



Shenzhen Accord Pharmaceutical Co., Ltd.

2002 Annual Report

April 2003

IMPORTANT NOTES

Board of Directors of Shenzhen Accord Pharmaceutical Co., Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

Chairman of the Company Mr. Guo Yuan, General Manager Mr. Su Yanwei and Chief Financial Supervisor Mr. Qin Changsheng and Person in charge of Accounting Ms. Lai Wanying hereby confirm that the Financial Report of the Annual Report is true and complete.

I. COMPANY PROFILE**1. Legal Name of the Company**

In Chinese: 深圳一致药业股份有限公司

In English: Shenzhen Accord Pharmaceutical Co., Ltd.

Abbr. of English name: Accord Pharm.

2. Legal Representative: Guo Yuan**3. Secretary of the Board of Directors: Chen Changbing**

Contact Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong

Tel: (86) 755-25875195, 25875140

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4. Registered Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong

Office Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong

Post Code: 518029

Company's Internet Web Site: <http://www.szaccord.com.cn>

E-mail: 0028@szaccord.com.cn

5. Newspapers for Disclosing the Information of the Company: Securities Times and Ta Kung Pao

Internet Web Site for Publishing the Annual Report: <http://www.cninfo.com.cn>

The Place Where the Interim Report is Prepared and Placed: secretariat of the Board of Directors

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock (A-share): Accord Pharm.

Stock Code: 000028

Short Form of the Stock (B-share): Accord Pharm.-B

Stock Code: 200028

7. Other Information about the Company**(1) The initial registered date: Aug. 2, 1986**

The initial registered place: Shenzhen, China

(2) The changed registered date: Dec.24, 2001

The changed registered place: Shenzhen, China

(3) Registered code for business license of corporation: 4403011001677**(4) Registered number of tax: GS Zi 440301192186267 SDSD Zi 440304192186267****(5) Name of the Certified Public Accountants engaged by the Company:**

Domestic: Shenzhen Nanfang Minhe Certified Public Accountants (A-share)

Address: 8/F, Electronics Tech. Bldg., No. 2072, Shennan Middle Road, Shenzhen

International: Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants (B-share)

Address: 7/F, Electronics Tech. Bldg., No. 2072, Shennan Middle Road, Shenzhen

II. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

Major business data as of the year 2002

1. Major accounting data as of the year 2002 according to CAS (Unit: RMB' 000)

Items	Amount
Total Profit	2,078
Net Profit	4,923
Net profit after deducting non-recurring gains and losses	-4,920
Profit from core business	410,397
Profit from other business	7,041
Operating profit	-4,269
Investment income	-3,335
Subsidy income	4,371
Net income/expenditure of non-operation	5,311
Net cash flows arising from operating activities	28,765
Net increase in cash and cash equivalents	-49,729

2. Financial summary

(1) As reported under IAS (Unit: RMB' 000)

Income Statement

	2002	2001	2000
Turnover	1,869,937	1,668,675	107,899
Profit before tax	8,090	35,565	-47,364
Taxation	8,012	13,375	603
Profit after tax	78	22,190	-47,967
Minority interests	647	1,906	21,860
Profit attributable to shareholder	725	24,096	-26,107

Balance Sheet

	2002	2001	2000
Total assets	1,029,098	1,114,088	456,666
Total liabilities	714,779	791,411	86,464
Net assets	314,319	322,677	370,202

The total liabilities and net assets from the year 2000 to 2002 were adjusted according to Accounting Standard No. 9 (Revision) released by Hong Kong Society of Accountants.

(2) As reported under CAS (Unit: RMB' 000)

Items	2002	2001	2000
Income from core business	1,869,937	1,668,675	107,899
Net profit	4,923	21,105	-7,788

Total assets	1,052,597	1,116,129	484,883
Shareholders' equity (excluding minority interests)	333,334	338,201	316,990

Earnings per share (Unit: RMB)

	2002	2001	2000
Fully diluted	0.017	0.073	-0.027
Weighted average	0.017	0.073	-0.027
Net assets per share	1.157	1.174	1.100
Net assets per share after adjustment	0.997	0.920	1.056
Net cash flows per share arising from operating activities	0.100	0.247	0.030
Return on equity (%)	1.477	6.240	-2.457

(3) Supplementary statement of profit as reported under CAS

Profit in the report period	Return on equity (%)			
	Fully diluted		Weighted average	
	2002	2001	2002	2001
Profit from core business	123.119	135.773	121.238	140.191
Operating profit	-1.281	8.068	-1.261	8.331
Net profit	1.477	6.240	1.454	6.443
Net profit after deducting non-recurring gains and losses	-1.476	4.942	-1.453	5.103

Profit in the report period	Earnings per share (RMB)			
	Fully diluted		Weighted average	
	2002	2001	2002	2001
Profit from main business lines	1.424	1.594	1.424	1.594
Operating profit	-0.015	0.095	-0.015	0.095
Net profit	0.017	0.073	0.017	0.073
Net profit after deducting non-recurring gains and losses	-0.017	0.058	-0.017	0.058

There was no change in share capital of the Company from the end of the report period to the disclosing date of the report.

3. Explanation on the difference in net profit as calculated according to CAS and IAS:

Ended Dec. 31, 2002, the Company's net profit was RMB 4,923,000 as calculated according to CAS, while the net profit (Profit attributable to shareholder) was RMB 725,000 as calculated under IAS.

4. About change in shareholders' equity as of the report year as reported under CAS

(RMB' 000)

Items	Share capital	Capital public reserve	Surplus public reserve	Statutory public welfare funds	Retained profit	Unrecognized investment losses	Shareholders' equity
Amount at the period-begin	288,149	15,735	40,860		-6,148	-396	338,200
Increase in the report period		25			4,923	-10,210	-5,262
Decrease in the report period						-396	-396
Amount at the period-end	288,149	15,760	40,860		-1,225	-10,210	333,334
Reason for change		Note 1			Note 2	Note 3	

Note 1: Increase in the report period was because the unable to pay account of the Company' subsidiary Shenzhen Jian' an Pharmaceutical Company switched into capital public reserve;

Note 2: Increase in the report period was because the Company realized net profit in 2002.

Note 3: Increase in the report period was because the Company's subsidiary Shenzhen Accord Pharm Chain Store Co., Ltd. had a deficit in 2002. Decrease in the report period was because the Company's subsidiary Shenzhen Medicine Trade Company was not brought into consolidation scope so as to cause the unrecognized investment losses to reduce.

III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

(I) Statement of change in shares (Ended Dec. 31, 2002)

Unit: share

Items	Before the change	Increase/decrease in this time (+, -)						After the change
		Allotment of share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub-total	
I. Unlisted Shares								
1. Promoters' shares	150,935,400							150,935,400
Including:								
State-owned shares	124,864,740							124,864,740
Domestic legal person's shares	26,070,660							26,070,660
Foreign legal person's shares								
Others								
2. Raised legal person's shares	27,442,800							27,442,800
3. Inner employees' shares								

4. Preference shares or others								
Including:								
Transferred / allotted shares								
Total Unlisted shares	178,378,200							178,378,200
II. Listed Shares								
1. RMB ordinary shares	54,885,600							54,885,600
2. Domestically listed foreign shares	54,885,600							54,885,600
3. Overseas listed foreign shares								
4. Others								
Total listed shares	109,771,200							109,771,200
III. Total shares	288,149,400							288,149,400

(II) Issuance and listing of shares

As approved the People's Government of Shenzhen with document No. SFBF (1993) 356, the Company was incorporated as a joint stock limited company on Feb. 1, 1993 pursuant to reorganization. Pursuant to the approval of People's Bank of China, Shenzhen Branch, the Company additionally issued 50,000,000 shares in March 1993, including 10,000,000 shares of Raised Legal Person's Shares, 16,500,000 shares of Domestic RMB Ordinary Shares ("A shares"), 3,500,000 shares of Inner Employees' Shares, and 20,000,000 Domestically Listed Foreign Shares ("B shares") at issuing price of RMB 3.50 per share (HK\$ 3.17) from May 5, 1993 to June 5, 1993. On Aug. 9, 1993, A shares and B shares of the Company were listed on the Shenzhen Stock Exchange for trading; of them, 16,500,000 shares of A-share and 20,000,000 shares of B-share were listed. The inner employees' shares of the Company were gotten listing for transfer on Aug. 1, 1994.

On Aug. 31, 1994, the Company implemented 1993 Profit Distribution at the rate of 1 bonus shares for every 10 shares with RMB 0.25 dividend in cash (tax included). After bonus distribution, the total share capital of the Company was increased to 115,500,000 shares from 105,000,000 shares.

On Sep. 6, 1995, the Company implemented 1994 Profit Distribution at the rate of 1 bonus shares for every 10 shares with RMB 0.25 dividend in cash (tax included). After bonus distribution, the total share capital of the Company was increased to 127,050,000 shares from 115,500,000 shares.

On Jul. 16, 1996, the Company implemented 1995 Profit Distribution at the rate of 0.5 bonus shares for every 10 shares with RMB 0.55 dividend in cash (tax included). After bonus distribution, the total share capital of the Company was increased to 133,402,500 shares from 127,050,000 shares.

On Nov. 12, 1996, the Company transferred capital public reserve into share capital on the

basis of 2 for 10. After transfer, the total share capital of the Company was increased to 160,083,000 shares from 133,402,500 shares.

On Jul. 29, 1997, the Company implemented 1996 Profit Distribution at the rate of RMB 1.18 dividend in cash (tax included) for every 10 shares.

In the year 1997, 1998, 1999, the Company conducted neither profit distribution nor capital public reserve transferring into share capital.

On Sep. 11, 2000, the Company transferred public reserve into share capital at the rate of 8 for 10 (including: transferred capital public reserve into share capital at the rate of 6 for 10; transferred surplus public reserve into share capital at the rate of 2 for 10). After transfer, the total share capital of the Company was increased to 288,149,400 shares from 160,083,000 shares.

In Nov. 2000, the Company signed the Assets Replacement Agreement with the first largest shareholder Shenzhen Investment Holding Corporation. Pursuant to the approval of the 2nd Extraordinary Shareholders' General Meeting of 2000 held on Dec. 29, 2001, the Company implemented the replacement of assets. The original senior executives no longer took the position of the Company. Ended Jun. 30, 2001, as approved by the Shenzhen Stock Exchange, the shares held by original senior executive were unfrozen.

In 2001, the Company conducted neither profit distribution nor capital public reserve transferring into share capital.

(III) About shareholders

1. Ended Dec. 31, 2002, the Company had totally 25,568 shareholders, including 15,394 shareholders of A-share and 10,174 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders (Ended Dec. 31, 2002)

No.	Shareholders' name	Holding shares at the year-end	Proportion in the total shares (%)	Pledged or frozen	Type
①	Shenzhen Investment Holding Corporation	124,864,740	43.33		State-owned share
②	Shenzhen Baoan District Shiyan Town Economic and Development Corporation	26,070,660	9.05	16,079,700	Legal person's share
③	Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	13,942,800	4.84	13,846,000	Legal person's share
④	Shenzhen Wangzong Industrial Co., Ltd.	5,303,200	1.84		Legal person's share
⑤	Nanjing Junyue Investment and Consultation Co., Ltd.	5,000,000	1.74		Legal person's share
⑥	Shanghai Huayi Group International Trade Co., Ltd.	3,490,877	1.21		A-shares in circulating
⑦	Shandong Kangtong Electrical Appliance Co., Ltd.	3,435,717	1.19		A-shares in circulating
⑧	Wu Cai Yu	2,299,659	0.80		A-shares in circulating

⑨	CHAN PONG HUNG*	1,738,571	0.60		B-shares in circulating
⑩	Wuxi Huaxin Investment Management Co., Ltd.	1,396,800	0.48		Legal person's share

Note: There exists no associated relationship among shareholders of state-owned shares and each shareholders of legal person's share, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Company. For the shareholders of circulation share, the Company is unknown whether there exists associated relationship, or whether the rest shareholders belong to the consistent actionist.

3. Particulars about pledging and freezing of the shares held by legal person shareholders holding over 5% of the total shares of the Company

16,079,700 shares of the Company held by Shenzhen Baoan District Shiyan Town Economic and Development Corporation ("Shiyan Company") was frozen because Shiyan Company offered the said shares as mutual guarantee for loan to Shenzhen Baoan District Investment Holding Corporation in 2000. 13,846,000 shares of the Company held by Shenzhen Baoan Shangwu Economic and Development Co., Ltd. ("Shangwu Company") was mortgaged and frozen to Industrial and Commercial Bank of China, Longhua Sub-branch; the duration of mortgage from Dec. 24, 2002 to Dec. 24, 2003.

4. The controlling shareholder of the Company

Name of the controlling shareholder: Shenzhen Investment Holding Corporation

Legal representative: Li Heihu

Date of foundation: Feb. 10, 1988

Structure of equity: state-owned sole corporation

Registered capital: RMB 2 billion

Business scope: Management and supervision of enterprise's state assets, financing and property right; to share all kinds of enterprise and turn over investment, to offer credit and assurance; to impose profit after taxation and occupying expenses of assets of state enterprise and the other business authorized by municipal government.

5. In the report period, there was no change in controlling shareholder.

IV. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES AND EMPLOYEES

(I) Directors, supervisors and senior executives

1. Directors, supervisors and senior executives in office at present

Name	Title	Gender	Age	Office term	Number of holding shares (share)
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Guo Yuan	Chairman of the Board	Male	49	Dec. 18, 2001 - the expiration of the office term	0
Su Yanwei	General Manager	Male	42	Aug. 22, 2002 - the expiration of the office term	0
Zeng Yuxiang	Vice Chairman of the Board	Male	57	Jun. 30, 2000 - the expiration of the office term	0
Zhang Quanhuan	Director, Deputy General Manager	Female	54	Dec. 29, 2000 - the expiration of the office term	0
Qin Changsheng	Director, Chief Financial Supervisor	Male	42	Dec. 29, 2000 - the expiration of the office term	0
Liao Yuchun	Director	Male	54	Jun. 30, 2000 - the expiration of the office term	0
Yuan Xueping	Director	Female	41	Jun. 27, 2002 - the expiration of the office term	0
Hao Zhujiang	Independent Director	Male	50	Jun. 27, 2002 - the expiration of the office term	0
Guo Jinlong	Independent Director	Male	41	Jun. 27, 2002 - the expiration of the office term	0
Zhu Dixin	Chairman of the Supervisory Committee	Male	55	Dec. 29, 2000 - the expiration of the office term	0
Shen Tianfang	Supervisor	Male	53	Jun. 15, 2001 - the expiration of the office term	0
Zhao Junpeng	Supervisor	Male	34	Jun 30, 2000 - the expiration of the office term	0
Wang Qiuhui	Deputy General Manager	Female	46	May 10, 2001 - the expiration of the office term	0
Gao Guoshi	Deputy General Manager	Male	49	May 10, 2001 - the expiration of the office term	0
Chen Changbing	Secretary of the Board of Directors	Male	35	Dec. 29, 2000 - the expiration of the office term	0

2. Particulars about directors and supervisors holding the position in Shareholding Company

(1) Vice Chairman of the Board Mr. Zeng Yuxiang took the post of Chairman of the Supervisory Committee of Shenzhen Baoan District Shiyan Town Economic and Development Corporation.

(2) Director Mr. Liao Yuchun took the post of general manager of Shenzhen Baoan District Shiyan Town Economic and Development Corporation.

(3) Director Ms. Yuan Xueping took the post of deputy director of Shenzhen Investment

Holding Corporation the 1st Industrial Dept.

(4) Supervisor Mr. Zhao Junpeng took the post of Chairman of the Board of Shenzhen Baoan Shangwu Economic and Development Co., Ltd..

3. Particulars about the annual remuneration of directors, supervisors and senior executives

In 2002, the annual remuneration the directors, supervisors and senior executives receiving from the Company was determined according to the relevant regulations of Provisional Regulation on Total Remuneration of Shenzhen State-owned Enterprises and Measure on Binding between Wage Income of Operator of Shenzhen Municipal State-owned Enterprise and Enterprise Grade released by Shenzhen Municipal Government, as well as measure of wage reformation laid down by the Company. The Board of Directors drew up the operation targets for the administrative group at the year-begin and decides on the rewards based on the accomplishment of the targets at the year-end.

There are 15 directors, supervisors and senior executives in office at present, and 8 persons drew their salary from the Company, whose total annual salary (including base salary, reward, welfare, subsidy, housing allowance) received from the Company was RMB 1.5 million. Of them, 2 enjoy the annual salary between RMB 230,000 and RMB 250,000 respectively, 4 enjoy the annual salary between RMB 190,000 and 210,000 respectively, and 2 enjoy the annual under RMB 120,000 respectively (including 1 drew the salary since sep. 2002). The total amount of annual remuneration of the top three directors and supervisors drawing the highest payment was RMB 687,700; the total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB 608,800. Independent director Mr. Hao Zhujiang and Mr. Guo Jinlong drew the allowance of RMB 15,000 respectively from the Company (tax included); and the Company reimbursed the reasonable charges according to the actual situation which independent directors attended the meeting of the Board, shareholders' general meeting.

During the report year, Vice Chairman of the Board of the Company Mr. Zeng Yuxiang, Director and concurrently Chief Financial Supervisor Mr. Qin Changsheng, Director Ms. Yuan Xueping and Mr. Liao Yuchun, and Supervisor Mr. Zhao Junpeng received no pay from the Company, but drew the pay from the Shareholding Company.

4. Particulars about change of directors, supervisors and senior executives in the report year

(1) The 14th meeting of the 3rd Board of Directors agreed that Mr. Xue Bo resigned the post of director of the Company on Mar. 27, 2002. As recommended by the first largest shareholder Shenzhen Investment Holding Corporation, the Board of Director additionally elected Ms. Yuan Xueping as director.

(2) Mr. Su Yanwei was engaged as general manager of the Company in the 17th meeting of the 3rd Board of Directors dated Aug. 22, 2002.

(3) The extraordinary meeting of the 3^d Board of Directors agreed that Mr. Tan Minghua resigned the post of vice chairman of the Board and director of the Company on Jan. 3, 2003.

As recommended by the first largest shareholder Shenzhen Investment Holding Corporation, Mr. Su Yanwei was additionally elected as director of the Company.

(4) Mr. Fu Xiaoming resigned the post of deputy general manager of the Company due to personal reason, and no longer took the Company's position from Nov. 2002.

II. About employees

At end of the year 2002, the Company had totally 3,145 on-the-job employees.

Profession/occupation composition			Education Background		
Profession	Number	Proportion (%)	Education	Number	Proportion (%)
Production personnel	360	11.45	Master degree or above	64	2.03
Salespersons	1445	45.95	Bachelor degree	605	19.24
Technicians	540	17.17	3-years regular college graduate	572	18.19
Financial personnel	124	3.94	Polytechnic school graduate	893	28.39
Administrative personnel and others	676	21.49	Senior high school graduate or below	1011	32.15
Total	3145	100	Total	3145	100

At the end of the report period, the Company had totally 189 retirees, whose pensions were borne by Shenzhen Municipal Social Insurance Bureau.

V. ADMINISTRATIVE STRUCTURE

I. Company Administration

The Company operated strictly according to PRC Company Law, Securities Law and the relevant laws, regulations and rules promulgated by China Securities Regulatory Commission. In the report period, the Company remodified and approved the Articles of Association and enacted the other rules and systems, and is constantly perfecting its administrative structure according to the Administration Rules of Listed Companies in the following terms:

1. Shareholders and Shareholders' General Meeting: The Company operated in a standardized way, safeguards rights and interests of all shareholders especially those medium and small shareholders, and ensured they all fully implement their own rights; The Company established the Rules of Procedures of the Shareholders' General Meeting, called and held shareholders' general meeting strictly according to the rules for shareholders' general meeting.
2. Relationship between the controlling shareholder and the listed Company: The controlling shareholder performed their duties in a standardized way and never overstepped the Shareholders' General Meeting to interfere in the Company's decision-making and operation directly and indirectly; The Company pursued the "five separations" in personnel, assets, finance, organization and business from its controlling shareholder, and its Board of Directors,

Supervisory Committee and internal organization functioned independently. As a state-owned controlling listed company, the Company still performed the Reporting System of Property Representative promulgated by the relevant department of Shenzhen municipality.

3. Directors and the Board of Directors: In Accordant with the newly amended Articles of Association of the Company, the election and engaging procedures of director was further perfected and adopted the accumulative voting system. The Company elected directors strictly according to the election and engaging procedures stipulated in the Articles of Association; All directors attended the Board meeting and the shareholders' general meeting diligently and responsibly and strictly implemented duties of directors of listed companies. The Company has established independent director system and will further improve this system, and has elected two independent directors based on the rules and procedures. The Company established the Rules of Procedures of Board of Directors, and established and perfected routine system of the Board of Directors.

4. Supervisors and the Supervisory Committee: The number of supervisors and their formation are in compliance with requirements of laws, regulations and the Articles of Association. The Company established the Rules of Procedures of Supervisory Committee. The members of Supervisory Committee performed seriously their duties, taken responsible attitude to all the shareholders, supervised the financial affairs, the duties performed by the Company's directors, managers and other senior executives.

5. Performance Evaluation, Encouragement and Binding Mechanism: The Company engaged senior executives openly and transparently in compliance with the laws and regulations. The Company currently applies annual benefit bonus system for senior executives, and is gradually establishing fair and transparent performance evaluation criteria and encouragement and binding mechanism for directors, supervisors and senior executives.

6. Relations with the Relevant Beneficiaries: The Company could fully respect and safeguard the legal rights and interests of the banks, other creditors, employees, consumers and other parties of related interests, and jointly promoted sustainable and healthy development with these parties.

7. Information Disclosure: The Company authorized the secretary of the Board to take charge of information disclosing, receiving visits and inquiries of the shareholders. The Company could strictly disclose the relevant information in a real, accurate, complete and timely way according to the law, regulations and the Articles of Association, and Management System of Information Disclosure in order to ensure all the shareholders have equal opportunity to obtain the information. In 2002, the Company was chosen as excellent company on information disclosing by Shenzhen Stock Exchange.

In the report period, the Company carried out self-scrutiny seriously according to Notice on Scrutiny of Listed Company Establishing Modern Enterprise System jointly promulgated by CSRC and State Economic and Trade Commission, and completed and submitted the Self-scrutiny Report to CSRC and State Economic and Trade Commission. In view of Administrative Rules of Listed Company, the Board of Directors considered that the administrative actual situation of the Company accorded with the demand of Administrative Rules of Listed Company. The Company will additionally engage independent director according the demands of the relevant laws and rules in order to further amplify independent director system; meanwhile, the Company will establish special committee of the Board of Directors according to the actual requirements of the Company's development.

II. Performance of the Independent Directors

In 2001 Shareholders' General Meeting held on Jun. 27, 2002, the Company examined and approved the proposal on increasing two independent directors, and engaged Mr. Hao Zhujiang and Mr. Guo Jinlong as independent directors of the 3rd Board of Directors according to Guidelines Opinion on Establishing Independent Director in Listed Companies and Administrative Rules of Listed Companies issued by CSRC; the Company established Independent Director System according to the relevant regulations. The two independent directors attended the Board meeting and shareholders' general meeting, seriously performed their duties, actively make their suggestion and opinion under the full understanding situation on the important matters examined by the Board of Director according to requirements since holding post; guided the daily operating and finance management of the Company; made independent judgment on the decision-making of operating and engagement of senior executives; performed their relevant duties.

III. Particulars about the Company's "Five Separations" from the first largest Shareholder in Respect of Business, Personnel, Assets, Organization and Finance:

1. In respect of business: The Company is completely independent from the controlling shareholder in business, the Company has independent and integrated business system, and autonomous operation capacity; The Company owned independent purchase and sales system. Purchasing Dept. and subsidiaries is respectively responsible for purchasing all raw resources and distributing products. R&D, production, supply and distribution departments are separate from each other. The Company was independent juridical person facing the market.

2. In respect of personnel:

(1) The Company is absolutely independent in the management of labor, personnel and salaries. Office address, organization and production sites are different from the controlling shareholder. There existed no such situation of operating and working together with controlling shareholder.

(2) Senior executives of the Company are full time employees in the Company without taking concurrent position in Shareholding Company, and receive salary from the Company.

(3) The controlling shareholder recommends directors according to legal procedures. The appointment and removing of personnel made in Board meetings and shareholders' general meetings can be effectively implemented.

3. In term of assets: The Company is completed independent from its controlling shareholder in term of assets and independently operates. The Company not only possesses independent production system, auxiliary production system and complementary facilities, but also enjoys such intangible assets as industrial property right, trademark, non-patent technology, etc.

4. In term of finance:

- (1) The Company has established independent financial department, independent and complete accounting system and financial management system.
- (2) The Company can make the financial decision independently without interfere of its controlling shareholder.
- (3) The Company has independent bank account without depositing fund into accounts of the controlling shareholder, finance company or settlement center controlled by related parties
- 4) The Company pays the tax in compliance with laws.

IV. Performance Valuation, Encouragement and Binding Mechanism for Senior Executives

According to requirements of establishing modern enterprise system, the Company has established a fair and transparent procedure and system of engaging for senior executives so as confirm the rights and obligations of senior executive. The Company implemented the level merit system for the senior executives, whose results were directly related to their benefit wages. According to Articles of Association, Rules of Procedures of Board of Directors and Rules of Procedures of Supervisory Committee, the Board and Supervisory Committee carried through the process supervision on the routine performance for senior executives; the Company is establishing the relevant encouragement and binding mechanism gradually in order to further exert the enthusiasm and creativity of senior executives, urge the senior executives to perform the obligations of being honest and diligent.

VI. PARTICULARS ABOUT THE SHAREHOLDER' GENERAL MEETING

In the report year, the Company held the Shareholders' General Meeting twice.

1. The 1st Extraordinary Shareholders' General Meeting of 2002

(1) The Company published the notice on holding the 1st Extraordinary Shareholders' General Meeting of 2002 in Securities Times and Kung Pao dated Jan. 26, 2002, and the Meeting was fixed on Feb. 28, 2002.

(2) The 1st Extraordinary Shareholders' General Meeting of 2002 was held in the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on the morning of Feb. 28, 2002. There were 4 shareholders and shareholders' proxies (4 shareholders of A shares and 0 shareholder of B shares) attended the meeting who represented 170,181,400 shares, taking 59.06% of total shares with voting right. The following resolutions were examined and approved by means of registered voting in the Shareholders' General Meeting:

- ① Examined and approved the proposal on Changing Auditor of Annual Report;
- ② Examined and approved Rules of Procedures of Shareholders' General Meeting.

The lawyer Wang Xiaonan from Beijing Tong Shang Lawyer Firm witnessed this meeting on the spot in terms of its legitimacy and validity and issued a Law Opinion.

(3) The public notice on the said resolutions of the Meeting was published on Securities Times and Ta Kung Pao dated Mar. 1, 2002.

2. 2001 Shareholders' General Meeting

(1) The Company published the notice on holding 2001 Shareholders' General Meeting in Securities Times and Kung Pao dated May. 25, 2002, and the Meeting was fixed on Jun. 27, 2002.

(2) The 2001 Shareholders' General Meeting was held in the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on the morning of Jun. 27, 2002. There were 5 shareholders and shareholders' proxies attended the meeting who represented 170,291,308 shares, taking 59.10% of total shares with voting right (including 4 shareholders and shareholders' proxies of A shares who held 170,181,400 shares, taking 59.06% of total shares with voting right; 1 shareholder of B shares who held 109,908 shares, taking 0.06% of total shares with voting right). The following resolutions were examined and approved by means of registered voting in the Shareholders' General Meeting:

- a. Examined and approved 2001 Work Report of the Board of Directors;
- b. Examined and approved 2001 Work Report of the Supervisory Committee;
- c. Examined and approved 2001 Financial Settlement Report;
- d. Examined and approved 2001 Profit Distribution Plan;
- e. Examined and approved 2001 Profit Distribution Policy;
- f. Examined and approved 2001 Annual Report;
- g. Examined and approved Amendment of Articles of Association of the Company;
- h. Examined and approved Rules of Procedure of the Board of Directors;
- i. Examined and approved Rules of Procedure of the Supervisory Committee;
- j. Examined and approved the Proposal on Changing Auditor of Annual Report;
- k. Examined and approved the Proposal on Adjusting Partial Directors;
- l. Examined and approved the Proposal on Engaging Independent Director;
- m. Examined and approved the Proposal on Allowance of Independent Director.

Beijing Tong Shang Lawyer Firm witnessed this meeting on the spot in terms of its legitimacy and validity and issued a Law Opinion.

(3) The public notice on the said resolutions of the Meeting was published on Securities Times and Ta Kung Pao dated Jun. 28, 2002.

VII. Report of the Board of Directors

Section I Discussion and analysis of the Management

I. To adjust the organizational framework, reorganize the logistics business and realize the transformation from the type of pure management to the type of operating management

In 2002, aiming at the need of change of market situation and its own development, the Company adjusted the organizational framework. On the one hand, the Company cut down the comprehensive management departments in the headquarter from the previous thirteen to seven and set up four special operating centers of marketing, purchase, settlement and distribution, which realized united purchase, united distribution and united marketing

management, reduced running cost and enhanced the profitability capability of the Company. On the other hand, Jianmin and Jianfeng Company were changed to constituent companies and instrument constituent company would be established after the separation of instrument business. Through the reorganization of logistics business, according to the operation mode of modern supply chain, the Company gathered the resources which were originally dispersed at each wholesale enterprise to the headquarter and transformed from the individual management to the united operating management, which optimized the resource collocation and increased the resultant force of the Company. The effects reflected in: firstly, through the application of ERP system, the business procedures of purchase order of business, purchase, planning, sales and financial management etc. were integrated, the modern logistics operation mode of united purchase, united distribution and united settlement preliminary entered into the orbit and the operation platform of resource share was set up. Secondly, each operation was standardized gradually through the implementation of management system of price, examination system of supply rate of purchase and accuracy rate of distribution, associated examination system of initiate operating variety and purchase contract and accounting calculation system etc.. Thirdly, the strength of the whole distribution was increased and the level and ability of distribution was enhanced by a big margin. Fourthly, the bidding shooting rate of the Company ranked the top in the bidding work of 2002 by making use of the resource advantage after the integration and the advantage of reaching the standard of GSP.

II. To reinforce the quality management and make new progress in the authentication work of GSP (GMP)

The subsidiaries of the Company Shenzhen Pharmaceutical Factory and Shenzhen Pharmaceutical Co. have passed the authentication of GMP and GSP in the prophase. Shenzhen Chinese Pharmaceutical General Factory, the subsidiary of the Company, passed the authentication work of GMP of lotion workshop again in 2002 based on the pass of the authentication of GMP of workshop of oral liquid in the previous year, which created the advantage to further expand the market for the products of this factory. Through the input of large quantities of manpower, material resources and capability, Shenzhen Accord Pharmaceutical Chain Company, the subsidiary of the Company, passed the authentication of GSP in 2002 and became the first enterprise of medicine retail which has passed the authentication of GSP in Shenzhen, which created more advantage for the external expansion of this company.

III. To broaden the distributing channel and make the sales of leading products increase steadily

In 2002, through the measures of adopting the strategy of adjusting the marketing, broadening the sales channel of products, expanding the sales sphere, transferring the sales emphasis from the center cities to periphery cities etc., the affiliated industrial enterprises of

the Company made the leading products keep a comparatively high sales volume. In 2002, “Federal Cough Syrup” realized sales of 9.46 million bottles, keeping the same as the corresponding period of the previous year. “DA LI XIN ZHEN” realized a sales volume of 9.26 million bottles, an increase of 78.76% compared with the corresponding period of the previous year and the market share of this variety took 45% of the products of the same kind. The sales of “Children’s Antipyretic Liquid” and “QING BAI” also grew by a comparatively big margin.

Section II Operation of the Company

I. The scope of core business is R&D and production of pharmaceuticals, wholesales and chain retails of Chinese and western patent medicine, Chinese traditional medicine, biological products, bio-chemical medicine, health care products and medical apparatus and instruments. In the report period, with the reform and development as the main line and with adjustment, reorganization and innovation as the emphasis, after the integration of internal resources, the Company had established four centers, cancelled the legal person’s qualification of partial enterprises and set up several constituent companies. The Company achieved certain achievements in all work.

II. Formation of type of income from core business

In the report period, the Company realized an income from core business of RMB 1,869,938,000 realized a total profit of RMB 2,078,000 and net profit of RMB 4,923,000.

1. Formation of income from core business classified according to industry

Industry	Revenue (RMB’ 000)	Proportion in revenue (%)	Gross profit of operation (RMB’ 000)
Medical industry	490,409	20.76	214,573
Medical wholesale	1,329,180	56.26	131,085
Medical retail	285,620	12.09	65,163
Non-medicine trade	257,314	10.89	3,259
Counteracting between internal industries	492,586		670
Total	1,869,937		413,410

2. Distribution of area of income from core business (Unit: RMB’ 000)

Item	Income from core business	Cost of core business
Domestic sales	1,746,523	1,334,462
Oversea sales	123,414	122,065
Total	1,869,937	1,456,527

The main sales area of the Company in 2002 was in the area of Shenzhen.

3. Operation of the main industrial products

Item	Sales income (RMB' 000)	Cost of sales (RMB' 000)	Gross profit ratio (%)
Federal Cough Syrup	85,745	20,144	76.51
Series products of type of head spore	206,007	112,530	45.38
Total	291,752	132,674	54.53

4. Operation and achievement of important subsidiaries

(1) Shenzhen Pharmaceutical Factory: the wholly owned enterprise of the Company. It is mainly engaged in the production and sales of chemical medicine of oral preparation, powder preparation and liquid preparation etc. and has comparatively strong ability of preparation processing and comparatively perfect sales system. The factory has several production lines of power, oral liquid, capsule and troche etc. with total assets of RMB 246,791,000 and a registered capital of RMB 24,190,000. In 2002, facing the change of environment in the medical market, making use of the advantage that its all production lines have passed authentication of GMP and through adopting the strategies of technology advancement, adjusting marketing and development oriented to exquisite products, this factory positively expanded the domestic market, exerted itself to popularize the products of over ten varieties and specifications of “Federal Cough Syrup” and “DA LI XIN ZHEN” etc. and realized a sales income of RMB 309,183,000 and a net profit of RMB 25,740,000.

(2) Shenzhen Pharmaceutical Co.: the wholly owned enterprise of the Company. It is engaged in the wholesale business of medicine with total assets of RMB 243,370,000 and a registered capital of RMB 1.25 million. Shenzhen Pharmaceutical Co. is not only the biggest medical commercial enterprise that takes the lead in passing the authentication of GSP in Shenzhen, which is in list of the first group all over the country but also the exclusive reserve center of poisonous and detoxicant medicine and first-aid medicine designated by Shenzhen city. In 2002, after integration of internal resources, this company gained comparatively high bidding shooting rate together with other several subsidiaries in the medical bidding purchase of Shenzhen and realized a sales income of RMB 536,122,000 and a net profit of RMB 8,551,000.

III. Major suppliers and customers

In the report period, the total amount of purchase for the top five suppliers was RMB 106.42 million, taking 14.12% of the total annual amount of purchase and the total amount of sales for the top five customers was RMB 250.226 million, taking 13.38% of the total sales income.

IV. Difficulties and problems arising from the operation and solutions

1. In 2002, in the list of sales of variety, the construction plan of large variety that the sales of unit variety reaches millions upon millions did not reach the estimated aim due to the influence of adjustment of state policies. For the future, the Company would continue to reinforce the commercial general agent, general distributing and cultivation of large variety so as to gain more achievements.

2. Aiming at the situation that the running efficiency of the Company did not fully materialize after the integration of medical logistics, in 2003, the Company would implement the integration to the business of medical logistics for the second time according to the system of enterprise department, divide the work of existing sales companies and position them, reduce the work levels and links and make definite the responsibility and rights in order to further enhance the efficiency and gain more benefits.

Section III Investment and application of raised proceeds

1. Investment

In the report period, the Company had no new project of investment.

2. Application of raised proceeds

In the report period, the Company had no proceeds raised through share offering or there was no such situation that the proceeds raised through previous share offering went down to the report period for application.

Section IV Main reason of change of financial status and operating results

Unit: RMB' 000

Item	Jan.-Dec. 2002	Jan.-Dec. 2001	Increase/decrease rate
Income from core business	1,869,937	1,668,675	12.06%
Profit from core business	410,397	459,185	-10.62%
Net profit	4,923	21,105	-76.67%
Net increase of cash and cash equivalents	-49,729	115,545	-143.04%
Item	Amount at the end of report period	Amount at the beginning of report period	Increase/decrease rate
Total assets	1,052,597	1,116,129	-5.69%
Shareholders' equity	333,334	338,201	-1.14%

Notes: (1) The main reason of the increase of income from core business was that the sales in domestic market and export of commodities of Shenzhen Jian'an Pharmaceutical Company

increased by a big margin.

(2) The profit from core business decreased, which was mainly because that the continuous policy falling of price and implementation of focusing bidding purchase system of medicine made the gross profit ratio decrease.

(3) The main reasons of decrease of net profit were ①The gross profit ratio decreased; ②In 2001, each expense and expenditure of the Company was relatively little since the framework of the headquarter was still in the process of construction while it had been improved fully in the report year, thus each expense and expenditure of the Company increased by a comparatively big margin.③Affected by the arbitration results of subsidiary Shenzhen Medicine Trading Company, the bank loan guarantee amounting to RMB 3.8 million and RMB 3 million provided for it respectively by Shenzhen Pharmaceutical Factory and Shenzhen Pharmaceutical Company, another two subsidiaries of the Company, was reckoned into the estimated liabilities and into the gains and losses of the report period.

(4) Net increase of cash and cash equivalents: ①Since the amount of this index of 2000 was the data of Shenzhen Health Mineral Water Co., Ltd. before the replacement, while the amount of 2001 was the data of Shenzhen Accord Pharmaceutical Co., Ltd. after the replacement, which increased by a comparatively big margin compared with the former, thus it resulted in the relatively large difference between the amount of the corresponding period of the report year and that of the previous year. ②This index of the report year was negative, which was mainly because that Shenzhen hostipals implemented focusing bidding purchase. Though the Company had a relatively high rate of bidding shooting, the agreed recovery term of payments of bidding was postponed for one month compared with that of before the bidding, which impacted on the operating cash inflow of the Company. ③The repayment of bank loan and the purchase of fixed assets with comparatively large amount of the Company all made the cash at the end of the report period decrease.

(5) The increase of shareholders' equity was mainly because that Shenzhen Accord Pharm Chain Store Co., Ltd., a subsidiary of the Company, incurred a loss, so the net assets of this company was negative and its loss amount was reckoned into the account of "unconfirmed investment loss", which made the shareholders' equity of the Company decrease than that of the beginning of the report period.

Section V Influence of change of market operating environment, macro-policies and regulations on the Company

1. On the one hand, along with the continuously good economic situation of the country, the average level of using medicine of town residents increased gradually. On the other hand, the policy and measures of the country urged the price of medicine to fall continuously, which would further stimulate the growth of consumption market of medicine. It would provide good environment for the development of business of the Company. Simultaneously, retail industry of medicine was open gradually and the comparatively loose policy environment

provided probability for the Company to introduce the foreign capital and private capital into the retail industry of medicine.

2. The country implemented the policy falling of price of medicine in succession for many years, which impacted a lot in the industry of medicine. The energetic implementation of bidding and purchase system of medicine would make the strength of bidding bigger, the scope wider and the variety more, thus to further decrease the gross profit ratio of sales of the Company.

3. Changes have been taking place in the market structure of medical commerce and the wholesale enterprises with equivalent strength outside the city entered into the Shenzhen market in succession. The traditional market advantage of the Company was stroke by many new entrants and the operating pressure of the Company increased gradually. Shenzhen retail pharmaceutical stores have been in the super-saturated status and the density of pharmaceutical stores has reached the level of European and American developed countries. Thus the Company shall face more intensified competition in the retail market of medicine in the future.

4. According to the relevant regulations of Shenzhen city, the preferential policy of local production and local sales is cancelled completely from the year of 2003, which will make the profit of Shenzhen Pharmaceutical Factory and Shenzhen Chinese Traditional Medical General Factory, the subsidiaries of the Company, decrease by over RMB 13 million.

Section VI Routine work of the Board of Directors

The meetings and resolutions of the Board of Directors in the report period were as follows:

(1) On Jan. 24, 2002, the Company held the 13th Meeting of the 3rd Board of Directors and examined and approved Proposal on Change of Engagement of Auditors of Annual Report, Rules of Procedure of Shareholders' General Meeting, Management System of Information Disclosure and Proposal on Holding of the 1st Extraordinary Shareholders' General Meeting of the Year of 2002.

The aforesaid resolutions were published on Securities Times and Ta Kung Pao dated Jan. 26, 2002.

(2) On Jan. 28, 2002, the Company held the Extraordinary Meeting of the Board of Directors and examined and approved Proposal on Scrapped Disposal to Overdue and Ineffective Medicine of Shenzhen Jian'an Pharmaceutical Company by means of communication voting.

(3) On March 27, 2002, the 14th Meeting of the 3rd Board of Directors examined and approved 2001 Financial Settlement Report, 2001 Profit Distribution Preplan, 2001 Work Report of the Board of Directors, 2001 Annual Report and its Summary, 2002 Profit Distribution Policy and Proposal on Adjustment of Partial Directors.

The aforesaid resolutions were published on Securities Times and Ta Kung Pao dated March 30, 2002.

(4) On April 28, 2002, the Company held the 15th Meeting of the 3rd Board of Directors and

examined and approved the 1st Quarter Report of the Year of 2002, 2002 Business Plan, Proposal on Integration of Pharmaceutical Commerce Business and Adjustment of Framework of Operating Management of the Company, Proposal on Purchase of Partial Real Property of Shenzhen Pharmaceutical Production and Supply Corporation to Counteract the Accounts owed to the Company, Proposal on Transfer of Equity of Shenzhen Accord Pharmaceutical Chain Co., Ltd. Held by Shenzhen Jianmin Pharmaceutical Co. to Shenzhen Pharmaceutical Factory, Proposal on Increase of Registered Capital to Shenzhen Accord Crude Drugs Co. and commented on the situation that the profit of the whole year of 2001 was lower than that of the interim.

The aforesaid resolutions were published on Securities Times and Ta Kung Pao dated April 30, 2002.

(5) On May 23, 2002, the 16th Meeting of the 3rd Board of Directors examined and approved Proposal on Change of Engagement of Certified Public Accountants, Proposal on Amendment of Articles of Association of the Company, Rules of Procedure of the Board of Directors, Proposal on Engagement of Independent Directors, Proposal on Allowance of Independent Directors and Proposal on Holding of 2001 Shareholders' General Meeting.

The aforesaid resolutions were published on Securities Times and Ta Kung Pao dated May 25, 2002.

(6) On June 27, 2002, the Extraordinary Meeting of the Board of Directors approved the Company to apply for credit line of RMB 100 million from Shenzhen Branch, Bank of China and to apply for credit line of RMB 50 million from Shenzhen Branch, Zhongxin Industrial Bank and approved Proposal on Provision of Counter-guarantee for the Metro Project of Modern Computers Company.

The aforesaid resolutions were published on Securities Times and Ta Kung Pao dated June 28, 2002.

(7) On Aug. 22, 2002, the 17th Meeting of the 3rd Board of Directors examined and approved 2002 Semi-annual Report and its Summary, Proposal on Engagement of General Manager and Proposal on Increase of Operation Scope of the Company.

The aforesaid resolutions were published on Securities Times and Ta Kung Pao dated Aug. 24, 2002.

(8) On Sept. 17, 2002, the 18th Meeting of the 3rd Board of Directors examined and approved Proposal on Provision of Counter-guarantee for Shenzhen Investment Holding Corporation, agreed to provide equivalent counter-guarantee for the loan guarantee amounting to RMB 45 million of Modern Computers Company by Shenzhen Investment Holding Corporation and prepared Counter-guarantee Letter. The relevant issues were published on Securities Times and Ta Kung Pao dated Nov. 27, 2002.

(9) On Oct. 24, 2002, the 19th Meeting of the 3rd Board of Directors examined and approved the 3rd Quarter Report of the Year of 2002 and Proposal on Construction of New Powder Production Line in Shenzhen Pharmaceutical Factory.

The aforesaid resolutions were published on Securities Times and Ta Kung Pao dated Oct. 26, 2002.

Section VII 2002 Profit Distribution Preplan

As audited by Nanfang Minhe Certified Public Accountants, the net profit of the Company realized in 2002 was RMB 4,923,000. According to the regulations of Articles of Association, after RMB 6,148,000 being used to offset the loss of the previous year, the profit available for appropriation to shareholders was RMB -1,225,000.

According to the regulations of Company Law and Normative Interlocution No. 3 of Information Disclosure of Publicly Issuing Securities Companies---Origin, Procedures and Information Disclosure of Offsetting Loss of China Securities Regulatory Commission, it is not allowed to distribute dividends to shareholders or convert capital public reserve into share capital before fully offsetting the accumulated loss. Thus, the 20th Meeting of the 3rd Board of Directors decided not to distribute profit nor convert public reserve into share capital.

The aforesaid distribution plan should be submitted to 2002 Shareholders' General Meeting for examination.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

I. In the report year, the Supervisory Committee, in accordance with regulations of Company Law and Articles of Association, strictly implemented various functions of inspection and supervision prescribed in its duties, attended the meeting of the Board of Directors as non-voting delegates, and participated in the Company's decision-making of significant issues. The Supervisory Committee held three meetings.

1. The 7th meeting of the 3rd Supervisory Committee was held on Mar.27, 2002 in the 6/F conference room of the Company, which locates in Ba Gua Si Road No.15, Futian District, Shenzhen. The meeting examined and approved 2001 Annual Report and its Summary, 2001 Work Report of the Supervisory Committee and 2002 Profit Distribution Policy. The resolutions of the meeting were published on Securities Times and Ta Kung Pao dated Mar.30, 2002.

2. The 8th meeting of the 3rd Supervisory Committee was held on May 23, 2002 in the 6/F conference room of the Company, which locates in Ba Gua Si Road No.15, Futian District, Shenzhen. The meeting examined and approved Rules of Procedure of the Supervisory Committee. The resolutions of the meeting were published on Securities Times and Ta Kung Pao dated May 25, 2002.

3. The 9th meeting of the 3rd Supervisory Committee was held on Aug.22, 2002 in the 6/F conference room of the Company, which locates in Ba Gua Si Road No.15, Futian District, Shenzhen. The meeting examined and approved 2002 Semi Annual Report and its Summary.

The supervisors attended all the meetings of the Board of Directors as non-voting delegates

and supervised over the meeting's content and the procedure of decision-making of operation of the Board of Directors.

II. The Supervisory Committee has strictly supervised over the Company's operation and decision-making of 2002, and expressed independent opinions concerning relevant issues as follows:

1. In the report year, the Supervisory Committee supervised over the Company's various work in terms of the procedures of holding the Shareholders' General Meeting and the Board of Directors, resolutions, implementation of the resolutions of the Shareholders' General Meeting by the Board of Directors, the Company's production and operation and management of decision-making according to the law, regulations and Articles of Association, and believed the Company had complied with Company Law and the Articles of Association in terms of management and operation and ensured its operation according to law.
2. The Supervisory Committee supervised over the duties performed by the directors and senior executives and believed that in daily operation and administration, they were patient and responsible, made decisions in scientific and reasonable way and the procedure of decision-making was normative and legal. They neither violated the laws, regulations, Articles of Association and resolutions of the Shareholders' General Meeting nor abused their posts and rights and damaged interests of shareholders, the Company and employees. The management could positively adopt suggestions made by the Supervisory Committee concerning operation and management.
3. The Supervisory Committee believed the financial report of 2001 had objectively and truthfully reflected the Company's financial status and operation results, and agreed with the standard non-reservation auditors' reports issued by Shenzhen Nanfang Minhe Certified Public Accountants and Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants.
4. In the report period, the Company occurred no significant related transaction and the price of other related transaction was based on the principle of market and was fair. There found no actions harmful for the interest of the Company.

IX. SIGNIFICANT EVENTS

(I) Material lawsuits and arbitration

The commercial cooperation among Shenzhen Medical Trading Company, which is the subsidiary wholly held by the Company, Grunenthal (Hong Kong) Co., Ltd. and Grunenthal Pharmaceutical (China) Co., Ltd. occurred disputed issues. Grunenthal (Hong Kong) Co., Ltd. and Grunenthal Pharmaceutical (China) Co., Ltd. submitted the arbitration application to China International Economic & Trade Arbitration Commission, Shenzhen Commission respectively on June 28, 2002 and July 2, 2002, required Shenzhen Medical Trading Company to pay outstanding payment for goods of USD 2,315,041.80 and the repayment of breaking the contract to the proposer, Grunenthal (Hong Kong) Co., Ltd. as well as pay

outstanding payment of RMB 41,797,083.58 and the repayment of breaking the contract to the proposer, Grunenthal Pharmaceutical (China) Co., Ltd. The relevant public notice was published on Securities Times and Ta Kung Pao dated July 25, 2002. The arbitration court made the final arbitrations respectively on Jan.8, 2003 and Feb.21, 2003.that Shenzhen Medical Trading Company should pay outstanding payment for goods of USD 2,315,041.80 and the overdue repayment of breaking the contract of USD 421,709.43 to Grunenthal (Hong Kong) Co., Ltd. and undertake the arbitration expense and Grunenthal (Hong Kong) Co., Ltd. should pay the repayment of violating right of RMB 3 million to Shenzhen Medical Trading Company as well as Shenzhen Medical Trading Company should pay RMB 29,082,409.94 and all overdue interest since the arrearage date to Grunenthal Pharmaceutical (China) Co., Ltd. which should undertake the acceptance fee and disposal fee of the case. The public notice on the arbitration result was published on Securities Times and Ta Kung Pao dated Mar.8, 2003.

Except for the case, the Company has no other significant lawsuits and arbitrations in the report period.

(II) Purchase and sales of assets

Please refer to Note (II). 2.(5) of the 3rd section, accounting statements in the financial report.

(III) Significant related transaction issues

1. Related transaction from purchase and sale of commodity

(1) Sale of commodity (RMB' 000)

Name of related party	2002	2001
Shenzhen Nanshan Pharmaceutical Company	14,289	14,229
Shenzhen Chengxin Medical Company	9,888	33,706
Total	24,176	47,935

(2) Purchase of commodity (RMB' 000)

Name of related party	2002	2001
Shenzhen Xiannuo Pharmaceutical Company	1,456	23,487
Shenzhen Chengxin Medical Company	7,716	15,623
Total	9,172	39,110

The pricing principle of purchasing and selling commodity is the fair market price.

(3) Lease of houses

The Company signed Agreement with Shenzhen Medical Production and Supply Company from January to August of 2002 and rented the office building of Shenzhen Medical Production and Supply Company which locates Ba Gua 4th Road and has a total acreage of

5,174,83 square. The rent in the report period is RMB 835,940.00. The rent standard was negotiated according to the market price by the two parties.

2.Related transaction occurred with purchase and sale of assets

(1). On July 29, 2002, according to Resolution on Purchasing Part Estate of Shenzhen Medical Production and Supply Company to Offset the Debt Owned to the Company made by the 15th meeting of the 3rd Board of Directors (Relevant public notice was published on Securities Times and Ta Kung Pao dated Apr.30, 2002), the Company and its related party, Shenzhen Medical Production and Supply Company reached Transfer Agreement on No.1 to No.4 workshops of Oil for Raw Medicine Factory locating in No.15, Ba Gua 4th Road, Futian District, Shenzhen. The Company agreed to be transferred the real estate as the assessment price of RMB 18,844,000 for offsetting the part debts owed to the Company.

(2). On Dec.30, 2002, Shenzhen Medical Production and Supply Company signed agreement with the Company to transfer the 1st to 4th floors real estate of the comprehensive building locating No.23, China-England Street of Shenzhen Shatoujiao China-England Street Commerce and Trade Company held by Shenzhen Medical Production and Supply Company as the assessment price of RMB 2,865,000 to the Company for offsetting the debts owed to the Company.

(3). On Dec.30, 2002, Shenzhen Nanshan Pharmaceutical Company signed agreement with the Company to transfer the real estate of the 3rd Block No.101 of Huaifu Garden locating Xuefu Road, Nanshan District, Shenzhen and the 18th Block No.102 locating Nanyou A Zone, Xinjian Road, Nanshan District to the Company for offsetting the debts owed to the Company. The assessment price of the two real estates was RMB 850,000.

(4). The Company purchased the land with No.H409-9, which has useful acreage of 4,029.80 sq.m. from Shenzhen Xiannuo Pharmaceutical Co., Ltd by paying RMB 6.5 million in cash. The use terms is from Dec.31, 1987 to Dec.31, 2037 and the two parties ensured the price through negotiation.

3. Credit and liability between the Company and the related parties

Please refer to Note.21 of III. Accounting Report of the 10th Chapter, Financial Report.

(IV) Significant contract and the implementation

1. Entrustment, contract and lease

In the report period, the Company has no significant custody, contract and lease of other companies and vice visa occurred in the report period or occurred in previous period and lasted in the report period.

2. Significant guarantee

(1) On June 27, 2002, the extraordinary meeting of the Board of Directors approved the Company to provide the equal counter guarantee of RMB 25,070,000 with the terms of two years since Dec.30, 2002 to Dec.31, 2004 for the bank, which issued guarantee letter of fulfilling contract and advance payment for the subway project undertaken by Shenzhen

Modern Computer Co., Ltd. (hereinafter referred to as Modern Computer), the share-controlling subsidiary of the Company. The relevant public notice was published on Securities Times and Ta Kung Pao dated June 28, 2002.

(2) On Aug.28, 2002, the Board of Directors of the Company examined and approved the proposal on providing continued guarantee with terms of one year from Nov.21, 2002 to Nov.21, 2003 for line of credit of Modern Computer by voting through communication. The Company signed Contract of Top Limit Guarantee with Bank of China, Shenzhen Branch, Shekou Subbranch on Nov.21, 2002 and provided joint responsibility guarantee for the comprehensive line of credit of USD 4 million applied for bank by Modern Computer

(3) On Sep.19, 2002, the Company issued letter of counter guarantee with terms of one year from Sep.24, 2002 to Sep.24, 2003 for Shenzhen Investment Management Co., Ltd., which is the principal shareholder of the Company, and agreed to provide counter guarantee for the guarantee, which was provided by the principal shareholder for RMB 45,000,000 current capital loan of Modern Computer from Fujian Industrial Bank Shenzhen Branch. The special term in the letter of counter guarantee issued by the Board of Directors is: if share equity of Modern Computer change in the period of guarantee, the counter guarantee will be quashed immediately.

The aforesaid events were disclosed on Securities Times and Ta Kung Pao dated Dec.27, 2002.

(4) The Company's subsidiary, Shenzhen Pharmaceutical Factory provided guarantee for the bank loan of RMB 4,200,000 of Pharmaceutical Trade Company. RMB 400,000 has been repaid and the balance of RMB 3,800,000 has been overdue. The Company's subsidiary, Shenzhen Pharmaceutical Company provided guarantee for the bank loan of RMB 3 million of Pharmaceutical Trade Company. The two guarantees have been apportioned guarantee losses.

3.Entrust others to manage cash assets

The Company did not entrust others to management its cash assets in the report period or occurred in previous period and lased in the report period.

4.Other material contract

The Company had no other material contract in the report period.

(V) Commitment of the Company or shareholders holding over 5% shares of the Company

In the report period, the shareholders holding over 5% equity (including 5%) of the Company have not commitment events with possible influence on operation result and financial status occurred in the report period or occurred in previous period and lased in the report period.

2001 Annual Shareholders' General Meeting of the Company examined and approved 2002 Profit Distribution Policy and the content of the resolution is as follows:

(1) The Company planed to distribution profit for one time after 2002;

(2) The proportion of dividend distribution in 2002 profit for distribution was not lower than

30%;

(3) The distribution adopted connection of cash and share dividend. The proportion of the cash dividend was not lower than 20%.

(4) The detailed distribution method would be ensured according to the actual situation at that time.

According to Company Law, Letter on How to Affirm Profit Distribution Standards When Enterprises Issued B Shares Allot Dividends named ZJHZI [1994] No.1 and No.3 of A & Q of Information Disclosure Criterion of Companies Issued Publicly Securities-Resource, Procedure and Information Disclosure of Making up Losses released by CSRC, profit distribution adopts the principal of the lower, before not making up all accumulated losses, forbid distributing dividends to the shareholders and transferring public capital reserve to share capital. Based on this, the Board of Directors of the Company decided to make adjustment on 2002 Profit Distribution Policy: the Company will not distribute profit and transfer public capital reserve to share capital in 2002.

(VI) Engagement of Certified Public Accountants

1. Changing Engagement of Certified Public Accountants

In the report period, the 1st extraordinary Shareholders' General Meeting engaged Xinyong Zhonghe Certified Public Accountants and Hong Kong Ho and Ho & Company Certified Public Accountants as the auditing institutions of A share and B share of the Company in 2001. Relevant public notice was published on Securities Times and Ta Kung Pao dated Mar.1, 2002.

2001 Annual Shareholders' General Meeting of the Company held on June 28, 2002 reengaged Xinyong Zhonghe Certified Public Accountants and Hong Kong Ho and Ho & Company Certified Public Accountants and engaged Shenzhen Nanfang Minhe Certified Public Accountants and Ma Shiyun (Shenzhen) Nanfang Minhe Certified Public Accountants as the auditing institution of A share and B share of the Company in 2002. Relevant public notice was published on Securities Times and Ta Kung Pao dated June 29, 2002.

2. Remuneration Paid to Certified Public Accountants

The audit expense of the financial report in 2001 and 2002 the Company paid to Certified Public Accountants was respectively RMB 400,000 and RMB 550,000(A share and B share). The business journey expense and other in the process of Certified Public Accountants' audit for the Company were undertaken by themselves.

3. Number of Year of Audit Service the Audit Institutions Provided for the Company

Since initially signing audit business agreement, Nanfang Minhe Certified Public Accountants provided audit service for the Company for consistent one year.

(VII) Other significant events

1. In the report year, the Company, the Board of Directors or its directors had neither been

checked, given administrative punishment or given circular notices of criticism by China Securities Regulatory Commission nor been condemned publicly by the Stock Exchange.

2. From Apr. 8 to Apr. 12, 2002, CSRC Shenzhen Office conducted circling inspection periodically of the Company and released Notification of Correction in Limit Period (SZBZI [2002] No. 81) on Apr. 19, 2002, in which Shenzhen Office put forward to suggestions and opinions on the shortcoming in respect of the independence, administration structure, normative operation, information disclosure, financing management, accounting statement and so on. For this, the Company organized all directors, supervisors, and senior executives to study patiently and inspect correspondingly and established corresponding correction measures. The correction method has been approved formally by the 16th meeting of the Board of Directors held on May 23, 2002. The details were as follows:

(1) Concerning the independence of the Company: Since October, 2001, the principal shareholder, Investment Management Co., Ltd. promised not to accredit or appoint the senior executives of the Company according to the requirement of Rules of Listed Companies' Administration and not to release management and operation target for the Company since 2002.

(2) Concerning Related Transactions: the Company promised that the related transactions with the existed companies would implement the procedure of decision-making and liability of information disclosure strictly according to relevant regulations of Rules of Share's Listing.

(3) Establishment of Articles of Association and Management System: The Company amended Articles of Association in all respects and established Rules of Procedure of the Board of Directors, Rules of Procedure of the Supervisory Committee. Articles of Association and three Rules were examined and approved by the Shareholders' General Meeting of the Company. Association and three Rules prescribed detailedly and clearly the nomination means on directors and its procedure and added implementing system of accumulated votes on directors' election.

(4) Information Disclosure of the Company: the Company has established System of Information Disclosure Management to normalize the work of information disclosure and required relevant departments to notice the secretary of the Board of Directors attending the meeting as non-voting delegates when studying and discussing the events interfered with information disclosure and meanwhile required the function departments to provide timely and accurately the documents and materials needed in information disclosure to the secretary of the Board of Directors.

(5) Financing management and accounting statement: The management team realized that there existed shortcoming in the statement of credit and liability, account receivable and so on and the system of affirmation of income from sale and the system of expense statement needed to be consummated. The Board of Directors required the Company and its subsidiaries to enhance the operation training of accounting staffs, normalize the work of

accounting statement, study patiently and implement strictly Accounting Law and System of Enterprises' Accounting. According to the requirement of the Board of Directors, the management team has established a series of internal control system including financing management system and implemented them.

The report on this correction was published no Securities Times and Ta Kung Pao dated May 25, 2002.

X. FINANCIAL REPORT

(I) Report of the Auditors

To the Shareholders of
Shenzhen Accord Pharmaceutical Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of Shenzhen Accord Pharmaceutical Co., Ltd. ("the Company") and its subsidiaries (collectively "the Group") at 31st December, 2002 and the related consolidated statements of income, cash flow and changes in equity for the year then ended. These financial statements set out on page 2 to 25 are the responsibility of the Group's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31st December, 2002 and of the results of the operations and cash flows of the Group for the year then ended and have been prepared in accordance with International Financial Reporting Standards.

MOORE STEPHENS,
SHENZHEN NANFANG MINHE
Certified Public Accountants

Shenzhen
30th March, 2003

(II) Financial Statements

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2002

	NOTES	2002 RMB' 000	2001 RMB' 000
Revenue	5	1,869,937	1,668,675
Cost of sales		<u>(1,459,540)</u>	<u>(1,209,490)</u>
Gross profit		410,397	459,185
Other operating revenue	7	40,112	41,552
Selling and distribution costs		(309,456)	(326,557)
Administrative expenses		(103,744)	(101,623)
Other operating expenses		<u>(20,737)</u>	<u>(20,805)</u>
Profit from operations	8	16,572	51,752
Finance costs	9	(15,693)	(16,178)
Share of results of associates		1,115	(9)
Disposal of subsidiaries	10	<u>6,096</u>	<u>0</u>
Profit before tax		8,090	35,565
Taxation	11	<u>(8,012)</u>	<u>(13,375)</u>
Profit before minority interests		78	22,190
Minority interests		<u>647</u>	<u>1,906</u>
Net profit for the year		<u>725</u>	<u>24,096</u>
Earnings per share	13	<u>RMB0.0025</u>	<u>RMB0.0836</u>

The notes on page 6 to 27 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER, 2002

	NOTES	2002 RMB' 000	2001 RMB' 000
ASSETS			
Non-current assets			
Property, plant and equipment	14	162,864	154,050
Construction in progress	15	34,033	53,816
Goodwill	16	35,134	39,525
Interests in associates	18	23,257	22,269
Other investments		337	637
		<u>255,625</u>	<u>270,297</u>
Current assets			
Inventories	19	250,150	264,115
Accounts receivables and other receivables		311,954	311,141
Amounts due from related companies	21	39,851	58,582
Prepayments		62,362	51,066
Other investments		4	5
Cash and bank balances		109,152	158,882
		<u>773,473</u>	<u>843,791</u>
Total assets		<u>1,029,098</u>	<u>1,114,088</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	288,149	288,149
Reserves	23	24,808	24,083
		<u>312,957</u>	<u>312,232</u>
Minority interests		<u>1,362</u>	<u>10,445</u>
Non-current liabilities			
Long-term loans	24	--	3,370
Current liabilities			
Short-term loans - due within one year	24	172,156	237,243
Accruals, accounts payables and other payables		488,742	512,212
Receipts-in-advance		35,702	15,199
Subsidiaries not consolidated	25	9,450	--
Amounts due to related companies	21	5,186	21,412
Tax payable		3,543	1,975
		<u>714,779</u>	<u>788,041</u>
Total equity and liabilities		<u>1,029,098</u>	<u>1,114,088</u>

The notes on page 6 to 27 form part of these financial statements.

The financial statements on pages 2 to 27 were approved by the Board of Directors and authorised for issue on 15th April, 2003 and are signed on its behalf by:

Guoyuan
DIRECTOR

Qin Changsheng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2002

	Share capital RMB' 000	Capital reserve RMB' 000	Surplus reserve RMB' 000	Reserves		Total RMB' 000
				Accumulated losses RMB' 000	Reserve sub-total RMB' 000	
Balance at 1st January, 2001	288,149	17,489	40,861	(58,363)	(13)	288,136
Net loss for the year						
- As previously stated	--	--	--	39,904	39,904	39,904
- Prior year adjustment (note 26)	--	--	--	(15,808)	(15,808)	(15,808)
- As restated	--	--	--	24,096	24,096	24,096
Transferred to surplus reserve						
- As previously stated	--	--	1,390	--	1,390	1,390
- Prior year adjustment (note 26)	--	--	(1,390)	--	(1,390)	(1,390)
- As restated	--	--	--	--	--	--
Balance at 31st December, 2001 and 1st January, 2002 (As restated)	288,149	17,489	40,861	(34,267)	24,083	312,232
Net profit for the year	--	--	--	725	725	725
Balance at 31st December, 2002	<u>288,149</u>	<u>17,489</u>	<u>40,861</u>	<u>(33,542)</u>	<u>24,808</u>	<u>312,957</u>

The notes on page 6 to 27 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2002

	NOTES	2002 RMB' 000	2001 RMB' 000
OPERATING ACTIVITIES			
Cash generated from operations	27	44,528	101,275
Interest paid		(14,620)	(15,488)
Income tax paid		(6,089)	(29,637)
NET CASH GENERATED FROM OPERATING ACTIVITIES		23,819	56,150
INVESTING ACTIVITIES			
Interest received		2,794	2,564
Purchase of property, plant and equipment	28	(25,805)	(46,109)
Proceeds on disposal of property, plant and equipment		131	3,889
Payment for construction in progress		(1,093)	(24,956)
Proceeds on disposal of subsidiaries	29	1,282	--
Decrease in interests in subsidiaries and associates		1,340	614
Decrease in other investments		--	169
Net cash inflow from exchange of assets		--	135,127
NET CASH (USED IN) / GENERATED FROM INVESTING ACTIVITIES		(21,351)	71,298
FINANCING ACTIVITIES			
New bank loans raised		290,708	261,036
Repayment of bank loans		(342,906)	(272,939)
NET CASH USED IN FINANCING ACTIVITIES		(52,198)	(11,903)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(49,730)	115,545
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		158,882	43,337
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		109,152	158,882

The notes on page 6 to 27 form part of these financial statements.

(III)NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2002

1. CORPORATE INFORMATION

Shenzhen Accord Pharmaceutical Co., Ltd, (the “Company”) and its subsidiaries are collectively referred to as the “Group”.

The Company was established as a joint stock company with limited liability through the reorganisation for the joint stock system on 1st February, 1993 with the approval from the Shenzhen Municipal People’s Government with the document: Shenzhen-Government-Office Official Reply (1993) No.356. In March, 1993, with approval from the Shenzhen Branch of the People’s Bank of China, the Company issued an additional 30 million ‘A’ shares (including 16.5 million public shares, 3.5 million employees’ shares and 10 million legal person shares) and 20 million ‘B’ shares. At present, all the employees’ shares, domestic and foreign public shares are listed in the Stock Exchange of Shenzhen.

The Company was registered with the Shenzhen Administration Bureau for Industry and Commerce with business license No.4403011001677. The license is effective from 2nd August, 1986 to 2nd August, 2036. The registered capital is RMB288,149,400.

The Company was formerly known as Shenzhen Health Mineral Water Co., Ltd. with principal activities engaging in the production and marketing of natural mineral water and related beverage. In November, 2000, the Company and Shenzhen Investment Holding Corporation, the Company’s largest shareholder, signed an “Agreement on Exchange of Assets” dated 27th November, 2000. According to the agreement, the Company is required to exchange all of its assets and liabilities for 100% equity interests in 11 pharmaceutical enterprises, certain properties and 51% equity interests in Shenzhen SDG Modern Computer Co., Ltd. which are originally owned by Shenzhen Investment Holding Corporation. The exchange of assets was based on the fair value of the assets to be exchanged on 1st September, 2000. On 29th December, 2000, the Company adopted the aforesaid plan for exchange of assets by a resolution passed in the Second Extraordinary Shareholders’ Meeting in 2000. The transaction was completed on 8th January, 2001. On 18th June, 2001, the Company’s name was changed from Shenzhen Health Mineral Water Co., Ltd. to Shenzhen Accord Pharmaceutical Co., Ltd.

After the exchange of the assets, the principal activities of the Company were changed to the purchase and marketing of chemical medicine preparations, antibiotic preparations, bio-chemical preparations, blood products, Chinese patent drugs, Chinese herbs, raw materials of chemical medicine, raw materials of antibiotic, diagnosis drugs, medical health care products, medical packing materials, research and development of pharmaceutical industrial products, consulting services, investing and initiating entities (with the specific projects subject to application for approval), domestic trading and materials supply and marketing (excluding the commodities for fiscal monopoly, control exclusiveness), import and export business subject to the provisions as specified in the Certification of Shenzhen Trade Administration Bureau Zi No. 198 in relation to the regulations for foreign trading enterprises.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board under the historical cost basis.

The accounting policies adopted by the Group under IFRS differ from the accounting policies used in the financial statements of the Group which were prepared in

accordance with Accounting Standards for Enterprises Business and Accounting System for Enterprises Business in the PRC. Adjustments to restate the results of operations and the net assets in compliance with IFRS will not be taken up in the books of the companies in the Group. Details of impacts of such adjustments on the net profit for the year ended and the net assets at 31st December, 2002 are included in Note 34 to the financial statements.

2. PRESENTATION OF FINANCIAL STATEMENTS – (continued)

These financial statements are presented in Renminbi (RMB) since that is the currency in which the majority of the Group's transactions are denominated.

3. CHANGE OF SCOPE OF CONSOLIDATION

A subsidiary of the Company, Shenzhen Medicine Trading Company was excluded from the consolidated financial statements since it had recorded deficiency in shareholding funds and discontinued operations. The scope of consolidation for the year included Shenzhen Jianmin Pharmaceutical Company (深圳市健民醫藥公司) and Shenzhen Jianfeng Pharmaceutical Company (深圳市健豐醫藥公司). Equity-combination method was adopted when consolidated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below :-

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company ("its subsidiaries") made up to 31st December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

(b) Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the decision making on the financial and operating policy of the investee.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interests in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interests in the fair value of the identifiable assets and liabilities of a subsidiary, associate, jointly controlled entity or entire business operations at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis following an assessment of its useful life.

Goodwill arising on the acquisition of an associate is included in the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries, jointly controlled entities or entire business operations is presented separately in the balance sheet.

On disposal of a subsidiary, associate, jointly controlled entity or entire business operations, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposals.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less 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 present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year 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 assets, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is calculated to write off the cost of property, plant and equipment on a straight-line basis over their estimated useful lives as follows:-

Leasehold land	Over the lease terms
Buildings	20-35 years
Machinery and equipment	10-14 years
Transport equipment	5-10 years
Electronic and office equipment	5-10 years

(e) Construction in progress

Construction in progress represents properties under construction and equipment purchased prior to installation and is stated at cost.

Cost comprises direct costs, attributable overheads and borrowing costs capitalised in accordance with the Group's accounting policy.

No depreciation is provided on construction in progress prior to their completion upon which they will be reclassified into the appropriate categories of property, plant and equipment and depreciation will be provided.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

(f) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the asset to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) Other investments

Other investments are stated at cost less any impairment losses.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(i) Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Accounts and other receivables

Accounts and other receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank loans

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Accounts and other payables and receipts-in-advance

Accounts and other payables and receipts-in-advance are stated at cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

(j) Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income is recognised on straight-line basis over the respective lease terms.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(k) Financial subsidies from the government

Financial subsidies from the government is recognized only when the conditions below are both met: the enterprise is qualified to the subsidies and the has received the proceeds already.

(l) Taxation

The charge for current income tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period

when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(m) Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

(n) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

(o) 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.

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals receivable or payable under operating leases are credited or charged, on a straight-line basis, over the relevant lease term to the income statement.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 cost of those assets.

All other borrowing costs are recognised in net profit or loss in the period in which they incurred.

(r) Retirement benefit costs

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The scheme undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to the scheme are charged to the income statement as incurred.

(s) Cash equivalents

Cash equivalents represent short-term and highly liquid investments that are readily convertible to a known amount of cash and which is subject to an insignificant risk of changes in value.

5. REVENUE

An analysis of the Group's revenue is as follows:-

	2002 RMB' 000	2001 RMB' 000
Continuing operations:		
Manufacture and sales of medicine and related products	1,612,623	1,668,675
Sales of other products	257,314	-
	<u>1,869,937</u>	<u>1,668,675</u>

The revenue of the Group mainly arises from the operations in the People's Republic of China ("the PRC") and the related operating assets are located in the PRC.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

During the year, the Group is mainly engaged in the business of manufacture and sales of medicine and related products. Therefore, analysis of the business segments is not required.

(b) Geographical segments

The Group's operations and markets are mainly located in the PRC. Therefore, analysis of the geographical segments is not required.

7. OTHER OPERATING REVENUE

	2002 RMB' 000	2001 RMB' 000
Tax transferred from local production and local sales	24,056	27,201
Financial subsidies	4,371	4,352
Commission income	5,107	4,284
Rental income	2,568	2,355

Interest income	2,794	2,564
Accounts payable written back	25	502
Others	1,191	294
	<u>40,112</u>	<u>41,552</u>

8. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging / (crediting):

	2002 RMB' 000	2001 RMB' 000
Provision for inventories	2,887	2,018
Amortisation of goodwill	4,391	4,392
Depreciation on property, plant and equipment	25,735	15,920
(Gain) / loss on disposal of property, plant and equipment	(133)	46
Provision for impairment on other investments	300	-
(Written back) / provision for bad debts	(580)	2,534
Staff benefit costs	9,005	8,621
Staff costs	<u>96,388</u>	<u>99,291</u>
Number of staff	3,425	3,965

9. FINANCE COSTS

	2002 RMB' 000	2001 RMB' 000
Interest expenses	14,620	15,488
Bank charges	678	590
Exchange loss	<u>395</u>	<u>100</u>
	<u>15,693</u>	<u>16,178</u>

10. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its 51% shareholding in a subsidiary, Guangdong Liguang Pharmaceutical Co., Ltd.(廣東立國制藥有限公司) and its 70% shareholdings in Shenzhen Chinese and Western Pharmaceutical Company (深圳市中西藥業有限公司, formerly known as Shenzhen Shekou Pharmaceutical Company(深圳市蛇口醫藥公司)). The profits realized thereof amounted to RMB6,096,000.

11. TAXATION

	2002 RMB' 000	2001 RMB' 000
Income tax		
- the Company and its subsidiaries	8,012	12,796
- associates	-	579
	<u>8,012</u>	<u>13,375</u>

Income tax represents the provision for the PRC income tax charged for the year. The PRC income tax has been provided for at 15% (2001 : 15%) on the assessable profits of the Company, its subsidiaries and associates for the year.

11. TAXATION– (continued)

Reconciliation to the domestic tax expense as follows:

	2002 RMB' 000	2001 RMB' 000
Accounting profit under IFRS	8,090	35,565
Difference arising from accounting policies based on IFRS	(6,012)	(3,965)
Accounting profit under Accounting Standards for Enterprise Business of the PRC	2,078	31,600
Tax at the domestic rate of 15%	312	4,740
Net tax effect of expenses not deductible for tax purposes and other factors	7,700	8,635
Tax expense	8,012	13,375

In respect of tax losses carried forward in the amount of RMB21,804,000 (2001: RMB1,956,000), no deferred tax asset was recognized because, from a current perspective, a tax benefit will probably not be realizable within a reasonable period. Events in future business years may require an adjustment to deferred tax assets.

12. DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data :-

	2002	2001
Net profit for the year	RMB725,000	RMB24,096,000
Issued shares	288,149,400	288,149,400

The Company has no issued shares with potential dilutive effect. Therefore, no diluted earnings per share is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Motor vehicles	Electronic equipment, office equipment and software	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
COST					
At 1st January, 2002	108,083	88,715	22,824	27,316	246,938
Additions	22,557	715	11,725	13,018	48,015
Transferred from	24,421	--	--	--	24,421
Construction in progress					
Disposals	(14,008)	(30,605)	(2,554)	(1,395)	(48,562)
At 31st December, 2002	141,053	58,825	31,995	38,939	270,812
ACCUMULATED DEPRECIATION					
At 1st January, 2002	23,731	43,763	11,516	13,878	92,888
Charge for the year	13,702	4,257	5,962	1,814	25,735
Written back on disposals	(2,629)	(5,506)	(1,547)	(993)	(10,675)
At 31st December, 2002	34,804	42,514	15,931	14,699	107,948
NET BOOK VALUE					
At 31st December, 2002	106,249	16,311	16,064	24,240	162,864
At 31st December, 2001	84,352	44,952	11,308	13,438	154,050

At the balance sheet date, the transfer of the Group's property, plant and equipment with an aggregate net book value of RMB37,409,300 (2001 : RMB34,248,270) has not been completed.

15. CONSTRUCTION IN PROGRESS

RMB' 000

Cost

At 1st January, 2002	53,816
Additions	17,792
Transferred to property, plant and equipment	(24,421)
Disposals	(13,154)
At 31st December, 2002	34,033

As the balance sheet date, Construction in Progress of the Group included land use

rights amounted to RMB30,609,000 (2001: RMB48,925,000) and equipment cost and design expenses amounted RMB3,424,000 (2001: RMB4,891,000).

16. GOODWILL

RMB' 000

COST

At 1 st January and 31 st December, 2002	43,917
--	--------

ACCUMULATED AMORTISATION

1st January, 2002	(4,392)
Charge for the year	(4,391)
31 st December, 2002	(8,783)

NET BOOK VALUE

At 31st December, 2002	35,134
At 31st December, 2001	39,525

Goodwill is amortised over its estimated useful life. The expected useful life of the goodwill arising on exchange of assets is 10 years.

17. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation, registration and operation	Effective rate of equity held	Principal activities
Shenzhen Pharmaceutical Plant (深圳市制藥廠)	China	100%	Manufacturing raw materials for chemical medicine, processing Chinese patent drug and medical chemical raw materials, import and export subject to the approve certification
Shenzhen Chinese Medicine General Plant (深圳市中藥總廠)	China	100%	Manufacturing oral liquid, tablets, capsule, pill, granule or powder preparations, external lotion and plastic bottles
Shenzhen Baokang Pharmaceutical Co., Ltd.	China	100%	Purchases and sales of Chinese medicinal materials, Chinese patent drugs, medicinal

(深圳市保康醫藥有限公司)			chemical materials, antibiotic preparations
Shenzhen Jian' an Pharmaceutical Company (深圳市健安醫藥公司)	China	100%	Western drugs, Chinese patent drugs, medical equipment, chemical reagent import and export business subject to the concerned provisions
Shenzhen Accord Pharm Materials Company (深圳市一致藥材公司)	China	100%	Chinese patent drugs, western patent drug and medical machinery
Shenzhen Chinese and Western Pharmaceutical Company (深圳市中西藥業有限公司, Formerly known as Shenzhen Shekou Pharmaceutical Company(深圳市蛇口醫藥公司))	China	30%	Chinese medical materials, Chinese patent drugs, chemical medicine preparation, antibiotic preparations, antibiotic preparations and medical health care products
Shenzhen Pharmaceutical Company (深圳市醫藥公司)	China	100%	Western medicine, chemical reagent, Chinese medical crop, Chinese patent drug, sanitary articles, cosmetics and medical apparatus
Shenzhen Accord Pharm Chain Store Co., Ltd. (深圳市一致醫藥連鎖有限公司)	China	100%	Chinese patent drugs, Western medicine and medical equipment
Shenzhen Medicine Trading Company (see Note 4 above) (深圳市醫藥貿易公司)	China	100%	Wholesale and retail of drugs and textile products

18. INTERESTS IN ASSOCIATES

	2002 RMB' 000	2001 RMB' 000 (As restated)
Investment cost	22,882	23,471
Share of results of associates	1,115	(589)
	<u>23,997</u>	<u>22,882</u>
Amount due from associates	51	30
Amount due to associates	(791)	(643)
	<u>23,257</u>	<u>22,269</u>

Details of the Company's associates at 31st December, 2002 are as follows:

Name of associates	Place of incorporation, registration and operation	Effective rate of equity held	Principal activities
Shenzhen Modern Computer Manufacture Co., Ltd.	China	45.9%	Developing and producing computer software and providing

(深圳市現代計算機有限公司)			external equipment
Shenzhen Futian Pharmaceutical Company (深圳市福田醫藥有限公司)	China	40%	Wholesales and retails of medicine
Dongyuan & Accord Pharm Chain Store Co., Ltd. (東源一致醫藥連鎖有限公司)	China	45%	Retails of medicine

19. INVENTORIES

	2002 RMB' 000	2001 RMB' 000
Raw materials	21,333	19,722
Work in progress	2,671	6,239
Finished goods	226,146	238,154
	<u>250,150</u>	<u>264,115</u>

The inventories are stated at cost .

20. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and bank balances, accounts and other receivables and amounts due from related companies. Financial liabilities of the Group include bank loans, accounts and other payables and receipts-in-advance. The Group is exposed to credit and interest rate risk arising from the normal course of the Group's business.

(a) Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

(b) Interest rate risk

The interest rates and terms of repayment of the bank loans of the Group are disclosed in note 24

(c) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values at the balance sheet date.

(i) Cash and bank balances

Cash and bank balances represent cash and short-term deposit placed at banks. The carrying amount of these assets approximates their fair value.

(ii) Accounts and other receivables and amounts due from related companies

An allowance has been made for estimated irrecoverable amounts of the accounts and other receivables, and amounts due from related companies by reference to past default experience. The Directors consider that the carrying amount of these assets approximates their fair value.

(iii) Bank loans

The carrying amount of bank loans approximates its fair value based on the borrowing rates currently available for bank loans with similar terms and maturity.

(iv) Accruals, accounts and other payables and amounts due to related companies

Accruals, accounts and other payables and amounts due to related companies are short-term in nature. The carrying amount of these liabilities approximates their fair value.

21. AMOUNTS DUE FROM / TO RELATED COMPANIES

Particulars of amounts due from / to related companies are as follows:

(a) Amounts due from related companies

	2002 RMB' 000	2001 RMB' 000
Trade: -		
Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	--	3,200
Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	13,857	13,935
Shenzhen Baihe Pharmaceutical Co., Ltd. (深圳市百合醫藥有限公司)	79	188
Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	4,575	8,412
Health Care Store of Pharmaceutical Company (醫藥公司保健商場)	200	203
Shenzhen Jiankang Pharmaceutical Company (深圳市健康醫藥公司)	30	17

Hainan Shenbao Industry Company (海南深寶實業公司)	--	100
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)		300
	<u>18,741</u>	<u>26,355</u>

Others:

Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	13,171	30,567
Shenzhen Jiankang Pharmaceutical Company (深圳市健康醫藥公司)	43	30
Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	1,355	1,630
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	6,536	--
Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	5	--
	<u>21,110</u>	<u>32,227</u>
	<u>39,851</u>	<u>58,582</u>

Shenzhen Investment Holding Corporation (深圳市投資管理公司) is the largest shareholder of the Company, and all of the above companies are the affiliates of Shenzhen Investment Holding Corporation (深圳市投資管理公司).

21. AMOUNTS DUE FROM / TO RELATED COMPANIES – (continued)

(b) Amounts due to related companies

	<u>2002</u> RMB' 000	<u>2001</u> RMB' 000
Trade: -		
Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	1,797	5,139
Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	252	174
Shenzhen Jianmei Pharmaceutical Company (深圳市健美醫藥公司)	24	394
Shenzhen Jiankang Pharmaceutical Company (深圳市健康醫藥公司)	3	--
Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	206	3,209
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	529	1,601
Shenzhen Pharmaceutical Oil Factory (深圳市藥用油廠)	--	56
Shenzhen Electronic Iatrical	--	3

Instrument Factory (深圳市醫用電子儀器廠)		
Neutral Factory (天然廠)	--	5,170
	2,811	15,746
Others: -		
Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	132	42
Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	228	565
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	1,648	5,043
Shenzhen Investment Holding Corporation (深圳市投資管理公司)	16	16
Shenzhen Jiankang Pharmaceutical Company (深圳市健康醫藥公司)	20	--
Health Care Store of Pharmaceutical Company (醫藥公司保健商場)	331	--
	2,375	5,666
	5,186	21,412

Shenzhen Investment Holding Corporation (深圳市投資管理公司) is the largest shareholder of the Company, and all of the above companies are the affiliates of Shenzhen Investment Holding Corporation (深圳市投資管理公司).

The amounts due from / to related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

22. SHARE CAPITAL

	2002 RMB' 000	2001 RMB' 000
Registered, issued and paid-up:		
233,263,800 'A' Shares of RMB1.00 per share	233,263	233,263
54,885,600 'B' Shares of RMB1.00 per share	54,886	54,886
	288,149	288,149

23. RESERVES

	Capital reserve RMB' 000	Surplus reserve RMB' 000	Accumulated losses RMB' 000	Total RMB' 000
Balance at 1st January, 2001	17,489	40,861	(58,363)	(13)
Net loss for the year				
- As previously stated	--	--	39,904	39,904
- Prior year adjustment (note 27)	--	--	(15,808)	(15,808)

- As restated	--	--	24,096	24,096
Transferred to surplus reserve				
- As previously stated	--	1,390	--	1,390
- Prior year adjustment (note 27)	--	(1,390)	--	(1,390)
- As restated	--	--	--	--
Balance at 31st December, 2001 and 1st January, 2002 (As restated)	17,489	40,861	(34,267)	24,083
Net profit for the year	--	--	725	725
Balance at 31st December, 2002	17,489	40,861	(33,542)	24,808

Capital reserve

According to relevant PRC regulations, capital reserve can only be utilised to increase share capital.

Surplus reserve

Surplus reserve includes surplus fund and welfare fund.

According to the relevant PRC regulations, surplus fund can be used to absorb losses and to issue bonus shares to shareholders according to their shareholding. Other than absorbing losses, any other usage should not result in the fund balance falling below 25% of the registered capital.

Welfare fund can only be utilised for the purposes of employee welfare facilities.

24. SHORT-TERM AND LONG-TERM LOANS

	2002 RMB' 000	2001 RMB' 000
Bank Loans:		
- secured	18,900	41,700
- unsecured	152,904	192,761
Other unsecured loans	352	6,152
	172,156	240,613
Less: Amount due within one year	(172,156)	(237,243)
Amount due after one year	-	3,370

The bank loans are interest bearing at annual rates ranging from 3.504% to 6.435% (2001: 3.504% to 10.593%).

Other loans are interest bearing at annual rate of 3.504% (2001: 3.504% to 6.345%).

25. SUBSIDIARIES NOT CONSOLIDATED

	2002 RMB' 000	2001 RMB' 000
Shenzhen Medicine Trading Company (深圳市醫藥貿易公司, see Note3) , at cost	(1,106)	--
Share of results of subsidiaries	--	--
	(1,106)	--
Amounts due from subsidiaries	3,416	--
Amounts due to subsidiaries	(11,760)	--
	(9,450)	--

26. PRIOR YEAR ADJUSTMENT

The examination carried by the taxation bureau showed that the Group should charged more operating expenses in the amount of RMB6,531,000 and other operating expenses in the amount of RMB9,277,000. The Group had made retroactive adjustments accordingly in the report year. Therefore the accumulated losses as at 1st January, 2002 had increased by RMB15,808,000 and surplus reserve decreased by RMB1,390,000.

27. CASH GENERATED FROM OPERATIONS

	2002 RMB' 000	2001 RMB' 000 (As restated)
Profit / (loss) before taxation	8,090	35,565
Adjustments :		
Interest income	(2,794)	(2,564)
Interest expenses	14,620	15,488
Depreciation	25,735	15,920
Loss on disposal of construction in progress	--	84
(Profit) / loss on disposal of property, plant and equipment	(133)	46
Amortisation of goodwill	4,391	4,392
Provision for impairment on revaluation of property, plant and equipment	48	--
Share of results of associates	(1,115)	(2,031)
Disposal of subsidiaries	(6,096)	--
(Increase) / decrease in inventories	(17,610)	11,612
Increase in accounts receivables and other receivables and amounts due from related companies	(28,936)	(2,493)
Increase in prepayments	(12,590)	(7,347)
Increase in accruals, accounts and other	60,918	27,617

payables, receipts-in-advance and amounts due to related companies		
Cash generated from operations	44,528	101,275

As a result of the change on the scope of consolidation, the inventories had decreased by RMB60,495,000, accounts receivable decreased by RMB26,082,000, prepayments decreased by RMB69,093,000. The accounts receivable decreased by RMB25,945,000 accordingly, as the associates paid their debts by goods and increased by RMB5,173,000, which was caused by the disposal of subsidiaries.

28. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

During the year, the Group purchased property, plant and equipment at a total cost of RMB51,750,000, of which RMB25,945,000 was paid by off-setting current accounts due to associates and RMB25,805,000 was paid by cash.

29. PROCEEDS ON DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed a subsidiary, Guangdong Ligu Pharmaceutical Co., Ltd. (廣東立國制藥有限公司, "Guangdong Ligu") and the fair value of the assets and liabilities were as followings:

	2002 RMB' 000
Cash and bank balance	18
Inventories	9,806
Accounts receivable and other receivable	11,750
Prepayments	464
Property, plant and equipment	36,416
Construction in progress	378
Goodwill	12,005
Accounts payable and other payable	(38,837)
Fair value of Guangdong Ligu	32,000
Share of interests disposed	51%
Total proceeds on disposal	16,320
Less: Payments by off-setting accounts payable	(15,020)
Cash and bank balance of Guangdong Ligu	(18)
Proceeds on disposal of subsidiaries	1,282

30. CONTINGENT LIABILITIES

At 31st December, 2002, the Group had given the following guarantees given to bankers in respect of banking facilities utilised: -

	2002 RMB' 000	2001 RMB' 000
Related companies	48,000	3,000
Associated companies	83,150	12,300
	<u>131,150</u>	<u>15,300</u>

31. CAPITAL COMMITMENTS

At 31st December, 2002, the Group had given the following capital commitments : -

	2002 RMB' 000	2001 RMB' 000
Contracted for but not provided for in the financial statements:		
Acquisition of property, plant and equipment	9,067	4,500
Development of technology knowhow	-	2,300
	<u>9,067</u>	<u>6,800</u>

32. OPERATING LEASE COMMITMENTS

At 31st December, 2002, the minimal rental payments in the following period of time based on the irrevocable operation leases of the Group were:

	2002 RMB' 000
Within one year	27,203
Over one year but less than 5 years	<u>25,226</u>
	<u>52,429</u>

33. PLEDGE OF ASSETS

At the balance sheet date, the Group's property, plant and equipment with an aggregate net book value of RMB7,401,325 (2001: RMB27,351,421) was pledged to banks for bank loans granted totalling RMB18,900,000 (2001: RMB41,700,000).

34. RELATED PARTY TRANSACTIONS

During the year, the Group had the following related party transactions:-

	2002 RMB' 000	2001 RMB' 000
(a) Sale of goods		
— Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	9,888	33,706
— Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	14,289	14,229
(b) Purchase of goods		

—	Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	7,716	15,623
—	Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	1,456	23,487
(c)	Rental expenses		
—	Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	836	1,646
(d)	Loan guarantee given		
—	Shenzhen Gaozhuo Pharmaceutical Co., Ltd. (深圳高卓藥業有限公司)	3,000	3,000
—	Shenzhen Modern Computer Manufacture Co., Ltd. (深圳市現代計算機有限公司)	83,150	12,300
—	Shenzhen Investment Holding Corporation (深圳市投資管理公司)*	45,000	--
(e)	Guarantee received		
—	Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	--	38,480
—	Shenzhen Accord Pharmaceutical Group Co., Ltd. (深圳市一致醫藥集團有限公司)	--	8,000
—	Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	--	3,000
—	Shenzhen Investment Holding Corporation (深圳市投資管理公司)	--	27,200
(f)	Purchase of assets		
—	Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	29,059	20,504
—	Shenzhen Modern Computer Manufacture Co., Ltd. (深圳市現代計算機有限公司)	1,200	--

* The Company had issued an indemnity letter to a related company, Shenzhen Investment Holding Corporation (深圳市投資管理公司), which had provided a guarantee to Xingye Bank (興業銀行) in respect of banking loans of RMB45,000,000.00 made to Shenzhen Modern Computer Manufacture Co., Ltd. (深圳市現代計算機有限公司).

35. RETIREMENT BENEFIT PLANS

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefit scheme is to make the specified contributions.

36. IMPACT OF IFRS ADJUSTMENTS ON NET PROFIT FOR THE YEAR AND NET ASSETS

Net profit for the year		Net assets as at 31st December	
2002	2001	2002	2001
RMB' 000	RMB' 000	RMB' 000	RMB' 000

As reported in the financial statements by the PRC auditors	4,923	21,105	333,335	338,201
IFRS adjustments :				
Over deficit of subsidiaries	(10,210)	(396)	(396)	-
Written off of accounts payables	25	502	--	-
Goodwill and related amortisation	5,987	2,885	(19,982)	(25,969)
As restated based on IFRS	<u>725</u>	<u>24,096</u>	<u>312,957</u>	<u>312,232</u>

37. COMPARATIVE FIGURES

Certain comparative figures had been reclassified in conformity to the presentation of the financial statements for the year.

XI. DOCUMENTS AVAILABLE FOR REFERENCE

1. Accounting Statements with signatures and seals of the legal representative, Chief Accountant and person in charge of accounting affairs;
2. Original of Auditors' Report carried with the seal of Certified Public Accountants as well as personal signatures and seals of certified public accountants;
3. Originals of all documents and manuscripts of Public Notices of the Company disclosed in public in Securities Times and Ta Kung Pao designated by CSRC in the report period;
4. Original of Annual Report with signature of the Chairman of the Board.

The depositary of documents: Secretariat of the Company, AP Building, No. 15 Ba Gua 4th Rd., Futian Dis., Shenzhen

The Annual Report was prepared in Chinese version and English version. If there is different in understanding the two versions, Chinese version shall prevail.

Chairman of the Board: Guo Yuan
Shenzhen Accord Pharmaceutical Co., Ltd.
Apr. 18. 2003