

Shenzhen Accord Pharmaceutical Co., Ltd.

2003 Annual Report

April 2004

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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 Officer Mr. Qin Changsheng and Person in charge of Accounting Organ Ms. Lai Wanying hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

CHAPTER 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

Fax: (86) 755-25875166

E-mail: champion@szaccord.com.cn

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.szse.cn>

<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) Initial registration date: Aug. 2, 1986**

Initial registration place: Shenzhen, China

(2) Registration date after change: Dec. 24, 2001

Registration place after changed: Shenzhen, China

(3) Registered number for business license of corporation: 4403011001677**(4) Registered number of taxation: GS Zi No. 440301192186267**

SDSD Zi No. 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

CHAPTER II. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

Section I. Main business data as of the year 2003

1. Major profit indexes

Unit: RMB'000

Items	Amount
Total Profit	12,233
Net Profit	15,191
Net profit after deducting non-recurring gains and losses	8,858
Profit from main operations	429,050
Other operating profit	11,759
Operating profit	19,685
Investment income	-14,927
Subsidy income	9,401
Net non-operating income/expenses	-1,927
Net cash flow arising from operating activities	81,221
Net increase in cash and cash equivalents	54,351

Note: Items of deducting non-recurring gains and losses and the relevant amounts

Name	Amount (Unit: RMB'000)
(1) Subsidy income	9,401
(2) Non-operating income	1,192
(3) Reversal of reserve for devaluation over the past years	1927
(4) Income from technology transfer fee	1,156
(5) Losses on of equity investment	4,281
(6) Non-operating expenses	1,239
(7) Income tax to be deducted	934
Total	7,222

2. Difference in net profit as audited by Chinese and International auditors and explanation

In 2003, as audited according to Chinese Accounting Standards (CAS) and International Accounting Standards (IAS), the Company's net profit was RMB 15,191,000 and RMB 14,345,000 respectively. The explanations on reason of difference are as following:

	Net profit (RMB'000)
	2003

As reported in accordance with IAS	14,345
(1) Registration fee of trademark	79
(2) losses arising from over book value of investment of subsidiaries	8,344
(3) Goodwill and related amortization	-7,577
As restated based on Accounting System for enterprise business	15,191

Section II. Major accounting data and financial index over previous three years ended the report period

Financial indexes	Unit	2003	2002	2001	
				After adjustment	Before adjustment
Income from main operations	RMB'000	1,780,874	1,869,938	1,668,675	1,668,675
Net profit	RMB'000	15,191	4,923	21,105	36,517
Total assets	RMB'000	1,008,327	1,052,597	1,116,129	1,118,169
Shareholders' equity (excluding minority interests)	RMB'000	341,584	333,335	338,201	354,009
Earnings per share	RMB/share	0.053	0.017	0.073	0.127
Net assets per share	RMB/share	1.185	1.157	1.174	1.229
Net assets per share after adjustment	RMB/share	1.110	0.997	0.920	0.975
Net cash flow per share arising from operating activities	RMB/share	0.282	0.100	0.247	0.247
Return on equity	%	4.447	1.477	6.240	10.32
Weighted average return on equity	%	4.456	1.454	6.443	10.88
Weighted average return on equity after deducting non-recurring gains and losses	%	2.337	-1.453	5.103	9.677

Section II.I Supplemental statement of profit

Profit in the report period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	125.606	125.847	1.489	1.489
Operating profit	5.763	5.774	0.068	0.068
Net profit	4.447	4.456	0.053	0.053
Net profit after deducting non-recurring gains	2.333	2.337	0.028	0.028

and losses				
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Note: The data of profit listed in supplemental statement of profit are calculated according to the requirements of Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) released by CSRC.

Section IV. Changes in shareholders' equity and reasons in the report year

Items	Share capital	Capital reserve	Surplus public reserve	Statutory public welfare funds	Retained profit	Unrecognized investment losses	Total shareholders' equity
Amount at the period-begin	288,149,400.00	15,760,290.79	40,860,055.19		-1,225,155.43	-10,209,533.60	333,335,056.95
Increase in the report period		1,402,296.00			15,190,725.18	-8,343,928.20	8,249,092.98
Decrease in the report period							
Amount at the period-end	288,149,400.00	17,162,586.79	40,860,055.19		13,965,569.75	-18,553,461.80	341,584,149.93
Reason for change		Note 1			Note 2	Note 3	

Note 1: Increase in the report period was the result of the Company received reducing of remitting land-value funds returned by State Land Department;

Note 2: Increase in the report period was because the Company realized a net profit in 2003.

Note 3: Increase in the report period was because Shenzhen Accord Pharmaceutical Chain Co., Ltd., subsidiary of the Company, has a deficit in 2003.

CHAPTER III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

Section I. Statement of change in share capital (Ended Dec. 31, 2003)

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. Sponsors' 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

Section II. Issuance and listing of shares

The Company was established as a joint stock company with limited liability through the reorganization for the joint stock system on Feb. 1, 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, As approved by Shenzhen Branch of the People's Bank of China, the Company issued an additional 30 million 'A' shares (including 10 million raised legal person shares, 16.5 million public shares and 3.5 million employees' shares) and 20 million 'B' shares at issuing price of RMB 3.50 per share (HK\$ 3.17) from May 5, 1993 to June 5, 1993. At present, all the employees' shares, domestic and foreign public shares are listed in the Shenzhen Stock Exchange for trading.

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.

The Company was formerly known as Shenzhen Health Mineral Water Co., Ltd., which is engaged in the production and marketing of natural mineral water and related beverage. In November 2000, the Company signed the Agreement on Exchange of Assets with Shenzhen Investment Holding Corporation, the Company's largest shareholder. According to the agreement, the Company was required to exchange all of its assets and liabilities for 100% equity interests in 11 pharmaceutical enterprises, partial properties and 51% equity interests in Shenzhen SDG Modern Computer Co., Ltd. which were originally owned by Shenzhen Investment Holding Corporation. The exchange of assets was based on the fair value of the assets to be exchanged on Aug. 31, 2000. On Dec. 29, 2000, the Company voted and approved the aforesaid proposal on the agreement of exchange of assets in the 2nd Extraordinary Shareholders' Meeting 2000. The transaction was completed on Jan. 8, 2001. On June 18, 2001, the Company's changed its name from Shenzhen Health Mineral Water Co., Ltd. to Shenzhen Accord Pharmaceutical Co., Ltd.

In 2001 and 2002, the Company conducted neither profit distribution nor capital public reserve transferring into share capital.

Section III. About shareholders

1. Ended Dec. 31, 2003, the Company had totally 29,242 shareholders, including 18,960 shareholders of A-share and 10,282 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders (Ended Dec. 31, 2003)

Shareholders' name	Increase/ Decrease in	Number of shares held in	Proportion (%)	Type of share (Circulating/non	Number of shares	Nature of shareholder
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	this year (share)	the year-end (share)		-circulating)	pledged or frozen (share)	(State-owned shareholder or foreign shareholder)
Shenzhen Investment Holding Corporation	0	124,864,740	43.33	Non-circulating	Unknown	State-owned shareholder
Shenzhen Baoan District Shiyan Town Economic and Development Corporation	0	26,070,660	9.05	Non-circulating	16,079,700	Legal person's share
Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	0	13,942,800	4.84	Non-circulating	13,846,000	Legal person's share
Shenzhen Wangzong Industrial Co., Ltd.	0	5,303,200	1.84	Non-circulating	Unknown	Legal person's share
Nanjing Junyue Investment and Consultation Co., Ltd.	0	5,000,000	1.74	Non-circulating	Unknown	Legal person's share
CHAN PONG HUNG	-171,000	1,567,571	0.54	Circulating	Unknown	B-share in circulating
Wuxi Huaxin Investment Management Co., Ltd.	0	1,396,800	0.48	Non-circulating	Unknown	Legal person's share
Shanghai Shisheng Enterprise Development Co., Ltd.	0	1,000,000	0.35	Non-circulating	Unknown	Legal person's share
SONG LI RONG	875,117	875,117	0.30	Circulating	Unknown	A-share in circulating
Tianjin Polytechnic University	825,345	825,345	0.29	Circulating	Unknown	A-share in circulating
Explanation on associated relationship among the top ten shareholders or consistent actionist	Among the above top ten shareholders, there exists no associated relationship among state-owned shareholder 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 Companies. For other shareholders of circulation share, the Company is unknown their relationship.					

3. Particulars about pledging and freezing of the shares held by legal person shareholders holding over 5% of 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 provided 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, 2003 to Dec. 24, 2004.

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 turnover 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.

6. Particulars about the shares held by the top ten shareholders

Shareholders' name (full name)	Number of circulation shares held at the year-end	Type (A-share, B-share, H-share and other)
CHAN PONG HUNG	1,567,571	B-share
SONG LI RONG	875,117	A-share
Tianjin Polytechnic University	825,345	A-share
Hainan Gefon Network Security Co., Ltd.	819,499	A-share
Shanghai Xiaoshen Air Conditioning Equipment Co., Ltd.	783,309	A-share
Kunming Tianhao Stage Sound and Lighting Engineering Co., Ltd.	741,090	A-share
Shanghai Jiaying Real Estate Development Co., Ltd.	689,956	A-share
Tianjin Zhenyuan New Type Pillow Plant	649,401	A-share
Urumchi Huixinhong Industry & Trade Co., Ltd	636,200	A-share
Shanghai Huayi Group International Trade Co., Ltd.	591,500	A-share
Explanation on associated relationship among the top ten shareholders of circulation share	Among the top ten shareholders of circulation share, the Company is unknown their relationship.	

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

Section I. Directors, supervisors and senior executives

1. Name list of directors, supervisors and senior executives at the end of the report period

Name	Title	Sex	Age	Office term	Number of shares held at the period-end (share)	Number of shares held at the period-begin (share)
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Guo Yuan	Chairman of the Board	Male	50	Dec. 18, 2001- the expiration of the office term	0	0
Zeng Yuxiang	Vice Chairman of the Board	Male	58	Jun. 30, 2000- the expiration of the office term	0	0
Su Yanwei	Director, General Manager	Male	43	Aug. 22, 2002- the expiration of the office term	0	0
Qin Changsheng	Director, CFO	Male	43	Dec. 29, 2000- the expiration of the office term	0	0
Yuan Xueping	Director	Female	42	Jun. 27, 2002- the expiration of the office term	0	0
Liao Yuchun	Director	Male	55	Jun. 30, 2000- the expiration of the office term	0	0
Hao Zhujiang	Independent Director	Male	51	Jun. 27, 2002- the expiration of the office term	0	0
Guo Jinlong	Independent Director	Male	42	Jun. 27, 2002- the expiration of the office term	0	0
Zhu Dixin	Chairman of the Supervisory Committee	Male	56	Dec. 29, 2000- the expiration of the office term	0	0
Shen Tianfang	Supervisor	Male	54	Jun. 15, 2001- the expiration of the office term	0	0
Zhao Junpeng	Supervisor	Male	35	Jun. 30, 2000 - the expiration of the office term	0	0
Wang Qiuhui	Deputy General Manager	Female	47	May 10, 2001- the expiration of the office term	0	0

Gao Guoshi	Deputy General Manager	Male	50	May 10, 2001- the expiration of the office term	0	0
Tan Guoshu	Deputy General Manager	Male	49	Jun. 11, 2003- the expiration of the office term	0	0
Ou Jianneng	Deputy General Manager	Male	45	Jun. 11, 2003- the expiration of the office term	0	0
Chen Changbing	Secretary of the Board of Directors	Male	36	Dec. 29, 2000- the expiration of the office term	0	0

2. Particulars about the position held by directors and supervisors 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 2003, the annual remuneration of 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 wage reformation measure laid down by the Company. The Board of Directors drew up the operation targets for the management team at the year-begin and calculated the rewards based on the accomplishment of the targets at the year-end. In accordance with the Implementation Measure on Annual Remuneration of Operator of Shenzhen Municipal State-owned Enterprise with the document Shenzhen-Government [2003] No. 73 issued by Shenzhen Municipal Government, the remuneration of the Company's Chairman of the Board and General Manager was implemented based on annual remuneration system, their annual

bonus was paid by Shenzhen Investment Holding Corporation in line with the Company's operation and outstanding achievement.

At the end of 2003, there were 16 directors, supervisors and senior executives in office at present, and 9 persons drew their salary from the Company, whose total annual salary (including base salary, reward, welfare, subsidy and allowance etc.) received from the Company was RMB 2,698,000. Of them, 3 enjoy the annual salary between RMB 160,000 and RMB 200,000 respectively, 5 enjoy the annual salary between RMB 240,000 and RMB 300,000 respectively, and 1 enjoys the annual between RMB 310,000 and RMB 330,000. The total amount of annual remuneration of the top three directors and supervisors drawing the highest payment was RMB 657,000; the total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB 844,000. Independent director Mr. Hao Zhujiang and Mr. Guo Jinlong drew the allowance of RMB 30,000 respectively from the Company (tax included); the expenses that they attended the Board meeting and shareholders' general meeting are reimbursed according to the Company's regulations.

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

4. Particulars about directors and senior executives leaving their post or engaging in the report period

(1) On Jan. 3, 2003, the extraordinary meeting of the 3rd Board of Directors agreed that Mr. Tan Minghua no longer took the posts of Vice Chairman of the Board and Director and additionally elected Mr. Su Yanwei as Director of the Company.

(2) On Jun. 11, 2003, the extraordinary meeting of the 3rd Board of Directors engaged Mr. Tan Guoshu and Mr. Ou Jianneng as Deputy General Manager of the Company.

(3) On Oct. 21, 2003, the 23rd meeting of the 3rd Board of Directors agreed that Ms. Zhang Quanhuan resigned the post of Director of the Company due to retirement.

(4) On Feb. 27, 2004, the 25th meeting of the 3rd Board of Directors agreed that Mr. Su Yanwei no longer took the post of General Manager of the Company, while Mr. Shi Jinming was engaged as General Manager; Mr. Qin Changsheng no longer took the post of Chief Financial Officer, while Ms. Ling Jing was engaged as Chief Financial Officer of the Company.

Section II. Number of employees and professional quality

At end of the year 2003, the Company had totally 2,746 on-the-job employees.

Profession/occupation composition		
Profession	Number	Proportion (%)

Education Background		
Education	Number	Proportion (%)

Production personnel	413	15.04	Master degree or above	62	2.26
Salespersons	1025	37.32	Bachelor degree	497	18.10
Technicians	572	20.83	3-years regular college graduate	578	21.05
Financial personnel	118	4.30	Polytechnic school graduate	845	30.77
Administrative personnel and others	618	22.51	Senior high school graduate or below	764	27.82
Total	2746	100	Total	2746	100

At the end of the report period, the Company had totally 214 retirees, whose pensions were borne by Shenzhen Municipal Social Insurance Bureau. The Company took on the expenses of 65 employees who retired early.

CHAPTER 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 further enacted and perfected the other management regulations, continually perfected administration structure based on setting down rules of procedure of “three meetings and one team” (namely shareholders’ general meeting, board of directors, supervisory committee and management team) and work detailed rules, the material situations are as following:

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 organs operated independently.
3. Directors and the Board of Directors: The election and engaging procedures of director was regulated in the Articles of Association of the Company, 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 established Rules of Procedures of Board of Directors; routine meeting of the Board of Directors and decision-making work

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.

Although the Company has elected two independent directors according to the regulations and procedures, and perfected the system of independent directors step by step, whereas, the Company should additionally engage one independent at least so as to reached one third of number of persons of board of directors in line with the relevant regulations of Administrative Rules of Listed Company and Guidelines Opinion on Establishing Independent Director in Listed Companies. After the new controlling shareholder entered the Company, the Company will additionally engage independent director according the demands of the relevant laws and rules in order to further perfect 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.

Section II. Performance of the Independent Directors

Mr. Hao Zhujiang and Mr. Guo Jinlong who were engaged by the Company are

independent directors of the 3rd Board of Directors. 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 significant matters examined by the Board of Director (especially the proposals that independent directors need issue independent opinion) according to requirements since holding their post; independent directors guided the daily operating, legal affairs and financing management of the Company; made independent judgment on the decision-making of operating and engagement of senior executives; performed their relevant duties.

Section 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. The purchasing center, subsidiaries and production enterprises are responsible for purchasing all medicine, appliance and raw resources used in production and distributing products. Production, supply and distribution departments and R&D are separate from each other. The Company was independent legal 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 completely 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.

Section 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 performance checking system by the month from the year 2003, and carried out the level checking system for the senior executives, whose results were directly related to their benefit wages. According to the 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.

CHAPTER VI. PARTICULARS ABOUT THE SHAREHOLDER' GENERAL MEETING

In the report period, the Company held the Shareholders' General Meeting once, namely the Shareholders' General Meeting of 2002.

1. The Company published the notice on holding the Shareholders' General Meeting of 2002 in Securities Times and Kung Pao dated Apr. 18, 2003, and the Meeting was fixed on May 19, 2003.

2. The Shareholders' General Meeting of 2002 was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on the morning of May 19, 2003. There were 5 shareholders and shareholders' proxies attended the meeting who represented 170,231,400 shares, taking 59.08% of total shares with voting right of the Company (including 4 shareholders and shareholders' proxies of A shares who represented 170,181,400 shares, taking 59.05% of total shares with voting right of the Company; 1 shareholder of B shares who represented 50,000 shares, taking 0.017% of total shares with voting right of the Company, as well as taking 0.029% of total shares with voting right of attending meeting). The following resolutions were examined and approved by means of registered voting in the Shareholders' General Meeting:

- (1) Approved Work Report 2002 of the Board of Directors;
- (2) Approved Work Report 2002 of the Supervisory Committee;
- (3) Approved 2002 Financial Settlement Report;
- (4) Approved 2002 Profit Distribution Plan;
- (5) Approved Annual Report 2002;
- (6) Approved the Proposal on Additionally Electing Su Yanwei as Director of the Company;
- (7) Approved the Proposal on Reengaging Certified Public Accountants.

Beijing Tong Shang Law Firm witnessed this meeting on the spot in terms of its convening, holding, voting and legitimacy and validity of resolutions and issued a Law Opinion.

3. The resolutions of the shareholders' general meeting 2002 were published in Securities Times and Ta Kung Pao dated May 20, 2003.

CHAPTER VII. REPORT OF THE BOARD OF DIRECTORS

Section I. Discussion and Analysis of the Management

In 2003, the Company actively adapted itself to the competitions and changes in the market, emphasized to push all work with deepening reform and transforming mechanism as the drive, with implementing competitive positions taking for all staffs and improving assessment system as the means and with expanding market, reinforcing marketing, enhancing services and further tamping foundation as the emphasis, completed all operating indexes and gained relatively good operating results.

1. Itemizing market, positioning specialty and expanding business

In 2003, based on canceling the qualifications of legal persons of several pharmaceutical commercial enterprises and establishing branches, the Company has set up pharmaceutical logistics division. On the one hand, through peeling off such background businesses as purchase, distribution, settlement and etc., the Company has set up operating platform with comprehensive purchase, storage, distribution, settlement and information system resources share. On the other hand, aiming at various kinds of customer groups and various kinds of regional markets, the Company has conducted specialty division and positioning with various features to all sales branches: Pharmaceutical Branch gave priority to serving pharmaceutical terminal market; Jianmin Branch gave priority to individualized service of new specific medicines in pharmaceutical terminal market; Jianfeng Branch gave priority to sales and distribution in OTC market; Appliance Branch pitched the medical appliance market; Medicinal Material Company pitched the market of Chinese medicinal materials and retail chain market; Medicine Operation Branch gave priority to whole distribution and whole agency all over the country. Through the market itemization and specialty division, the resources collocation was optimized, which has enhanced the market expansion capability of the Company's pharmaceutical logistics business, increased the sales and

expanded the market share.

2. Making objective clear, pulling out all stops and doing bidding well

In 2003, in the emphasis of centralized bidding and purchase for medicine in Shenzhen, the Company improved the organizational system of bidding and centralized the best resources in personnel, finance and materials with clear work division and responsibility division to individuals, which has ensured the smooth progress of bidding and has made the Company gain good achievements. The bidding hitting rate of the Company was 45.8% and the varieties of getting bidding took 34.4% in total varieties of getting bidding in the whole city, ranking the 1st in Shenzhen.

3. Adjusting strategy, cultivating varieties and making sales good

Making use of network resources in pharmaceutical wholesale and retail terminal, the pharmaceutical logistics division has cultivated a set of big variety with market potential and profitability jointly with the production enterprises. In the pharmaceutical enterprise, Shenzhen Pharmaceutical Factory implemented the marketing mode of “With operation as the core and with sales as the accessory” and “Both distribution and agency”, which made the products keep good market share. The sales volume of main products, namely “Federal Cough Syrup” and “Dali Xinzhen”, both exceeded 10 million bottles, which both became products with their sales volume exceeding RMB 100 million. Shenzhen General Plant of Chinese Traditional Medicine put emphasis on reinforcing the development of blankness in clinical market and actively pushed the sales growth of main products, namely “Jian’er Qingjie Ye” and “Qingbai” series products according to the principle of key regional markets, key hospitals, key varieties and key investments.

4. Receiving challenge of SARS epidemic and completing the supply task of medicine

As a reserve unit of medicine and a supply unit of medical instruments for prevention from SARS epidemic designated by Shenzhen municipal government, during the period of oppugning SARS epidemic in 2003, the Company has assumed the supply of medicine and appliances for preventing from SARS epidemic by over 80% in all big hospitals in Shenzhen and by 40% in retail market. Organizing all forces and mobilizing all resources, the Company strictly implemented the price policy of the State, fully exerted its function as the main channel supply enterprise of medicine, gained relatively good social benefits and economic benefits and was commended by Shenzhen municipal government, Guangdong Economic & Trade Commission and Guangdong Association of Pharmaceutical Industry.

5. Continuing to reinforce the management of technical quality and gaining new effect in GSP certification

Based on that Shenzhen Pharmaceutical Factory and Shenzhen General Plant of Chinese Traditional Medicine have passed GMP certification of the State and Shenzhen Pharmaceutical Company and Shenzhen Accord Pharmaceutical Chain Co., Ltd. have passed GSP certification of the State, the Company also passed GSP certification as a whole in 2003.

6. Through equity transfer, implementing “To invigorate large enterprises while relaxing control over small ones” and separation of the core from the accessory and reducing the Company’s operating risks

In 2003, through transferring its 45.9% equity of Shenzhen Modern Computer Co., Ltd., the Company realized the separation of the core from the accessory; restructuring through transferring 79% equity of Shenzhen Jian’an Pharmaceutical Company and introducing into external shareholders of legal persons, the Company realized the transfer of operating mechanism of this enterprise; through the disposal of stopping operation of Pharmaceutical Trade Company with operating crisis caused by material dispute of medical sales and supply, the Company held back the enlargement of operating risks.

Section II. Operation of the Company

I. The scope of main operations was 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.

II. Formation of income from main operations

In the report period, the Company realized income from main operations, total profit and net profit amounting to RMB 1,780,874,000, RMB 12,233,000 and RMB 15,191,000 respectively.

1. Formation of income from main operations classified according to industries (Unit: RMB’000)

Industries	Revenue	Proportion in revenue (%)	Gross profit of operation
Medical industry	452,909	16.85	253,418
Medical wholesale	1,908,084	70.99	118,367
Medical retail	271,575	10.10	58,544
Non-medical trade	55,355	2.06	1,946
Counteracting between internal	907,049		589

industries			
Total	1,780,874		431,686

2. Income from main operations classified according to areas (Unit: RMB'000)

Item	Income from main operations	Cost of main operations
Domestic sales	1,730,188	1,299,252
Oversea sales	50,686	49,936
Total	1,780,874	1,349,188

The main sales area of the Company in 2003 was in the area of Shenzhen.

3. Operation of the main industrial products

Items	Sales income (RMB'000)	Cost of sales (RMB'000)	Gross profit ratio (%)
Federal Cough Syrup	120,575	26,334	78.16
Series products of head spore	220,463	121,174	45.04
Jian'er Qingjie Ye	21,353	9,434	55.82
Total	362,391	156,943	56.69

4. Operations and achievements of important affiliated 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, all of which passed GMP certification. The total assets of this Factory was RMB 245,929,000 with registered capital amounting to RMB 24,190,000. In 2003, Shenzhen Pharmaceutical Factory implemented the marketing mode of "With operation as the core and with sales as the accessory" and "Both distribution and agency", which made the products keep good market share. The sales volume of main products, namely "Federal Cough Syrup" and "Dali Xinzhen", both exceeded 10 million bottles, which both became products with their sales volume exceeding RMB 100 million. In 2003, this Factory realized sales income and net profit amounting to RMB 349,090,000 and RMB 28,298,000 respectively. Four projects such as "Cefuroxime Sodium" and etc. of Shenzhen Pharmaceutical Factory was recognized as high-tech projects in Shenzhen and this Factory was also recognized as a high-tech enterprise in the city and was awarded a quality and benefit-typed enterprise in Guangdong. Two leading products, namely "Cefuroxime Sodium" and "Federal Cough Syrup", in this

Factory were appraised as brand products in the pharmaceutical industry in Guangdong.

(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 248,675,000 and a registered capital of RMB 1,250,000. 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 2003, this company realized sales income and net profit amounting to RMB 636,673,000 and RMB 2,692,000 respectively.

III. Major suppliers and customers

In the report period, the total amount of purchase for the top five suppliers was RMB 115,350,000, taking 12.56% of the total annual amount of purchase and the total amount of sales for the top five customers was RMB 239,397,000, taking 13.44% of the total sales income.

IV. Problems and difficulties from the operation and solutions

Since the market competition was intense and gross profit space was limited in the pharmaceutical industry, the Company's profitability capability was seriously influenced. Thus, the Company would adopt the following measures in the work in 2004:

1. Transferring purchase concept, reforming the current purchase system and establishing operating mode of "With purchase as the lead and with varieties as the main line" so as to ensure the decrease in purchase cost and quantifying the assessment indexes to the purchase.
2. Adopting flexible mode of business operation and enhancing sales scale, including actively expanding non-bidding market; optimizing variety structure, reinforcing the cooperation with advanced pharmaceutical logistics enterprises in Guangdong and enhancing sales scale; probing into new operating status etc..
3. Striving for the support and cooperation of a new shareholder, namely Sinopharm Medicine Holding Co., Ltd., in variety resource and sales network, seeking for the combination with Sinopharm Medicine Holding Guangzhou Co., Ltd. in medical purchase and realizing the mutual supplement of advantages of both parties in South China area.
4. Continuing to strengthen the cultivation to whole agency, whole distribution and large variety and trying hard to expand the market.

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 reasons for changes in financial position and operating results

Unit: RMB'000

Items	Jan.-Dec. 2003	Jan.-Dec. 2002	Increase/decrease rate
Income from main operations	1,780,874	1,869,938	-4.76%
Profit from main operations	429,050	410,397	4.54%
Net profit	15,191	4,923	208.58%
Net increase in cash and cash equivalents	54,351	-49,7291	-
Items	Amount at the end of report period	Amount at the beginning of report period	Increase/decrease rate
Total assets	1,008,327	1,052,597	-4.21%
Shareholders' equity	341,584	333,335	2.47%

Notes: (1) The main reason why income from main operations decreased was that after transferring the 79% equity of Shenzhen Jian'an Pharmaceutical Company, an affiliated company of the Company, in June 2003, the Company did not consolidate its statements any more since the second half of the year.

(2) Though the Company's gross profit ratio still continued to decrease in wholesale and retail business in the year, due to the reason in the above item (1), non-medicine trade of this company with low gross profit ratio was also no longer reckoned in the sales of the Company; at the same time, the industrial enterprises of the Company reinforced the management and control on internal cost, which made the Company's gross profit ratio enhance somewhat compared with the last year.

(3) The reasons for increase in net profit were mainly: The gross profit ratio increased;

In 2002, influenced by the arbitration results of Shenzhen Pharmaceutical Trade Company, a subsidiary of the Company, the bank loan guarantee provided by Shenzhen Pharmaceutical Factory and Shenzhen Pharmaceutical Co., another two subsidiaries of the

Company, to the Company respectively was RMB 3.80 million and RMB 3 million, which was reckoned in the estimated liabilities at full amount, thus making the gains and losses in that year decrease. However, there existed no such situation in 2003, which was also the reason why the net profit increased over the last year.

(4) The main reasons for increase in net amount of cash and cash equivalents were: on the one hand, the Company's affiliated industrial enterprises actively adopted the sales way of ready money and merchandise on hand, which made the cash flow status of the said enterprises take on good trend; on the other hand, while reinforcing the refund of sold commodities, the Company's pharmaceutical logistics division adopted such ways as flexible settlement in purchase payment, which enhanced the use efficiency of capital and thus made net cash flow from operating activities of the Company increase by a large margin.

(5) The decrease in total assets was mainly because the Company no longer consolidated the statements of Shenzhen Jian'an Pharmaceutical Company in the statements at the end of the period.

(6) The increase in shareholders' equity was mainly due to the net profit realized by the Company.

Section V. Influence of changes in 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.

2. The State 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 and increasingly improvement of bidding and purchase system of medicine put forward much higher requirements to the Company's distribution service of medicine and at the same time would made the Company's gross profit ratio of sales further decrease.

3. Changes have been taking place in the market structure of medical commerce. 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 market competition in medical retail was intense.

Section VI. Routine work of the Board of Directors

In the year, the Board of the Company held the Meetings and made the resolutions with details as follows:

(1) On Jan. 2, 2003, the Temporary Meeting of the 3rd Board of Directors of the Company considered and passed Proposal on Adjusting Partial Directors, where Mr. Tan Minghua was approved to no longer assume the positions of Vice-chairman and Director in the Board and Su Yanwei was supplemented as Director with agreement.

The said resolutions were published on Securities Times and Ta Kung Pao dated Jan. 4, 2003.

(2) On Feb. 11, 2003, the Temporary Meeting of the 3rd Board of Directors of the Company considered and passed Proposal on Transferring Equity of its Controlling Enterprise by Shenzhen Modern Computer Co., Ltd., where it agreed Shenzhen Modern Computer Co., Ltd. to transfer its 51% equity of Beijing Modern CS&S Technology Co., Ltd.; considered and passed Proposal on Transferring Equity of Shenzhen Baokang Pharmaceutical Co., Ltd. where it agreed to transfer 89.9% equity of Shenzhen Baokang Pharmaceutical Co., Ltd., held by the Company; considered and passed Proposal on Restructuring of Shenzhen Jian'an Pharmaceutical Company; considered and passed Proposal on Stopping Operation of Shenzhen Pharmaceutical Trade Company.

The said resolutions and the arbitrations involved by Shenzhen Pharmaceutical Trade Company were published on Securities Times and Ta Kung Pao dated Mar. 8, 2003.

(3) On April 16, 2003, the 20th Meeting of the 3rd Board of Directors of the Company considered and passed Financial Settlement Report 2002, Profit Distribution Preplan 2002, Work Report of the Board of Directors 2002, Annual Report and its Summary 2002, Proposal on Renewal of Certified Public Accountants, Detailed Rules on Work of General Manager, Proposal on Canceling Bad Inventories in Such Three Enterprises as Shenzhen General Plant of Chinese Traditional Medicine etc. and Proposal on Holding Annual Shareholders' General Meeting 2002.

The said resolutions were published on Securities Times and Ta Kung Pao dated Apr. 18, 2003.

(4) On Apr. 28, 2003, the 21st Meeting of the 3rd Board of Directors of the Company considered and passed the 1st Quarterly Report 2003.

The said resolution was published on Securities Times and Ta Kung Pao dated Apr. 29, 2003.

(5) On June 11, 2003, the Temporary Meeting of the 3rd Board of Directors considered and

passed Proposal on Applying for Credit Limit Amounting to RMB 80 million from China Everbright Bank and considered and passed Proposal on Engaging Deputy General Manager, where Mr. Tan Guoshu and Mr. Ou Jianneng were engaged as Deputy General Managers of the Company.

The resolutions were published on Securities Times and Ta Kung Pao dated June 14, 2003.

(6) On Aug. 20, 2003, the 22nd Meeting of the 3rd Board of Directors of the Company considered and passed Semi-annual Report and its Summary 2003.

The Summary of Semi-annual Report 2003 was published on Securities Times and Ta Kung Pao dated Aug. 22, 2003.

(7) On Sept. 4, 2003, the Temporary Meeting of the 3rd Board of Directors of the Company considered and passed Proposal on Dispatching Directors, Supervisors and Legal Representative to the Affiliated Enterprise submitted by the Management.

(8) On Oct. 21, 2003, the 23rd Meeting of the 3rd Board of Directors of the Company considered and passed the 3rd Quarterly Report 2003 and Proposal on Supplementing Independent Directors and Nominating Candidates of Independent Directors.

The 3rd Quarterly Report and the resolutions of the Meeting were published on Securities Times and Ta Kung Pao dated Oct. 23, 2003.

(9) On Dec. 26, 2003, the 24th Meeting of the 3rd Board of Directors of the Company considered and passed Proposal on Providing Renewal of Guarantee for Credit Limit Amounting to USD 4 Million of Shenzhen Modern Computer Co., Ltd. and Proposal on Transferring Equity of Shenzhen Modern Computer Co., Ltd., where it agreed to transfer 45.9% equity of Shenzhen Modern Computer Co., Ltd., held by the Company, to Shenzhen Yinghai Technology and Investment Co., Ltd..

The resolutions were published on Securities Times and Ta Kung Pao dated Jan. 7, 2004.

Section VII. Profit Distribution Plan 2003

Audited by Nanfang Minhe Certified Public Accountants, the Company realized net profit amounting to RMB 15,191,725.18 in 2003. According to the provisions in the Articles of Association of the Company, after being offset the losses in the previous years amounting to RMB 1,225,155.43 and being appropriated 10% of the net profit as statutory reserve amounting to RMB 1,396,556.98 and 5% of the net profit as statutory welfare amounting to RMB 698,278.49, the profit available for distribution to shareholders was RMB 11,870,734.28 in the year.

Audited and confirmed by Moore Stephens Nanfang Minhe Certified Public Accountants

for B shares of the Company, the Company's accumulative losses were RMB 34,266,000 in the previous years. In 2003, the Company realized net profit amounting to RMB 14,037,000 with the accumulative losses amounting to RMB 19,504,000 still not offset.

According to the provisions in Letter on How to Confirm Profit Distribution Standard for Enterprises Issuing B Shares During Dividends Distribution released by China Securities Regulatory Commission with ZJHZ [1994] No. 1 document, the principle of taking the lower amount of the two was adopted in the profit distribution. Moreover, according to the provisions in Company Law of the P.R.C. and Normative Interlocution No. 3 for Information Disclosure in Companies Publicly Issuing Securities –Origin, Procedure and Information Disclosure of Losses Offsetting released by China Securities Regulatory Commission, before the accumulative losses not being offset at full amount, it was forbidden to distribute dividends to the shareholders or convert reserve into share capital. Thus, the 26th Meeting of the 3rd Board of Directors of the Company decided not to distribute profits or convert reserve into share capital in 2003.

The said distribution plan should be submitted to Annual Shareholders' General Meeting 2003 for consideration.

CHAPTER 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 management team and the Board of Directors as non-voting delegates, and participated in the Company's decision-making of significant issues. The details of the meetings are as follows:

1. All supervisors attended every meeting of the Board of Directors as non-voting delegates and supervised over the content of the meetings of the Board and operation decision-making procedure.
2. The 10th meeting of the 3rd Supervisory Committee held on Apr. 15, 2003 examined and approved 2002 Annual Report and its Summary, 2002 Work Report of the Supervisory Committee and 2002 Profit Distribution Preplan. The resolutions of the meeting were published on Securities Times and Ta Kung Pao dated Apr. 18, 2003.
3. On Aug. 20, 2003, the 11th meeting of the 3rd Supervisory Committee examined and approved Semiannual Report 2003 and its Summary.
4. Partial supervisors of the Company attend the meetings of the management team as non-voting delegates and put forward to opinions and suggestions for significant events of management and operation of the management team.

II. The Supervisory Committee has strictly supervised over the Company's operation and decision-making of 2003, 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 2003 had objectively and truthfully reflected the Company's financial status and operation results, and agreed with the standard non-reservation auditors' reports issued by Xin 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.

CHAPTER IX. SIGNIFICANT EVENTS

Section I. Material lawsuits and arbitration

1. Concerning the trade dissension between the Company's subsidiary, Shenzhen Medical Trading Company (hereinafter referred to as Medical Trading Company) and Grunenthal (Hong Kong) Co., Ltd. and Grunenthal (China) Co., Ltd. (both hereinafter referred to as Grunenthal Company), both parties have negotiated and reached pacification agreement. The content of the pacification agreement is: A. After both parties submit application of relieving sealing up to Shenzhen Intermediate People's Court, Medical Trading Company pays the deposit of RMB 13,005,000, HKD 29,000 and USD 8,000 in the unfrozen bank account to Grunenthal Company. B. The recovery of sale accounts receivables caused in the period of Medical Trading Company' sale of medicine with Grunenthal Company's kind is changed to the responsibility of Grunenthal Company and Medical Trading Company is only responsible for supply of the files and procedure needed by the recovery. C. After the inventories sealed up in Shanghai is relieved, Grunenthal Company is

responsible for the sale and Medical Trading Company is responsible for the supply of the needed documents and procedures and provides the bank account for collecting the above sale payment and pays it to Grunenthal Company within three working days after receiving the sale payment. D. Except for implementation of the above obligations, Medical Trading Company additionally pays cash amounting to RMB 1,000,000 to Grunenthal Company. On the effective date of the agreement, both parties submitted Pacification Agreement of Arbitration and application of ending execution of the former two cases to Shenzhen Intermediate People's Court and the both parties do not execute according to the two Arbitrament. The public notices about the arbitration result and pacification were published on Securities Times and Ta Kung Pao dated Mar. 8, 2003 and Aug. 22, 2003.

2. Concerning the dissension case that Yao Xu (Accuser) indicted the Company's related party, Shenzhen Medical Production and Supply Company (Appellee I), the Company (Appellee II) and the Company's subsidiary, Shenzhen Accord Medication Multiple Co., Ltd. (Appellee III) on tort of copyright of figure and letter of "Accord", Civil Judgement ([2002] SZFZCCZ NO.129) of Guangdong Province Shenzhen Intermediate People's Court believes that the request of the accuser, "permit accuser taking back the copyright of the opus in this case and the appellee stops infracting the copyright of the accuser's opus and the appellee undertakes the lawsuit expense of the case" has no sufficient evidence and is overruled. The court judges: overrule the lawsuit request of the accuser and the expense of accepting and hearing of the case is undertaken by the accuser. The judgement result of the lawsuit was published on Securities Times and Ta Kung Pao dated Oct. 30, 2003.

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

Section II. Purchase and sales of assets

Please refer to Note VIII. 5 of the 3rd section of accounting statements in X. THE FINANCIAL REPORT.

Section III. Significant related transaction issues

I. Related transaction from purchase and sale of commodity

(1) Sale of commodity (RMB'000)

Name of related party	2003	2002
Shenzhen Nanshan Pharmaceutical Company	3,615	14,287
Shenzhen Chengxin Medical Company	-	9,888
Total	3,615	24,176

(2) Purchase of commodity (RMB'000)

Name of related party	2003	2002
Shenzhen Xiannuo Pharmaceutical	3,953	1,456

Company		
Shenzhen Chengxin Medical Company	-	7,716
Sinopharm Medicine Holding Guangzhou Co., Ltd.	21,399	-
Total	25,352	9,172

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

II. Related transaction occurred with purchase and sale of assets

1. On Apr. 2, 2003, Shenzhen Chengxin Medical Company signed agreement with the Company and transfer the fixed assets (including land construction project, machine equipment and so on) of its Chinese Medicine Drinking Pills Factory as assessed price amounting to RMB 1,441,634.13 to the Company to counteract partial liabilities owed to the Company. The assets have been assessed by Shenzhen Sinocoms Appraisal Co., Ltd. with the assessed value of RMB 1,443,100.00. On Sep. 29, 2003, the both parties of the agreement handed over, checked and accepted the compensated assets.

2. On Dec. 23, 2003, Shenzhen Nanshan Pharmaceutical Company signed the agreement with the Company and transferred its two houses actually owned by it as the assessed price amounting to RMB 647,000 to the Company to counteract partial liabilities owed to the Company. The two assets have been assessed by Shenzhen Sinocoms Appraisal Co., Ltd. and the procedure of property transfer in register is still in process.

3. On Nov. 24, 2003, Shenzhen Accord Pharmaceutical Group Corporation signed Contract of Equity Transfer with the Company and transferred 30% equity of Liaoning Accord Medication Multiple Co., Ltd held by it as the negotiated price after assessment amounting to RMB 1,894,900.00 to the Company. Meanwhile, Shenzhen Accord Pharmaceutical Group Corporation, Shenzhen Nanshan Pharmaceutical Company and the Company signed Agreement of Counteracting Debts that stipulated that Shenzhen Accord Pharmaceutical Group Corporation undertook the debts totally RMB 1,895,000 of Shenzhen Nanshan Pharmaceutical Company owed to the Company and counteracted the debt as payment for equity transfer. The above equity has been assessed by Shenzhen Sinocoms Appraisal Co., Ltd.. The equity transfer has been authorized by Shenzhen State-owned Assets Administration Office to exempt the public nominal quotation trade.

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

Please refer to Note VII.3 of the 3rd section. Accounting statement of the 10th Chapter, FINANCIAL REPORT.

Section IV. Significant contract and the implementation

I. 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.

II. Significant guarantee

1. The amount of non-canceled guarantee for external parties of the Company and its share-controlling subsidiary was RMB 70,070,000 and USD 4,000,000 ended as of the report period with the details as follows:

Number	Name of company	Amount	Term
1	Shenzhen Modern Computer Manufacture Co., Ltd.	RMB 25,070,000	Dec. 20, 2002-Dec. 31. 2004
2	Shenzhen Modern Computer Manufacture Co., Ltd.	USD 4,000,000	Feb. 9, 2004-Feb. 9, 2005
3	Shenzhen Investment Holding Corporation	RMB 45,000,000	Sep. 24, 2002-Sep.04, 2003

Note 1. On June 27, 2002, the provisional meeting of the Board of Director provided equivalent anti-guarantee amounting to RMB 25,070,000 for the bank, which provided performance guarantee and advanced payment guarantee for the metro item undertaken by Shenzhen Modern Computer Manufacture Co., Ltd. (hereinafter referred to as Modern Computer). The guarantee term is from Dec. 24, 2002 to Dec. 31, 2004. The relevant public notice was published on Securities Times and Ta Kung Pao dated June 28, 2002. According to Agreement of Equity Transfer between Shenzhen Yinghai Technology Investment Co., Ltd. (hereinafter referred to as Yinghai Technology), in the period of performance, Shenzhen Yinghai Technology Investment Co., Ltd. will provide anti-guarantee for the above guarantee of the Company.

Note 2. On Dec. 26, 2003, the 24th meeting of the 3rd Board of Directors examined and approved the proposal on providing renewal guarantee for the credit line amounting to USD 4,000,000 of Modern Computer and relevant public notice was published on Securities Times and Ta Kung Pao dated Jan. 7, 2004. According to Agreement of Equity Transfer signed with Yinghai Technology, within two months after Agreement of Equity Transfer was signed, Yinghai Technology will accept the liabilities of the Company's guarantee for Modern Computer amounting to USD 2,000,000 and within one month, Yinghai Technology will accept the left guarantee liabilities amounting to USD 2,000,000. Ended as at Mar. 20, 2004, the guarantee totally USD 2,000,000 has been relieved.

Note 3. On Sep.19, 2002, the Board of Directors of the Company issued letter of counter guarantee for Shenzhen Investment Holding Corporation, 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 issue was published on Securities Times and Ta Kung Pao dated Nov. 27, 2002. The guarantee line has been maturity on Sep. 24, 2003 but the loan totally RMB 25,000,000 in the line has been not maturity and the maturity date is Oct. 10, 2004. According to Agreement of Equity

Transfer signed with Yinghai Technology, Yinghai Technology is responsible for relieving of Shenzhen Investment Holding Corporation's guarantee obligation for Modern Computer's loan totally RMB 45,000,000. On Feb. 17, 2004, Yinghai Technology has issued Anti-guarantee Letter for the guarantee of the loan amounting to RMB 25,000,000 and the left guarantee will be relieved within one year after Agreement of Equity Transfer took effect. According to the above arrangement, the anti-guarantee of the Company for Shenzhen Investment Holding Corporation will be naturally relieved. Ended as at Mar. 2, 2004, the guarantee of RMB 20,000,000 has been relieved. The arrangement events of the above guarantee's relieving were published on Securities Times and Ta Kung Pao dated Feb. 20, 2004 and Feb. 28, 2004.

2. Considering that the Company has transferred the equity of Modern Computer held by the Company at the end of 2003, according to Notification on Problems of Standardizing Current Capital between Listed Company and Related Parties and Listed Company's Guarantee for External Parties (ZJF[2003] NO.56), the above guarantees compose the guarantee breaking regulation. Ended as at Dec. 31, 2003, the total amount of the above guarantee for external parties and anti-guarantee converted to RMB 103,270,000, taking by 30.23% of net assets of the Company.

3. According to Notification on Problems of Standardizing Current Capital between Listed Company and Related Parties and Listed Company's Guarantee for External Parties, when authorizing the proposal on the Company's transferring equity of Modern Computer, the Board of Directors made special stipulation on relieving the above guarantee events and transfer of Yinghai Technology. At present, relevant agreement has been performed and the above guarantee has been relieved by stages.

III. Entrust others to manage cash assets

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

IV. Other material contract

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

Section 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.

Section VI. Engagement of Certified Public Accountants

I. Engagement of Certified Public Accountants

In the report period, Shareholders' General Meeting 2002 of the Company on May 19, 2003 continued to engage Shenzhen Nanfang Minhe Certified Public Accountants and Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants as the auditing institutions of A share and B share of the Company in 2003. Relevant public notice was published on Securities Times and Ta Kung Pao dated May 20, 2003.

II. Remuneration paid to Certified Public Accountants

The audit expense of the financial report in 2002 and 2003 that the Company paid to Certified Public Accountants was respectively RMB 550,000 and RMB 550,000 (A share and B share). The expense such as business journey expense and so on from Certified Public Accountants' auditing for the Company by was undertaken by itself.

III. Years of audit service the audit institutions provided for the Company

Since initially signing audit business agreement, Shenzhen Nanfang Minhe Certified Public Accountants provided audit service for the Company for consistent two years.

IV. In the report period, the Company, the Board and directors have neither checked, been given administrative punishment and public criticism by CSRC nor condemned by Stock Exchange.

Section VII. Other significant events

1. On Dec. 27, 2003, the Company signed Agreement of Equity Transfer with Yinghai Technology and transferred 45.9% equity of Modern Computer held by the Company to Yinghai Technology. The transfer price was negotiated and confirmed based on the net assets on account of Modern Computer and was RMB 18,080,000. Ended as at Dec. 30, 2003, the Company has received the first payment for equity transfer amounting to RMB 9,100,000 of Yinghai Technology and the second transfer payment totally RMB 8,980,000 will be paid within one year after the agreement of equity transfer took effect. The above transfer issue has been approved by the 24th meeting of the 3rd Board of the Company and replied by SGZBH(2003) NO.247 of Shenzhen State-owned Assets Administration Office. Shenzhen Enterprise Ownership Exchange Center appraised for the above equity transfer and issued Property Trading Appraisal with SCQJZ(2003) NO.133. Relevant industrial and commercial change procedures such as equity transfer and so on are still in process.

2. On Nov. 24, 2003, the Company signed Contract of Equity Transfer with Shantou Longhu Xiehe Plastics Co., Ltd., Hainan Yier Pharmaceutical Co., Ltd., Shantou Guangshang Packaging Co., Ltd. and Shantou Guangshang Packaging Co., Ltd. and respectively transferred 19%, 20%, 20% and 20% equity of Shenzhen Jian'an Pharmaceutical Company held by the Company and made system reformation of enterprise for Shenzhen Jian'an Pharmaceutical Company. The total consideration for the share transfer was RMB 8,469,000 and fully received in July 2003. The relevant legal procedures of the equity transfer have been fully completed.

3. On Feb. 18, 2004, the principal shareholder of the Company, Shenzhen Investment

Holding Corporation (hereinafter referred to as SIH) and Sinopharm Medicine Holding Co., Ltd. (hereinafter referred to as SINOPHARM) signed Equity Transfer Agreement and SIH and agreed to transfer state-owned shares totally 124,864,740 shares of the Company (taking by 43.33% of the total share capital of the Company) to SINOPHARM. The transfer price is determined by reference to the Company's audited net assets value per share as of 31st December 2003 plus 27%. The final transfer price is subject to the approval from State-owned Assets Supervision and Administration Commission of the State Council. The equity transfer agreement can not be implemented till the national relevant institutions authorize. Relevant procedure of application of authorization is in process.

CHAPTER X. FINANCIAL REPORT

X. FINANCIAL REPORT

(I) Report of the Auditors

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, 2003 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 29 are the responsibility of the Group's management. 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, 2003 and the results of the operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens Shenzhen Nanfang Minhe

Certified Public Accountants

8th April, 2004

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Revenue	4	1,780,874	1,869,937
Cost of sales		<u>(1,351,824)</u>	<u>(1,459,540)</u>
Gross profit		429,050	410,397
Other operating revenue	6	30,092	40,112
Selling and distribution costs		(334,484)	(309,456)
Administrative expenses		(82,417)	(103,744)
Other operating expenses		<u>(7,349)</u>	<u>(20,737)</u>
Profit from operations	7	34,892	16,572
Finance costs	8	(12,202)	(15,693)
Share of results of associates		(379)	1,115
Loss on disposal of an associate		(3,560)	--
Gain on disposal of a subsidiary	9	<u>980</u>	<u>6,096</u>
Profit before tax		19,731	8,090
Taxation	10	<u>(5,472)</u>	<u>(8,012)</u>
Profit before minority interests		14,259	78
Minority interests		<u>86</u>	<u>647</u>
Net profit for the year		<u>14,345</u>	<u>725</u>
Earnings per share	12	<u>RMB0.0498</u>	<u>RMB0.0025</u>

The notes on page 6 to 29 form part of these financial statements

**CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER, 2003**

	NOTES	2003 RMB'000	2002 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	171,492	162,864
Construction in progress	14	31,595	34,033
Goodwill	15	29,544	35,134
Subsidiary not consolidated	16	68	--
Interests in associates	17	4,523	23,257
Other investments		337	337
		<u>237,559</u>	<u>255,625</u>
Current assets			
Inventories	18	215,299	250,150
Accounts receivable and other receivables	20	343,232	311,954
Amounts due from related companies	21	29,341	39,851
Prepayments		5,955	62,362
Other investments		4	4
Cash and bank balances		163,503	109,152
		<u>757,334</u>	<u>773,473</u>
Total assets		<u>994,893</u>	<u>1,029,098</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Registered capital	22	288,149	288,149
Reserves	23	40,556	24,809
		<u>328,705</u>	<u>312,958</u>
Minority interests		<u>1,276</u>	<u>1,362</u>
Non-current liabilities			
Long-term loan	24	<u>2,000</u>	<u>--</u>
Current liabilities			
Short-term loans - due within one year	24	190,352	172,156
Accruals, accounts payable and other payables		449,475	488,741
Receipts-in-advance		15,102	35,702
Subsidiary not consolidated	16	--	9,450
Amounts due to related companies	21	5,040	5,186
Tax payable		2,943	3,543
		<u>662,912</u>	<u>714,778</u>
Total equity and liabilities		<u>994,983</u>	<u>1,029,098</u>

The notes on page 6 to 29 form part of these financial statements.

The financial statements on pages 2 to 29 were approved by the Board of Directors and authorised for issue on 8th April, 2004 and are signed on its behalf by:

Guo yuan
DIRECTOR

Qin Changsheng
DIRECTOR

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2003**

	Registered capital	Reserves				Total
		Capital reserve	Surplus reserve	Accumulated losses	Reserve sub-total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1st January, 2002	288,149	17,489	40,861	(34,266)	24,084	312,233
Net profit for the year	--	--	--	725	725	725
Balance at 31st December, 2002 and 1st January, 2003	288,149	17,489	40,861	(33,541)	24,809	312,958
Net profit for the year	--	--	--	14,345	14,345	14,345
Addition during the year	--	1,402	--	--	1,402	1,402
Balance at 31st December, 2003	<u>288,149</u>	<u>18,891</u>	<u>40,861</u>	<u>(19,196)</u>	<u>40,556</u>	<u>328,705</u>

The notes on page 6 to 29 form part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2003**

	<u>NOTES</u>	<u>2003</u> <u>RMB'000</u>	<u>2002</u> <u>RMB'000</u>
OPERATING ACTIVITIES			
Cash generated from operations	25	116,514	44,528
Interest paid		(11,553)	(14,620)
Income tax paid		(6,072)	(6,089)
NET CASH GENERATED FROM OPERATING ACTIVITIES		<u>98,889</u>	<u>23,819</u>
INVESTING ACTIVITIES			
Interest received		3,509	2,794
Purchase of property, plant and equipment		(37,039)	(25,805)
Proceeds on disposal of property, plant and equipment		652	131
Payment for construction in progress		--	(1,093)
Proceeds on disposal of a subsidiary	26	(4,241)	1,282
Decrease in interests in subsidiaries and associates		--	1,340
Proceeds on disposal of an associate		9100	--
NET CASH USED IN INVESTING ACTIVITIES		<u>(28,019)</u>	<u>(21,351)</u>
FINANCING ACTIVITIES			
New bank loans raised		152,337	290,708
Repayment of bank loans		(168,856)	(342,906)
NET CASH USED IN FINANCING ACTIVITIES		<u>(16,519)</u>	<u>(52,198)</u>
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>54,351</u>	<u>(49,730)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>109,152</u>	<u>158,882</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>163,503</u>	<u>109,152</u>

The notes on page 6 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003

1. BACKGROUND

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 licence No.4403011001677. The licence 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". According to the agreement, the Company was 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 were originally owned by Shenzhen Investment Holding Corporation. The exchange of assets was based on the fair value of the assets to be exchanged on 31st August, 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 changed its name 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, 2003 are included in Note 36 to the financial statements.

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

3. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

(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
Motor vehicles	5-10 years
Electronic equipment, office equipment and software	5-14 years
Leasehold improvement	10 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

(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.

(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 these 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

(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.

(j) Revenue recognition

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

Commission income is recognized when services are rendered.

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) Government grants

A government grant is recognized only when the conditions below are both met: the enterprise is qualified to the subsidies and the subsidy is received.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

(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 are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

(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 and cash equivalents

Cash and 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.

4. REVENUE

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

	2003 RMB'000	2002 RMB'000
Continuing operations:		
Manufacture and sale of medicine and related products	1,725,519	1,612,623
Sales of other products	55,355	257,314
	<u>1,780,874</u>	<u>1,869,937</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.

5. 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.

6. OTHER OPERATING REVENUE

	2003	2002
	RMB'000	RMB'000
Accounts payable written back	--	25
Commission income	9,420	5,107
Financial subsidies	9,401	4,371
Interest income	3,509	2,794
Network service income	1,629	--
Rental income	2,517	2,568
Sales of intangibles assets	1,700	--
Sales of materials	164	--
Tax transferred from local production and local sales	1,051	24,056
Others	701	1,191
	<u>30,092</u>	<u>40,112</u>

7. PROFIT FROM OPERATIONS

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

	2003 RMB'000	2002 RMB'000
(Writeback) / Provision for inventories	(459)	2,887
Amortisation of goodwill	4,391	4,391
Depreciation on property, plant and equipment	28,523	25,735
Gain on disposal of property, plant and equipment	(216)	(133)
Impairment loss on construction in progress	1,580	--
Provision for impairment on other investments	--	300
Provision / (Writeback) of bad debts	1,281	(580)
Staff benefit costs	8,056	9,005
Staff costs	100,701	96,388
Number of staff	<u>2,624</u>	<u>3,425</u>

8. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Bank charges	628	678
Exchange loss	21	395
Interest expenses	<u>11,553</u>	<u>14,620</u>
	<u>12,202</u>	<u>15,693</u>

9. DISPOSAL OF A SUBSIDIARY

On 1 June 2003, the group disposed of a 79% equity interest in Shenzhen Jian'an Pharmaceutical Company("SJP") to third parties, at a total cash consideration of RMB8,468,800, giving rise to a loss on disposal for RMB672,000. Accordingly, SJP was excluded from consolidation from the date of disposal. During the period from 1 January to 31 May, SJP contributed net loss of RMB5,168,771 to the consolidated net profit for the year.

	2003 RMB'000
Total proceeds on disposal	8,469
Net assets on disposal	(6,290)
Unamortised goodwill	(1,199)
Gain on disposal of a subsidiary	<u>980</u>

10. TAXATION

	2003 RMB'000	2002 RMB'000
Income tax		

- the Company and its subsidiaries	5,472	8,012
- associates	-	-
	<u>5,472</u>	<u>8,012</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% (2002:15%) on the assessable profits of the Company, its subsidiaries and associates for the year.

Reconciliation to the domestic tax expense as follows:

	2003 RMB'000	2002 RMB'000
Accounting profit under IFRS	19,731	8,090
Difference arising from accounting policies based on IFRS	(7,498)	(6,012)
Accounting profit under Accounting Standards for Enterprise Business of the PRC	<u>12,233</u>	<u>2,078</u>
Tax at the domestic rate of 15%	1,835	312
Net tax effect of expenses not deductible for tax purposes and other factors	<u>3,637</u>	<u>7,700</u>
Tax expense	<u>5,472</u>	<u>8,012</u>

11. DIVIDEND

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

12. EARNINGS PER SHARE

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

	2003	2002
Net profit for the year	<u>RMB14,345,000</u>	<u>RMB725,000</u>
Issued shares	<u>288,149,400</u>	<u>288,149,400</u>

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

13. PROPERTY, PLANT AND EQUIPMENT

			Electronic equipment	
			,	
Land and	Machine ry and	Motor	office equipment	Leasehold

	buildings RMB'000	equipment RMB'000	vehicles RMB'000	and software RMB'000	improvement RMB'000	Total RMB'000
	0	0	0			0
COST						
At 1st January, 2003	105,113	58,825	31,995	38,939	35,940	270,812
Additions	9,357	16,227	1,722	5,493	4,887	37,686
Transferred from construction progress	1,175	--	--	--		1,175
Disposals	(827)	(1,225)	(3,348)	(4,312)		(9,712)
At 31st December, 2003	114,818	73,827	30,369	40,120	40,827	299,961

ACCUMULATED DEPRECIATION

At 1st January, 2003	25,835	42,514	15,930	14,700	8,969	107,948
Charge for the year	6,467	4,215	3,483	6,368	7,990	28,523
On disposals	(506)	(681)	(3,033)	(3,782)		(8,002)
At 31st December, 2003	31,796	46,048	16,380	17,286	16,959	128,469

NET BOOK VALUE

At 31st December, 2003	83,022	27,779	13,989	22,834	23,868	171,492
At 31st January, 2003	79,278	16,311	16,065	24,239	26,971	162,864

At the balance sheet date, the transfer of the Group's property, plant and equipment with an aggregate net book value of RMB647,300 (2002 : RMB37,409,300) has not been completed.

14. CONSTRUCTION IN PROGRESS

RMB'000

Cost

At 1st January, 2003	34,033
Additions	587
Transferred to property, plant and equipment	(1,175)
Less: Impairment losses	(1,850)

At 31st December, 2003

31,595

As the balance sheet date, Construction in Progress of the Group included land use rights amounting to RMB30,609,000 (2002: RMB30,609,000) and equipment cost and design expenses amounting to RMB (2002: RMB3,424,000).

Based on a valuation report dated 16th March 2004 by Shenzhen Sinocoms Appraisal Co., Ltd., an impairment loss of RMB1,850,000 has been charged to current year's consolidated income statement.

15. GOODWILL

RMB'000

COST

At 1 st January 2003	43,917
Disposal of a subsidiary	(1,199)
31 st December, 2003	<u>42,718</u>

ACCUMULATED AMORTISATION

1st January, 2003	(8,783)
Charge for the year	(4,391)
On disposal	(1,199)
31 st December, 2003	<u>(14,373)</u>

NET BOOK VALUE

At 31st December, 2003	<u>29,544</u>
At 31st December, 2002	<u>35,134</u>

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

16. SUBSIDIARY NOT CONSOLIDATED

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Shenzhen Medicine Trading Company (深圳市醫藥貿易公司), at cost	--	(1,106)
Share of results of a subsidiary	<u>--</u>	<u>--</u>
	--	(1,106)
Amounts due from a subsidiary	800	3,416
Amounts due to a subsidiary	<u>(732)</u>	<u>(11,760)</u>

68 (9,450)

17. INTERESTS IN ASSOCIATES

	2003 RMB'000	2002 RMB'000
1 st January 2003	23,997	22,882
On disposal	(19,156)	--
	4,841	22,882
Share of results of associates	(379)	1,115
	4,462	23,997
Amount due from associates	651	51
Amount due to associates	(590)	(791)
	4,523	23,257

Details of the Company's associates at 31st December, 2003 are as follows:

Name of associates	Place of incorporation, registration and operation	Effective rate of quity held	Principal activities
Shenzhen Modern Computer Manufacture Co., Ltd. (深圳市現代計算機有限公司) *	PRC	--	Developing and producing computer software and providing external equipment
Shenzhen Futian Pharmaceutical Company (深圳市福田醫藥有限公司)	PRC	40%	Wholeselling and retailing of medicine
Dongyuan & Accord Pharm Chain Store Co., Ltd. (東源一致醫藥連鎖有限公司)	PRC	45%	Retailing of medicine
Shenzhen Jian'an Pharmaceutical Company (深圳市健安醫藥公司, see Note 9)	PRC	21%	Western drugs, Chinese patent drugs, chemical reagent import and export business

* The interest in Shenzhen Modern Computer Manufacture Co., Ltd. was sold in December 2003 for a consideration of RMB18,080,000, giving rise to a loss on disposal of RMB3,560,000. RMB9,100,000 received and the balance will be received in a year from the date of disposal according to the agreement.

18. INVENTORIES

	2003 RMB'000	2002 RMB'000
Raw materials	21,080	21,333
Work-in-progress	2,881	2,671
Finished goods	191,338	226,146
	215,299	250,150

The inventories are stated at the lower cost and net realisable value.

19. 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 risks 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 25.

(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 receivable and other receivables and amounts due from related parties

An allowance has been made for estimated irrecoverable amounts of the accounts receivable 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.

19. FINANCIAL INSTRUMENTS – (continued)

(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.

20. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	2003 RMB'000	2002 RMB'000
Accounts receivable	318,625	259,063
Less: Allowance for doubtful debts	<u>(6,129)</u>	<u>(7,720)</u>
	<u>312,496</u>	<u>251,343</u>
Other receivables	37,139	68,366
Less: Allowance for doubtful debts	<u>(6,403)</u>	<u>(7,755)</u>
	<u>30,736</u>	<u>60,611</u>
	<u>343,232</u>	<u>311,954</u>

21. AMOUNTS DUE FROM / TO RELATED PARTIES

The balance with the associates are disclosed in note 18 to the consolidated financial statements. Details of the balances with other related parties are as follow:

(a) Amounts due from related parties

	2003 RMB'000	2002 RMB'000
Trade :		
Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	9,581	13,857
Shenzhen Baihe Pharmaceutical Co., Ltd. (深圳市百合醫藥有限公司)	33	79
Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	4,067	4,575
Health Care Store of Pharmaceutical Company (醫藥公司保健商場)	--	200
Shenzhen Jiankang Pharmaceutical Company (深圳市健康醫藥公司)	30	30
Shenzhen Jianmei Pharmaceutical Company (深圳市健美醫藥公司)	--	--
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	300	--
	<u>14,011</u>	<u>18,741</u>
Others :		
Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	14,945	13,171
Shenzhen Jiankang Pharmaceutical Company (深圳市健康醫藥公司)	--	43
Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	17	1,355
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	336	6,536
Shenzhen Jianmei Pharmaceutical Company (深圳市健美醫藥公司)	27	--
Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	5	5
	<u>15,330</u>	<u>21,110</u>
	<u>29,341</u>	<u>39,851</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 PARTIES – (continued)

(b) Amounts due to related parties

	2003 RMB'000	2002 RMB'000
Trade :		
Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	1,797	1,797
Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	99	252
Shenzhen Jianmei Pharmaceutical Company (深圳市健美醫藥公司)	24	24
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
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	1,504	529
	<u>3,424</u>	<u>2,811</u>
Others :		
Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	133	132
Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	--	228
Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	1,467	1,648
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
	<u>1,616</u>	<u>2,375</u>
	<u>5,040</u>	<u>5,186</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).

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

22. REGISTERED CAPITAL

	2003 RMB'000	2002 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
	<u>288,149</u>	<u>288,149</u>

23. RESERVES

	Capital reserve RMB'000	Surplus reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1st January, 2002	17,489	40,861	(34,266)	24,084
Net profit for the year	--	--	725	725
Balance at 31st December, 2002 and 1st January, 2003	<u>17,489</u>	<u>40,861</u>	<u>(33,541)</u>	<u>24,809</u>
Net profit for the year	--	--	14,345	14,345
Addition	<u>1,402</u>	--	--	<u>1,402</u>
Balance at 31st December, 2003	<u>18,891</u>	<u>40,861</u>	<u>(19,196)</u>	<u>40,556</u>

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

	2003 RMB'000	2002 RMB'000
Bank Loans:		
- secured	--	18,900
- unsecured	142,352	152,904
	142,352	151,804
Other unsecured loans	--	352
	142,352	172,156
Less: Amount due within one year	(140,352)	(172,156)
Amount due after one year	(2,000)	--

The bank loans are interest bearing at annual rates ranging from 4.536% to 5.31% (2002: 3.504% to 6.435%).

25. CASH GENERATED FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit before taxation	19,731	8,090
Adjustments :		
Interest income	(3,509)	(2,794)
Interest expenses	11,553	14,620
Depreciation	28,523	25,735
Gain on disposal of property, plant and equipment	(216)	(133)
Amortisation of goodwill	4,391	4,391
Provision for impairment on revaluation of property, plant and equipment and construction in progress	1,850	48
Share of results of associates	379	(1,115)
Disposal of subsidiaries	2,580	(6,096)
Decrease / (increase) in inventories	(33,460)	(17,610)
Increase in accounts receivables and other receivables and amounts due from related parties	(99,924)	(28,936)
Decrease / (increase) in prepayments	1,673	(12,590)
Increase in accruals, accounts and other payables, receipts-in-advance and amounts due to related companies	182,943	60,918
Cash generated from operations	116,514	44,528

25. CASH GENERATED FROM OPERATIONS – (continued)

As a result of the change in the scope of consolidation, the inventories had decreased by RMB68,312,000, accounts receivable decreased by RMB27,838,000, prepayments decreased by RMB54,734,000, and accounts payable decrease by RMB139,157,000.

26. PROCEEDS ON DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of a subsidiary, Shenzhen Jian'an Pharmaceutical Company. (深圳市健安醫藥公司) and the fair values of the assets and liabilities are as follows:

	2003
	RMB'000
Cash and bank balance	12,709
Inventories	68,312
Accounts receivable and other receivables	6,050
Prepayments	54,733
Property, plant and equipment	986
Construction in progress	--
Goodwill	--
Accounts payable and other payables	86,396
Fair value of Guangdong Ligu	7,961
Share of interests disposed	79%
Total proceeds on disposal	8,468
Less: Payments by off-setting accounts payable	
Cash and bank balance of Guangdong Ligu	12,709
Cash proceeds on disposal of a subsidiary	<u>(4,241)</u>

27. CONTINGENT LIABILITIES

At 31st December, 2003, the Group had given the following guarantees to banks in respect of banking facilities utilized by:

	2003	2002
	RMB'000	RMB'000
Related parties	45,000	48,000
Associates*	58,180	83,150
	<u>103,180</u>	<u>131,150</u>

* The guarantee given to associates, at 31st December 2003, were given to Shenzhen Modern Computer Manufacture Co., Ltd.(深圳市現代計算機有限公司) which was disposed of during the year.

28. CAPITAL COMMITMENTS

At 31st December, 2003, the Group had the following capital commitments :

	2003 RMB'000	2002 RMB'000
Contracted for but not provided for in the financial statements:		
Acquisition of property, plant and equipment	--	9,067
Development of technology knowhow	--	-
	<u> -- </u>	<u> 9,067 </u>

29. OPERATING LEASE COMMITMENTS

At 31st December, 2003, the minimum rental payments in the following periods of time based on the irrevocable operation leases of the Group were:

	2003 RMB'000	2002 RMB'000
Within one year	22,610	27,203
Over one year but less than 5 years	43,003	25,226
	<u> 65,613 </u>	<u> 52,429 </u>

30. RELATED PARTY TRANSACTIONS

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

	2003 RMB'000	2002 RMB'000
(a) Sale of goods		
— Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	--	9,888
— Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	3,615	14,289
(b) Purchase of goods		
— Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	--	7,716
— Shenzhen Xiannuo Pharmaceutical Co., Ltd. (深圳市仙諾制藥有限公司)	3,953	1,456
(c) Rental expenses		
— Shenzhen Pharmaceutical & Supply General Company	--	836

(深圳市醫藥生產供應總公司)

30. RELATED PARTY TRANSACTIONS – (continued)

(d) Loan guarantees given

—		
—	Shenzhen Gaozhuo Pharmaceutical Co., Ltd. (深圳高卓藥業有限公司)	-- 3,000
—	Shenzhen Modern Computer Manufacture Co., Ltd. (深圳市現代計算機有限公司)	-- 83,150
—	Shenzhen Investment Holding Corporation (深圳市投資管理公司)*	-- 45,000

(f) Purchase of assets

—	Shenzhen Chengxin Pharmaceutical Company (深圳市誠信醫藥公司)	1,442	--
—	Shenzhen Nanshan Pharmaceutical Company (深圳市南山醫藥公司)	647	--
—	Shenzhen Accord Pharmaceutical (Group) Company (深圳市一致医药集团公司)	1,895	--
—	Shenzhen Pharmaceutical & Supply General Company (深圳市醫藥生產供應總公司)	--	29,059
—	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 bank 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).

31. 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.

32. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2003 are as follows:

<u>Name of subsidiary</u>	<u>Place of incorporation, registration and operation</u>	<u>Effective rate of equity held</u>	<u>Principal activities</u>
Shenzhen Pharmaceutical Plant (深圳市制藥廠)	PRC	100%	Manufacturing raw materials for chemical medicine, processing Chinese patent drugs and medical chemical raw materials, import and export subject to the approved certification
Shenzhen Chinese Medicine General Plant (深圳市中藥總廠)	PRC	100%	Manufacturing oral liquid, tablets, capsule, pill, granule or powder preparations, external lotion and plastic bottles
Shenzhen Baokang Pharmaceutical Co., Ltd. (深圳市保康醫藥有限公司)	PRC	100%	Purchases and sales of Chinese medical materials, Chinese patent drugs, medical chemical materials, antibiotic preparations
Shenzhen Jian'an Pharmaceutical Company (深圳市健安醫藥公司, see Note 10)	PRC	21%	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)	PRC	100%	Chinese patent drugs, western patent drugs and medical machinery
* Shenzhen Chinese and Western Pharmaceutical Company (深圳市中西藥業有限公司)	PRC	30%	Chinese medical materials, Chinese patent drugs, chemical medicine preparations, antibiotic preparations, antibiotic preparations and medical health care products
Shenzhen Pharmaceutical Company (深圳市醫藥公司)	PRC	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)	PRC	100%	Chinese patent drugs, Western medicine and medical equipment
Shenzhen Medicine Trading	PRC	100%	Wholesale and retail of drugs and

Company
(深圳市醫藥貿易公司)

textile products

* The Group holds 56% of the voting rights of the company and consequently, it has been consolidated.

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

	Net profit for the year		Net assets as at 31st December	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
As reported in the financial statements by the PRC auditors	15,191	4,923	341,584	333,335
IFRS adjustments :				
Over deficit of subsidiaries	(8,344)	(10,210)	(18,553)	(396)
Written off of accounts payables	--	25	--	--
Goodwill and related amortisation	7,577	5,987	5,753	(19,982)
Others	(79)	--	(79)	--
As restated based on IFRS	<u>14,345</u>	<u>725</u>	<u>328,705</u>	<u>312,957</u>

34. LITIGATION

On 28th 2003, one of the company's subsidiaries, Shenzhen Medical Trading Company(深圳市醫藥貿易公司) ("SMT") reached a settlement on a trading dispute with Gelantai (China) Co., Ltd. (格兰泰(中国)有限公司) ("Gelantai"). The terms of the settlement are:

- A: Both parties agreed to submit an application to Shenzhen Intermediate People's Court to uplift the freezing order on SMT's bank accounts. Therefore, SMT would pay Gelantai from its bank accounts the amounts of RMB 13,004,997.31, HK\$29,170.55 and US\$ 8,49.72.
- B: Gelantai agreed to recover the accounts receivable of SMT arising from the sales of SMT products; SMT would only be required to provide all necessary documents and procedural support for such recovery.
- C: Gelantai would be responsible for the subsequent sale materials held in Shanghai under a freezing order. SMT would provide all necessary documents and procedure support thereof, including bank account details to facilitate the recovery of the sale proceeds and the payment to Gelantai within 3 working days of such proceeds.
- D: Apart from the above mentioned, SMT agreed to pay Gelantai RMB 1,000,000 in cash. From the effective date of the settlement agreement, both parties submitted Arbitral Reconciliation Agreement to Shenzhen Intermediate People's Court, and at the same time submitted an application for cessation of execution of the original claim, agreeing not to proceed with the execution of the original judgments.

According to the agreement, it may have an effect on SMT's net assets when it is terminated on 28 April 2004.

According to the Company's board resolution dated 15th March 2003, numbered [2003] Numbered 5, SMT ceased operation.

Pursuant to the settlement agreement, SMT had a deficiency in net assets as of 31st December 2003.

35. GNIFICANT EVENT

- A. On 27th December 2003, the Company and Shenzhen Yinghai Technology investment Co., Ltd. (深圳市盈海科技投资有限公司)("YTI") signed a shareholding Agreement, agreeing to transfer the Company's 45.9% shareholding in Shenzhen Modern Computer Manufacture Co., Ltd.(深圳现代计算机有限公司)("SMCM"). The consideration for the share transfer was RMB18,080,000, based on the net assets of SMCM. Up to 31st December 2003, the Company received RMB9,100,000 as the first installment payment from YTT; the remaining balance of RMB8,980,000 would be received within one year from the effective date of the share transfer.

The above share transfer was approved by the company's board of directors at its 24th meeting, and by Shenzhen State-owned Assets Administration Office(深圳市国有资产管理办公室) respectively. Shenzhen Enterprise Ownership Exchange Center(深圳市产权交易中心) had verified the above share transfer, and issued Share Transfer Certificate (2003) No.133. The related procedures to effect the share ownership transfer were still in progress.

- B: On 24th November 2003, the Company and Shantou Longhu Xiehe Plastics Co., Ltd.(汕头市龙湖区斜和塑胶有限公司)、Hainan Yier Pharmaceutical Co., Ltd. (海南益尔药业有限公司), Shantou Xinyuan Trading Co., Ltd.(汕头市欣源贸易有限公司) and Shantou Guangshang Packaging Co., Ltd.(汕头市广商包装有限公司) signed a Share Transfer Agreement, agreeing to transfer the Company's shareholding in Shenzhen Jian'an Pharmaceutical Company(深圳市健安医药公司)("SJP") of 19%, 20%, 20% and 20%. The total consideration for the share transfer was RMB8,468,800, fully received on July 2003. According to the Share Transfer Agreement, the losses of SJP for the period up to 31st May 2003 would be borne by the Company, thereafter, losses would be borne by the new shareholders. The relevant legal procedures of the share transfer have been duly completed.

36. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 18th February 2004, the company's major shareholder, Shenzhen Investment Holding Corporation(深圳市投资管理公司)("SIH") and Sinopharm Medicine Holding Co., Ltd. (国药集团医药控股有限公司)("SINOPHARM") signed a Share Transfer Agreement whereby SIH agreed to transfer 124,864,740 "A" shares in the Company representing 43.33% of total registered, issued and paid-up capital to SINOPHARM. The transfer price is determined by reference to the Company's audited net assets value per share as of 31st December 2003 plus 27%. The final transfer price is subject to the approval from State-owned Assets Supervision and Administration Commission of the State Council(国务院国有资产监督管理委员会).

37. COMPARATIVE FIGURES

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

CHAPTER 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. 8. 2004