u>	<u>6,808</u>
Operating (loss)/profit	4	(20,206)	704
Share of results of associate before taxation		<u>(1,381)</u>	<u>—</u>
(Loss)/profit before taxation		(21,587)	704
Taxation	5	<u>2,802</u>	<u>(255)</u>
(Loss)/profit after taxation		(18,785)	449
Minority interests		<u>438</u>	<u>358</u>
(Loss)/profit attributable to shareholders		<u>(18,347)</u>	<u>807</u>
Dividends	6	<u>—</u>	<u>—</u>
(Loss)/earnings per share (RMB)	7	<u>(0.0258)</u>	<u>0.0013</u>

1. BACKGROUND INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Company”) was established in the People’s Republic of China (“PRC”) on 11 November 1996 as a limited liability company with an initial registered capital of RMB5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000, and 12 September 2000 from the existing or the then existing shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB5,295,000 to RMB53,000,000.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability.

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB1.00 each, were subdivided into 530,000,000 ordinary shares with a par value of RMB0.10 each.

On 13 August 2002, the Company commenced the trading of the newly issued 198,000,000 overseas listed foreign invested shares (“H shares”) of RMB0.10 each on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the registered capital of the Company was increased to RMB71,000,000.

As of the date of this report, the Company has direct interests of 68.75% and 65% in two subsidiaries, Shanghai Morgan-Tan International Center for Life Sciences, Co., Ltd. (“Morgan-Tan”) and Shanghai Ba Dian Medicine Co., Ltd. (“Ba Dian”), respectively.

The Group is principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and sales of diagnostic reagents and the provision of related ancillary services in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of consolidated financial statements of the Group and financial statements of the Company are conform with the International Financial Reporting Standards (“IFRS”). The consolidated results and consolidated net assets of the Group and the net assets of the Company are prepared under the historical cost convention, except that the available-for-sale investments are shown at fair value.

The consolidated financial statements include the financial statements of the Company and its subsidiaries. A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3. REVENUES AND TURNOVER

The Group is principally engaged in research, development and sales of self-developed bio-pharmaceutical know-how, carrying out contracted research for customers, manufacturing and sales of diagnostic reagent and the provision of related ancillary services in the PRC. Revenues recognised during the year are as follows:

	2003 (RMB'000)	2002 (RMB'000)
Turnover		
Technology transfer revenue	—	14,560
Sales of diagnostic reagent and the provision of related ancillary services	<u>8,131</u>	<u>7,958</u>
	<u>8,131</u>	<u>22,518</u>
Other revenue		
Interest income	<u>2,394</u>	<u>718</u>
	<u>10,525</u>	<u>23,236</u>

On 25 March 2002, the Company signed a technology transfer contract with Shandong Dong-E E-jiao Co., Ltd. for a total consideration of RMB15,000,000. Revenue was recognised when the Company had completed respective milestones of the transfer as specified in the contract and the economic benefits associated with the completion had flowed to the Company. Pursuant to the contract, the Company is entitled to receive royalty payments from Shandong Dong-E E-jiao Co., Ltd. equal to a percentage ranging from 2% to 5% of the future gross annual sales from the technology transferred over the new drug protection period stipulated by the State Food and Drug Administration of the PRC (“SFDA”), or a period of five years if such protection period is cancelled.

On 5 December 2002, the Company entered into an agreement with Lead Discovery Limited Company (“Lead Discovery” 上海先導藥業有限公司), an associate company of the Company, to transfer its PPAR γ activator at a price of RMB6,000,000. The transfer was completed by 31 December 2002. According to Standing Interpretations Committee (SIC)-3, Elimination of Unrealised Profits and Losses on Transactions with Associates issued by the International Accounting Standards Board, the unrealised profit from the transfer has been eliminated to the extent of the Group’s interest in Lead Discovery.

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is arrived at after (crediting)/charging the following items:

	2003 (RMB'000)	2002 (RMB'000)
Amortisation of leasehold land payments	108	21
Amortisation of deferred development costs	556	556
Amortisation of technical know-how	1,656	323
Auditors' remuneration	908	736
Provision for bad debts	6	827
Cost of inventories sold	5,599	5,587
Depreciation of fixed assets	3,396	2,172
Less: amount capitalised in deferred development costs	(503)	(491)
	2,893	1,681
Loss on disposal of fixed assets	46	315
Operating lease rentals in respect of land and buildings	56	202
Research and development expenditure (note (a))	17,970	10,095
Unrealised profit on available-for-sale investments	(363)	(98)
Realised (profit)/loss on disposal of available-for-sale investments	(319)	616
Provision for inventories obsolescence	74	—

(a): Research and development expenditure mainly represent the salary costs of technical staff involved and the consumables used in the research and development activities which did not satisfy the criteria for capitalisation as an asset.

5. TAXATION

	2003 (RMB'000)	2002 (RMB'000)
Current taxation	—	438
Deferred tax credit	2,802	(183)
Share of tax of an associate company	—	—
	<u>(2,802)</u>	<u>255</u>

The Company is subject to the Income Tax Law of the PRC and the normal income tax rate applicable is 33%. As the Company is recognised as a New and High Technology Enterprise and is operating and registered in the State Level New and High Technology Development Zone, it is entitled to a reduced Income Tax rate of 15%. Accordingly, the Company is subject to Income Tax at a rate of 15%.

The subsidiaries and an associate company are subject to the Income Tax Law of the PRC and the income tax rate applicable is 33%.

The tax on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the tax rate in the PRC applicable to the Group as follows:

	2003 (RMB'000)	2002 (RMB'000)
(Loss)/profit before taxation	(21,587)	<u>704</u>
Tax calculated at a tax rate of 15%	(3,238)	106
Effect of different tax rate in the subsidiaries and an associate company	(441)	(172)
Unrecognised tax losses of subsidiaries and an associate company	1,175	315
Utilisation of previously unrecognised tax losses of a subsidiary	(366)	—
Expenses not deductible for tax purpose	<u>68</u>	<u>6</u>
Tax charge	<u>(2,802)</u>	<u>255</u>

6. DIVIDENDS

At the meeting on 25 March 2004, the Board of Directors has recommended not to distribute any dividend in respect of the year ended 31 December 2003.

At the Annual General Meeting dated 20 June 2003, it was resolved not to distribute any dividends in respect of the year ended 31 December 2002.

7. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, taking into account of the subdivision of the Company's shares from 53,000,000 ordinary shares to 530,000,000 ordinary shares on 20 January 2002.

	2003 (RMB'000)	2002 (RMB'000)
(Loss)/profit attributable to shareholders	(18,347)	807
Weighted average number of ordinary shares in issue (thousands)	710,000	599,534
Basic (loss)/earnings per share (RMB)	<u>(0.0258)</u>	<u>0.0013</u>

Diluted (loss)/earnings per share has not been calculated for the years ended 31 December 2003 and 31 December 2002 as there were no dilutive potential ordinary shares during the years then ended.

8. RESERVES

	Capital accumulation reserve (RMB'000)	Statutory common reserve fund (RMB'000)	Statutory common welfare fund (RMB'000)	Retained earnings/ (Accumulated losses) (RMB'000)	Total (RMB'000)
At 1 January 2002	5	1,675	1,103	11,248	14,031
Issuance of ordinary shares	134,755	—	—	—	134,755
Share issuance expenses	(19,746)	—	—	—	(19,746)
Dividend paid in respect of 2001	—	—	—	(7,950)	(7,950)
Profit for the year	—	—	—	807	807
Appropriation to statutory reserves	—	34	17	(51)	—
At 31 December 2002	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>4,054</u>	<u>121,897</u>
Loss for the year	—	—	—	(18,347)	(18,347)
At 31 December 2003	<u>115,014</u>	<u>1,709</u>	<u>1,120</u>	<u>(14,293)</u>	<u>103,550</u>

- (a) The balance in the capital accumulation reserve represents share premium arising from the issue of shares at a price in excess of their par value. Expenses related to the issue of shares are accounted for as a deduction of the capital accumulation reserve.
- (b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may transform its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.
- (c) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

- (d) In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting regulations and that reported in accordance with IFRS. According to the statutory financial statements prepared in accordance with the PRC accounting regulations and the financial statements prepared in accordance with IFRS, there was no distributable reserve as of 31 December 2003 (2002: RMB3,232,000).

MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL REVIEW

The following discussion and analysis of the Group's financial condition and results of operation should be read in conjunction with the consolidated financial statements and the related notes to the consolidated financial statements.

TURNOVER

The Group's consolidated turnover for the year ended 31 December 2003 amounted to RMB8,131,000, compared to RMB22,518,000 for the previous year. During the year under review, the Group's turnover was derived entirely from the sales of diagnostic reagents and the provision of related ancillary services.

TECHNOLOGY TRANSFER REVENUE

For the year ended 31 December 2003, there was no sales revenue from technology transfer, compared to that of RMB14,560,000 from technology transfer for the previous year.

On 25 March 2002, the Company signed a technology transfer contract with Shangdong Dong-E E-Jiao Co., Ltd. for a total consideration of RMB15,000,000. In 2002, RMB10,000,000 was recognized as revenue after the Company completed respective milestones of the transfer as specified in the contract and the economic benefits associated with the completion had flowed to the Company. The balance of RMB5,000,000 will be paid to the Company by two stages, namely RMB2,000,000 and RMB3,000,000 upon obtaining the new drug certificate and manufacturing permit, respectively. Pursuant to the technology transfer contract, the Company is entitled to receive royalty payments from Shangdong Dong-E E-jiao Co., Ltd. equal to percentage ranging from 2% to 5% of the future gross annual sales from the technology transferred over the new drug protection period stipulated by the SFDA, or a period of five years if such protection period is cancelled. Currently, this project is still at the stage of clinical trial, which is expected to be completed in 2004. Therefore, no sales revenue was recognized from this project for the year ended 2003.

In September 2003, Morgan-Tan (上海摩根談國際生命科學中心有限公司), a subsidiary of the Group in which the Company has a controlling interest, entered into an agreement to transfer the technology of Mycophenolate Mofetil (微酚酸酯) to Lin Yi Xin Shi Dai Pharmaceutical Company Limited (臨沂新時代藥業有限公司) for RMB5,000,000. As it would take some time for steps of the transfer to be completed, and although a certain amount of the consideration has been received, no technology transfer revenue was recognized in 2003.

The decrease in the technology transfer revenue is mainly due to the change of the Group's strategy on R&D activities. The Directors believe that it would be more profitable for the Group to transfer the technology of its research projects at a later stage (in particular, after approvals to enter into clinical trial have been granted by SFDA) than to seek any upfront return. In addition, the long-term strategy of the Group is to focus on R&D and commercialization of its proprietary new drugs. Therefore, although technology transfer would still remain as one of the Group's alternatives to realize short term profits and maintain cash flow position, the Group will focus more on commercialization of its proprietary research projects to seek long term business success.

SALES OF DIAGNOSTIC REAGENTS AND THE PROVISION OF RELATED ANCILLARY SERVICES

Despite tough market competition, the sales revenue of diagnostic reagents and the provision of related ancillary services for the year ended 31 December 2003 has increased by 2% to RMB8,131,000 from RMB7,958,000 for the previous year.

COSTS AND EXPENSES

The total costs and expenses of the Group for the year ended 31 December 2003 were RMB36,116,000, compared with RMB 29,340,000 for 2002. The increase in total costs and expenses is mainly attributed to the increased resources devoted by the Group to research and development activities. The R&D expenses have increased by 78% to RMB17,970,000 for the year ended 2003 from RMB10,095,000 for the year ended 31 December 2002. On the other hand, the Group's cost of sales has dropped substantially by 37% from RMB9,828,000 for the year ended 31 December 2002 to RMB6,155,000 for the year ended 31 December 2003.

(LOSS) / PROFIT ATTRIBUTABLE TO SHAREHOLDERS

A loss attributable to shareholders of RMB18,347,000 was recorded for the year ended 31 December 2003, compared with profit of RMB807,000 for the previous year. The decrease was mainly due to there being no revenue from technology transfer for the year and the increase of R&D expenses as mentioned above. However, the Directors believe that with the commercialization of the Group's self-developed bio-pharmaceutical new drugs and other R&D projects in progress, the Group's revenue and operating results will grow substantially.

IMPAIRMENT OF ASSETS

After the assessment of the fair value of the Group's fixed assets, technical know-how, deferred development costs and other non-current assets, no significant impairment of these assets has been noted as at 31 December 2003.

SIGNIFICANT INVESTMENTS

For the year ended 2003, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 4 June 2003, Ba Dian. (上海靶點藥物有限公司) was established with a registered capital of RMB15,000,000. It is a joint venture established by the Company with, among others, The Shanghai Life Science Research Institute of The Chinese Academy of Science (中科院上海生命科學研究院), and The Shanghai Organic Chemistry Research Institute of The Chinese Academy of Science (中科院上海有機化學研究所). The Company holds 65% of the equity interest.

In October 2003, the Company acquired the entire equity interest held by Mr. Tan Jia Zhen (談家楨先生) in Morgan-Tan for RMB500,000. After the acquisition, the interest held by the Company in Morgan-Tan increased from 62.5% to 68.75%.

Save as above, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the year.

CONTINGENT LIABILITIES

As at 31 December 2003, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2003, the Group did not have any charge on its assets.

BANKING FACILITIES

As at 31 December 2003, the Group had not applied for any banking facilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group entered into a contract for land resumption on 25 February 2004 for the purchase of a 15-hectare land at a site next to the Company for its new production facilities. The total cost for acquisition of the land use rights would be about RMB7,000,000.

Save as above, the Group did not have any future plans for material investments or capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated financial resources, proceeds from the placing of H shares in August 2002 by the Company and loans from municipal government authorities. As at 31 December 2003, the Group had outstanding loans from municipal government authorities of RMB1,650,000 which are unsecured, interest free and repayable within one year.

As at 31 December 2003, the Group had a net cash and cash equivalent position of approximately RMB65,673,000.

The Group's gearing ratio at 31 December 2003 was 0.08 (31 December 2002: 0.11) which is calculated based on the Group's total liabilities of RMB 14,521,000 (31 December 2002: RMB22,140,000) and shareholders' funds of RMB174,550,000 (31 December 2002: RMB192,897,000).

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and to minimize the finance cost, the Group's treasury activities are centralized. The Group's liquidity and financing arrangements are reviewed regularly.

FOREIGN EXCHANGE EXPOSURE

The Group operates mainly in the domestic market. Cash proceeds from the placing of H shares in August 2002 were in HK dollars and part of which has

not been converted to RMB. The official exchange rate for HK dollar and RMB is usually stable; however, the operating results and the financial position of the Group may be affected by the movements of the exchange rates.

On the other hand, the conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

EMPLOYEES

As at 31 December 2003, the Group had a total of 124 employees, as compared to 106 employees as at 31 December 2002. Staff costs including directors' remuneration for the year ended 31 December 2003 and 2002 were RMB 11,570,000 and RMB8,355,000, respectively. The Group's employment and remuneration policies remained unchanged from what were described in the Prospectus of the Company. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory compulsory welfare plans, are also provided to employees.

BUSINESS REVIEW

Committed to the principle: "The harder we work, the healthier human beings will be", the Group aims to become a pioneer in the bio-pharmaceutical industry by focusing on R&D of genetic engineering, new drugs screening, and the commercialization of patent drugs and special drugs that suit the PRC market.

To promote its development, the Group established Ba Dian on 4 June 2003 with a registered capital of RMB15,000,000. Ba Dian is a company established by the Company with, among others, The Shanghai Life Science Research Institute of The Chinese Academy of Sciences (中科院上海生命科學研究院), and The Shanghai Organic Chemistry Research Institute of The Chinese Academy of Sciences (中科院上海有機化學研究所), with the Company holding a 65% equity interest. The business area of Ba Dian covers drug design, including drug particle design and design based on GPCR (G蛋白偶聯受體), and screening platform technology, a technology for the screening of lead chemical compound. In addition, it also conducts R&D on innovative drugs with proprietary intellectual property and "me-too" drugs that combine imitation and innovation. The Directors believe that the establishment of Ba Dian will further enhance the Group's R&D capabilities, and effectively pushing forward the overall progress of the Group in the research and commercialization of new drugs.

The Group's core technology is the development of innovative drugs. The Group places a lot of emphasis on the legal protection of its proprietary technology and patent technology. During the year, the Company has applied for a total of five patents, one patent transfer, and has registered five patents. In addition, Ba Dian (a company in which the Group has a controlling interest) and Lead Discovery (上海先導藥業有限公司, an associated company of the Group) have applied for registration of one invention patent and six patents, respectively. Up to the end of 2003, the Company had made a total of 113 patent applications, of which 25 were invention patents, 2 were new registered practical patents and 86 were appearance design patents. Among the 93 patents of the Group for which registration has been approved, 6 of them are invention patents, 1 of them is newly registered practical patents and 86 of them are appearance design patents. To facilitate the promotion of the Group's diagnostic reagent products, the Group has applied for registration of the appearance design of such products. This will prevent copyright infringement and protect the reputation and image of the Group and hence, enhancing its competitiveness.

Since its establishment, the principal development direction of the Group is to strengthen its independent research capabilities in the development of new drugs in compliance with the State's policies on the industry and the Group has received generous support from the State. The Group has won grants from a number of reputable foundations as well as medical and pharmaceutical institutions at the provincial and State levels in the PRC. During the year under review, the following projects of the Company, namely, the "Research on New Generation Lymphotoxin", "Pre-clinical Trial on Recombinant Human Interleukin-1 Receptor Antagonist" and "Pre-clinical Trial on Hemporfin for the Treatment of New Blood Vessels in Choroidea", received various grants totalling at RMB3,090,000. A research project of Ba Dian, the "New Drug Development of CCR5 for HIV Treatment", has obtained a grant of RMB 1,000,000 as a Major Technological Topic from the Shanghai Science and Technology Committee. Projects of Lead Discovery, namely, the "Findings in PPAR Receptor Activator" and "Innovative Technology Platform for Chinese Medicine and Natural Products", have received a total grant of RMB 2,310,000. These grants witnessed the achievements of the Group in research and development.

The Group's various R&D projects have progressed smoothly. Due to adjustment in focus on R&D and changes made by the SFDA on the procedures for clinical applications, some projects, however, have experienced delay.

Overall, most of the R&D projects are proceeding as scheduled, with some projects which were not initially included in the prospectus of the Company completed ahead of schedule. The original plans and the actual progress for these projects are as follows:

Project name and description	Anticipated progress of R&D in 2003 as set out in prospectus	Actual progress as at 31 December 2003
Recombinant human lymphotoxin- α derivatives (rhLT) (淋巴毒素- α 衍生物重組體) for the treatment of lung cancer	To conduct stage III clinical test	Stage I clinical test was completed; pending approval by SFDA to enter stage II clinical test
Recombinant human parathyroid hormone derivatives (rhPTH) (甲狀旁腺激素衍生物重組體) for the treatment of osteoporosis	To conduct stage II clinical test	Applied to SFDA for clinical test; clinical test will commence after approval
Construction of GMP factory (興建GMP廠房)	To obtain land use right and commence construction	Construction of GMP factory for reagents of Down's syndrome has been completed. The Company entered into a land resumption contract on 25 February 2004 for the resumption of land use rights of about 15 hectares of land. A GMP factory is intended to be built thereon for the commercialization of successive projects

Project name and description	Anticipated progress of R&D in 2003 as set out in prospectus	Actual progress as at 31 December 2003
Hemporfin, a photodynamic therapy drug (光動力治療藥物海姆泊芬)	To complete Stage I clinical tests	Pre-clinical trial completed; application for clinical tests will be made to SFDA soon
Deuteroporphyrin, a photodynamic therapy drug (光動力治療藥物次卟啉)	To complete Stage I clinical tests	Pre-clinical trial basically completed; application for clinical tests will be made to SFDA during this year
Human leukocyte antigen (HLA) genotyping chips (人白細胞抗原 (HLA) 基因芯片)	To commence Commercialization	Completed preparatory work for the commercialization; entered into sales agreements about 3000 pieces in February 2004
Lymphotoxin mutants (淋巴毒素突變體)	To conduct assessment on the initial biological activity	Completed
New type of erythropoietin (新型血紅素)	To conduct assessment on initial biological activity	Research suspended due to other considerations of the Company
$\alpha 1, 4$ glucosidase inhibitor ($\alpha 1, 4$ 糖苷酶抑制劑)	To conduct assessment on initial biological activity	Completed ahead of schedule; application for clinical tests has been made to SFDA
Others	To set up a multi-structural composite database for drug	Completed (by Lead Discovery)

Project name and description	Anticipated progress of R&D in 2003 as set out in prospectus	Actual progress as at 31 December 2003
Recombinant human interleukin-1 receptor antagonist (重組人白細胞介素-1受體拮抗劑)	Nil	Application for clinical tests has been made to SFDA.
Recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可融性 TNFR75 融合蛋白) for the treatment of arthritis	Nil	Application for clinical tests has been made to SFDA.
ALA(5-氨基酮戊酸鹽), a new photodynamic therapy drug (bulk drug)	Nil	Application for clinical tests has been made to SFDA.
ALA(5-氨基酮戊酸鹽), a new photodynamic therapy drug (formulation)	Nil	Application for clinical tests has been made to SFDA.

USE OF PROCEEDS

During the period from 1 January 2003 to 31 December 2003, the Group has applied the net proceeds as follows:

Item	Anticipated use of the net proceeds as at 31 December 2003 as set out in the prospectus (RMB'000)	Actual amount used as at 31 December 2003 (RMB'000)
Research and commercialization of genetic engineering drugs		
Recombinant human pynphotoxin- α derivatives (rhLT)	26,818	498
Recombinant human parathyroid hormone derivatives (rhPTH)	16,960	1,614
Purchase of production and quality control facilities	25,122	1,158
Research and commercialization of photodynamic therapy drugs		
Hemporfin	5,830	1,629
Deuteroporphyrin	4,770	1,069
Research and commercialization of medical diagnosis products		
HLA genotyping chips	11,660	770
Enhancement of the Company's capabilities in R&D and new drug screening		
	8,480	13,357
Total	99,640	20,095

FUTURE PROSPECTS

With the increasing awareness of the Chinese people towards medical and healthcare products and the growth in economy and increase in the level of consumer consumption, the pharmaceutical industry in the PRC is very promising. The Group will continue to develop or manufacture proprietary innovative drugs and to take more stringent measures to protect its intellectual

property rights, by applying for patent protection of the Company's proprietary technologies and products. Therefore, the Directors are fully confident and optimistic about the prospects on the Group.

In order to maintain its market competitiveness, the Group will devote more efforts to develop and expand its existing market share so as to generate higher return for its shareholders. In future, the Group will continue to focus its resources in research and development, commercialization, project transfers and strategic alliances.

● Research and development

Over the years, the Group has accumulated extensive experience in research and development, and has achieved a leading position in the pharmaceutical industry in the PRC. The Group has formed a very close cooperative relationship with the Life Science Research Institute of the Chinese Academy of Sciences, the Shanghai Organic Chemistry Research Institute of the Chinese Academy of Sciences and the Shanghai Institute of Materia Medica of the Chinese Academy of Sciences, all being reputable domestic institutions. At the same time, the Group also co-operates with other international and domestic R&D institutes. In future, the Group will devote efforts to achieve breakthroughs in R&D of projects with proprietary intellectual property rights.

As for the research in genetic engineering drugs, since R&D of protein engineering and antibody engineering drugs are the major direction of in the area of bio-pharmaceutical research, the Group has shifted its research focus to the R&D of phage high flux screening (噬菌體高通量篩選) and high expression technology (高表達技術) of animal cells, which are essential components for protein engineering (蛋白工程) and antibody engineering (抗體工程). Currently, the Group's research on recombinant human soluble TNFR 75 fusion protein (Etanercept) (重組人可溶性 TNFR75 融合蛋白) for the treatment of arthritis (關節炎), which is based on the above platform, has completed all pre-clinical trials. Application for clinical tests has been made to SFDA.

On the other hand, in respect of the Group's drug design and screening R&D, apart from research based on the existing computer-assisted design, combinatorial chemistry and high throughput screening platform, the Group has further established a new drug screening system targeting at

GPCR (G 蛋白偶聯受體)。At present, progress has been made in the research of blocking agent blocking the AIDs virus from entering the CCR4 and CCR5 receptors. The research is likely to receive support from the State foundation.

Regarding the R&D on photodynamic therapy drug, the Group is conducting R&D on a new proprietary indication for the patent treatment of macular degeneration (眼底黃斑治療) (for which patent application has been made) and research on a new drug precursor by building upon the foundation of the Group's researches on Hemporfin, deuteroporphyrin derivative and ALA (5 - 氨基酮戊酸鹽)。The Group has also jointly developed a photonic treatment device with a U.S. company and a domestic research institute, and is now proceeding with its commercialization.

As for the medical diagnosis sector, based on the antenatal screening system for Down's syndrome developed by the Group, the Group intends to continue the cooperation with the Scientific Research Institute of the State Population and Family Planning Commission of China and to jointly develop a series of screening and diagnosis products for the "Birth defects interference engineering (出生缺陷幹預工程)". The Directors believe that products developed in this area of research will definitely have a competitive edge. At the same time, the Group also intends to develop high-end diagnostic products using the LAMP technology developed by Eiken Chemical Co., Ltd. ("Eiken"), and intends to jointly develop a combined necleic acid testing reagent for AIDS, hepatitis B and hepatitis C with Shanghai City Blood Centre (上海市血液中心)。

In 2003, the Group submitted five applications for clinical tests to SFDA. It is expected that approvals to commence clinical testing will be granted by SFDA one after the other commencing from 2004. By then, the relevant clinical trial will become the focus of the Group's research activities. The Group will continue to recruit professional expertise to conduct clinical research proactively and efficiently.

● Commercialization

The Group's commercialization activities at present are mainly based on medical diagnostic products. It will continue to promote existing diagnosis products so as to further increase its market share. The Group will apply to register its existing diagnosis products pursuant to the standardization requirements of SFDA relating to in vitro diagnostic reagents. Bio-chemical diagnostic reagents which were formerly registered under the

Drug Management Category have to be registered under the Medical Device Management Category. The registration may take some time to complete, but it is expected that registration in respect of some of the products will be completed in 2004. The Group will endeavor to complete registration of those diagnostic products that cannot be completed in 2004. As some of the new diagnostic products will complete registration very soon, the Directors are optimistic about the sales of the Groups diagnostic products.

The registration of the Group's antenatal screening system for Down's Syndrome was delayed by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003. The Company has obtained the production permit and approval for the antenatal screening system. Upon obtaining the GMP certificate from SFDA, sales of this product will commence. This project has become the first product being approved for production and clinical application by SFDA since the commencement of the "Birth defects interference engineering" in China. Potential of such product in the market is huge. The Group plans to establish a solid collaboration relationship with the related entities of the Scientific Research Institute of the State Birth Planning Committee, and actively participate in the regional promotion of the "Birth defects interference engineering". It is anticipated that this project will contribute profit to the Company.

Through years of hard work, the HLA genotyping chip (patent application has been made) of the Group has successfully passed the appraisal by the State Quality Control Laboratory as suitable for application in stem cells banks, cord blood banks and clinical transplants in the PRC. Sales orders for 3,000 products have been received by February 2004. It is anticipated that the project will bring certain amount of revenue to the Company after its launch into the market.

To enhance the Group's competitiveness in medical diagnosis products, the Group will apply the LAMP technology of Eiken to further develop its diagnosis products. Meanwhile, the Group is also considering introducing the products developed from these two technology platforms by applying for their import registration with a view to boosting sales and further expanding the Group's market share in medical diagnosis products into the PRC.

- **Project transfer**

With a number of projects close to obtaining approvals on clinical trial, the value of such projects for transfer and the chance of a successful transfer will increase. With a number of such projects on hand, it is the Group's intention to actively participate in trade fairs for the exchange of technology property rights in China, and to assign designated staff to initiate liaison with various pharmaceutical manufacturers to identify suitable buyers. The Directors anticipate that with the increasing number of projects being approved to commence clinical trial, income from technology transfer will grow in 2004 as compared to 2003. The Group not only aims to derive transfer fee from project transfer but will also insist on entitlement to a royalty fee based on future sales revenue, as a source of steady long-term revenue for the Group. In addition, the projects transferred are concentrated in several transferees, they may form a virtual production base for the Group.

- **Strategic alliance**

Apart from conducting R&D on new drugs by its in-house professional R&D team, the Group will continue to enter into strategic alliances with various reputable international and domestic bio-pharmaceutical enterprises, universities, research institutes and hospitals, in order to combine the expertise, R&D equipment and resources of the various expert parties to assist the Group in strengthening its own R&D capabilities and to enhance its competitiveness.

During June 2003, the Group entered into a Letter of Intent for cooperation with Eiken, and will sign agreements for specific projects with Eiken. The Group is negotiating for the grant of an exclusive licence to use the LAMP technology developed by Eiken, and to develop clinical and non-clinical bio-chemical diagnostic reagents based on the LAMP platform. Furthermore, both parties will soon enter into an agreement for the appointment of the Group as a sales agent of Eiken for the sales of its diagnosis agents in the PRC.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2003, the interests (including interests in shares and short positions) of the Directors, Chief Executive and Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to: Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (“SFO”); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of Domestic shares held	Capacity	Type of interest	Percentage holding in Domestic shares	Percentage of holding in total share capital
Wang Hai Bo	Domestic Shares	51,886,430 (L)	Beneficial owner	Personal	10.13%	7.31%
Su Yong	Domestic Shares	18,312,860 (L)	Beneficial owner	Personal	3.58%	2.58%
Zhao Da Jun	Domestic Shares	15,260,710 (L)	Beneficial owner	Personal	2.98%	2.15%
Fang Jing	Domestic Shares	5,654,600 (L)	Beneficial owner	Personal	1.10%	0.80%

Note: The letter “L” stands for long position.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2003, the persons other than a director, chief executive or supervisor of the Company who have interests or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO are listed as follows (the interests in shares and short positions disclosed herein are in addition to those disclosed in respect of the Directors, Chief Executive and Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Pharmaceutical (Group) Corporation	Domestic Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	27.26%	19.66%
Shanghai Pharmaceutical Co., Ltd.	Domestic Shares	139,578,560 (L)	Beneficial Owner	Corporate	27.26%	19.66%
China General Technology (Group) Holding, Limited	Domestic Shares	130,977,816 (L)	Beneficial Owner	Corporate	25.58%	18.45%
Shanghai Zhangjiang (Group) Co., Ltd.	Domestic Shares	105,915,096 (L)	Interest of controlled corporation	Corporate	20.69%	14.92%
Shanghai Zhangjiang Hi-Tech Park Development Corp.	Domestic Shares	105,915,096 (L)	Beneficial Owner	Corporate	20.69%	14.92%
Fudan University	Domestic Shares	30,636,288 (L)	Beneficial Owner	Corporate	5.98%	4.31%
Shanghai Industrial Investment (Holdings) Co., Ltd.	H Shares	70,564,000 (L)	Interest of controlled corporation	Corporate	35.64%	9.94%
S.I. Pharmaceutical Holdings Ltd.	H Shares	65,856,000 (L)	Beneficial Owner	Corporate	33.26%	9.28%
SIIC Medical Science and Technology (Group) Limited	H Shares	4,708,000 (L)	Beneficial Owner	Corporate	2.38%	0.66%
HSBC International Trustee Limited	H Shares	12,600,000 (L)	Trustee (other than a bare trustee)	Corporate	6.36%	1.78%

DIRECTORS' INTERESTS IN CONTRACTS

No significant contract according to which the Group and the Directors made any material transactions, whether directly or indirectly, was signed as at the end of the financial year 2003 or at any time during that financial year.

COMPETING INTERESTS

Save as disclosed in the following table, none of the Directors, the management shareholders of the Company and their respective associates had any interest in a business which competes or may compete with the businesses of the Group.

Shanghai Pharmaceutical Co., Ltd.

Investee company	Nature of business	Shareholding interests
Shanghai Tongyong Pharmaceutical Co., Ltd. (上海通用藥業股份有限公司)	Drug manufacturing	40%
Jiangxi Nanhua Pharmaceutical Co., Ltd. (江西南華醫藥有限公司)	Drug retailing	51%
Shanghai Pharmaceutical (Sudan) Co., Ltd. (上海制藥(蘇丹)有限公司)	Drug manufacturing	55%
Shanghai Hefeng Pharmaceutical Co., Ltd. (上海禾豐制藥有限公司)	Drug manufacturing	50%
Shanghai No. 9 Pharmaceutical (上海第九制藥廠)	Drug manufacturing	100%
Shanghai Changzheng Jinshan Pharmaceutical Co., Ltd. (上海長征富民金山制藥有限公司)	Drug manufacturing	65%
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達制藥有限公司)	Drug manufacturing	70%
Anhui Huashi Pharmaceutical Co., Ltd. (安徽華氏醫藥有限公司)	Drug manufacturing	67%
Shanghai Huashi Pharmaceutical Co., Ltd. (上海華氏制藥有限公司) (Note 1)	Drug manufacturing	100%
Shanghai Huashi Pharmaceutical Hi-Tech Industrial Development Co., Ltd. (上海華氏醫藥高科技實業發展有限公司)	Drug introduction and R&D of chemical and initiative drugs	100%
Maanshan City Huashi Pharmaceutical Co., Ltd. (馬鞍山市華氏醫藥有限公司)	Drug trading	50%

Investee company	Nature of business	Shareholding interests
Anhui Province Huajinshi Wuhu Pharmaceutical Co., Ltd. (安徽省華金氏蕪湖有限公司)	Drug trading	80%

China General Technology (Group) Holding, Ltd.

Investee company	Nature of business	Shareholding interests
Hainan Tongmeng Pharmaceutical Co., Ltd. (海南同盟藥業有限公司)	Drug manufacturing	49%
Hainan Sanyang Pharmaceutical Co., Ltd. (海南三洋藥業有限公司) (<i>Note 2</i>)	Drug manufacturing	65%
China Pharmaceutical Health Accessories Import and Export Corporation (中國醫藥保健品進出口		

2. Zhang Li Qiang, a non-executive Director and a deputy general manager of China General Industry Company, was nominated and appointed by China General Industry Company to be the chairman of the board of Hainan Sanyang Pharmaceutical Co., Ltd.
3. Fang Jing, a non-executive Director, was nominated and appointed by Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. as the director of the board of Shanghai National Bio-pharmaceutical Base Pharmaceutical Selling Co., Ltd.

SPONSORS' INTERESTS

Pursuant to a sponsors agreement dated 12 August 2002 between the Company, Guotai Junan Capital Limited (“Guotai Junan”) and Barits Securities (Hong Kong) Limited (“Barits”), Guotai Junan and Barits have been appointed as the joint sponsors of the Company pursuant to the GEM Listing Rules for a fee from 13 August 2002 to 31 December 2004.

As at 31 December 2003, one fellow subsidiary of Guotai Junan held 1,324,000 H Shares of the Company. Save as mentioned above, Guotai Junan, Barits, their directors, employees nor any of their respective associates has any interest in any securities of the Company or any of its associated corporations.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Pan Fei, who is the chairman of the audit committee, Mr. Wong De Zhang and Mr. Cheng Lin.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the 2003 annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2003.

PRE-EMPTIVE RIGHTS

Under the articles of association of the Company or by the laws of the People's Republic of China (“PRC”, being the jurisdiction in which the Company was established), no pre-emptive rights exist that would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the H Shares on GEM on 13 August 2002.

By Order of the Board
Wang Hai Bo
Chairman

Shanghai, the PRC
25 March 2004

This announcement will remain on the GEM website for at least 7 days from the date of its posting.