Stock Code: 000028, 200028 Short Form of the Stock: Accord Pharm., Accord Pharm.-B No.: 2004-12

Shenzhen Accord Pharmaceutical Co., Ltd.
Summary of Annual Report 2003

§1 Important Notes

1.1 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.
1.2 No directors stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.
1.3 All directors attended the Board meeting.
1.4 Moore Stephens (Shenzhen) Nanfang Minhe Certified Public Accountants issued standard unqualified Auditor's Report for the Company.
1.5 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.

§2 Company Profile

2.1 Basic information

Short form of the stock	Accord Pharm., Accord Pharm.-B
Stock code	000028, 200028
Listed stock exchange	Shenzhen Stock Exchange
Registered address and office address	Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong and P.R.C
Post code	518029
Internet web site of the Company	http://www.szaccord.com.cn
E-mail of the Company	0028@szaccord.com.cn

2.2 Contact person and method

	Secretary of the Board of Directors	**Representative in charge of Securities Affairs**
Name	Chen Changbing	None
Contact address	Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong	
Telephone	+(86)755 25875195，25875140	
Fax	+(86)755 25875166	
E-mail	champion@szaccord.com.cn	

§3 Summary of Accounting Data and Financial Indexes

3.1 Major accounting data

Unit: RMB’000

	2003	**2002**	**Increase/decrease over last year（%）**	**2001**
Income from main operations	1,780,874	1,869,938	-4.76%	1,668,675
Total profit	12,233	2,078	488.81%	31,600
Net profit	15,191	4,923	208.58%	21,105
Net profit after deducting non-recurring gains and losses	7,969	-4,920	-	16,7135
	At the end of 2003	**At the end of 2002**	**Increase/decrease from the end of previous year（%）**	**At the end of 2001**
Total assets	1,008,327	1,052,597	-4.21%	1,116,129
Shareholder’s equity (excluding minority interests)	341,584	333,335	2.47%	338,201
Net cash flow arising from operating activities	81,221	28,765	182.36%	71,157

3.2 Major financial indexes

Unit: RMB

	2003	**2002**	**Increase/decrease over last year（%）**	**2001**
Earnings per share	0.053	0.017	211.76%	0.073
Return on equity	4.45%	1.48%	200.68%	6.24%
Return on equity calculated based on net profit after deducting	2.33%	-1.48%	-	4.94%

non-recurring gains and losses				
Net cash flow per share arising from operating activities	0.282	0.100	182.00%	0.247
	At the end of 2003	**At the end of 2002**	**Increase or decrease from the end of previous year （%）**	**At the end of 2001**
Net assets per share	1.185	1.157	2.42%	1.174
Net assets per share after adjustment	1.110	0.997	11.33%	0.920

3.3 Difference in net profit as audited by Chinese Accounting Standard (CAS) and International Accounting Standard (IAS)

√Applicable ☐Inapplicable

Unit: RMB’000

	CAS	IAS
Net profit	15,191	14,345
Explanation on the difference	(1) Registration fee of trademark 79 (2) losses arising from over book valve of investment of subsidiaries 8,344 (3) Goodwill and related amortization -7,577	

§4 Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share Unit: share

	Before the change	**Increase / decrease in this time (+, -)**	**After the change**
I. Unlisted Shares			
1. Sponsors’ shares	150,935,400	0	150,935,400
Including: State-owned share	124,864,740	0	124,864,740
Domestic legal person’s shares	26,070,660	0	26,070,660
Foreign legal person’s shares		0	0
Others		0	0
2. Raised legal person’s shares	27,442,800	0	27,442,800
3. Inner employees’ shares		0	0
4. Preference shares or others		0	0
Total unlisted shares	178,378,200	0	178,378,200
II. Listed Shares			
1. RMB ordinary shares	54,885,600	0	54,885,600
2.Domestically listed foreign shares	54,885,600	0	54,885,600

3. Overseas listed foreign shares		0	0
4. Others		0	0
Total listed shares	109,771,200	0	109,771,200
III. Total shares	288,149,400	0	288,149,400

4.2 Statement of shares held by the top ten shareholders

Total number of shareholders at the end of report period	29,242					
Particulars about shares held by the top ten shareholders						
Full name of Shareholders	**Increase / decrease in the report year (share)**	**Shares held at the year-end (share)**	**Proportion (%)**	**Type of shares (Circulating/Non-circulating)**	**Number of share pledged/ frozen (share)**	**Nature of shareholders (State-owned shareholder/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 action	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.					

Particulars about shares held by the top ten shareholders of circulation shares		
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.	

4.3 Particulars about controlling shareholders and actual controller of the Company

4.3.1 Particulars about change in controlling shareholders and actual controller of the Company

□Applicable √Inapplicable

4.3.2 Introduction to the situation of controlling shareholder and other actual controller

Name of the controlling shareholder: Shenzhen Investment Holding Corporation

Legal representative: Mr. 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 Particulars About Directors, Supervisors, Senior Executives

5.1 Particulars about changes in shares held by directors, supervisors and senior executives

Name	Title	Sex	Age	Office term	Shares held at the year-begin (share)	Shares held at the year-end (share)	Reason of change
Guo Yuan	Chairman of the Board	Male	50	Dec. 18, 2001- the expiration of the office term	0	0	No
Zeng Yuxiang	Vice Chairman of the Board	Male	58	Jun. 30, 2000- the expiration of the office term	0	0	No
Su Yanwei	Director, General Manager	Male	43	Aug. 22, 2002- the expiration of the office term	0	0	No
Qin Changsheng	Director, CFO	Male	43	Dec. 29, 2000- the expiration of the office term	0	0	No
Yuan Xueping	Director	Female	42	Jun. 27, 2002- the expiration of the office term	0	0	No
Liao Yuchun	Director	Male	55	Jun. 30, 2000- the expiration of the office term	0	0	No
Hao Zhujiang	Independent Director	Male	51	Jun. 27, 2002- the expiration of the office term	0	0	No
Guo Jinlong	Independent Director	Male	42	Jun. 27, 2002- the expiration of the office term	0	0	No
Zhu Dixin	Chairman of the Supervisory Committee	Male	56	Dec. 29, 2000- the expiration of the office term	0	0	No
Shen Tianfang	Supervisor	Male	54	Jun. 15, 2001- the expiration of the office term	0	0	No

Zhao Junpeng	Supervisor	Male	35	Jun. 30, 2000 - the expiration of the office term	0	0	No
Wang Qiuhui	Deputy General Manager	Female	47	May 10, 2001- the expiration of the office term	0	0	No
Gao Guoshi	Deputy General Manager	Male	50	May 10, 2001- the expiration of the office term	0	0	No
Tan Guoshu	Deputy General Manager	Male	49	Jun. 11, 2003- the expiration of the office term	0	0	No
Ou Jianneng	Deputy General Manager	Male	45	Jun. 11, 2003- the expiration of the office term	0	0	No
Chen Changbing	Secretary of the Board of Directors	Male	36	Dec. 29, 2000- the expiration of the office term	0	0	No

5.2 Particulars about directors and supervisors holding the post in Shareholding Company

√Applicable ☐Inapplicable

Name	Name of Shareholding Company	Title in Shareholding Company	Office term	Drawing the payment from the Shareholding Company (Yes / No)
Zeng Yuxiang	Shenzhen Baoan District Shiyan Town Economic and Development Corporation	Chairman of the Supervisory Committee	Jun. 2000 to now	No
Liao Yuchun	Shenzhen Baoan District Shiyan Town Economic and Development Corporation	General Manager	Jun. 2000 to now	No
Yuan Xueping	Shenzhen Investment Holding Corporation	Secretary	Jan. 2001 to now	No
Qin Changsheng	Shenzhen Investment Holding Corporation	No	Dec. 2000 to now	No
Zhao Junpeng	Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	Chairman of the Board	Jan. 2000 to now	No

5.3 Particulars about the annual payment of directors, supervisors and senior executives

Total annual payment	RMB 2,698,000
Total annual payment of the top three directors and supervisors drawing the highest payment	RMB 657,000
Total annual payment of the top three senior executives drawing the highest payment	RMB 844,000
Allowance of independent director	RMB 30,000 per person/ year
Other treatment of independent directors	The expenses that independent directors attended the Board meeting and shareholders' general meeting are reimbursed according to the Company's regulations.
Name of directors and supervisors receiving no payment or allowance from the Company	Director: Zeng Yuxiang, Liao Yuchun, Yuan Xueping, Qin Changsheng, Hao Zhujiang and Guo Jinlong Supervisor: Zhao Junpeng
Scope of payment	Number of persons
RMB 310,000 – RMB 330,000	1
RMB 240,000 – RMB 300,000	5
RMB 160,000 – RMB 200,000	3

§ 6. Report of the Board of Directors

6.1 Discussion and analysis to the whole operation in the report period

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 benefits.

1. Itemizing market, positioning specialty and expanding business

In 2003, in order to effectively change the abuse in excessively long management chain, 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. 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 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. 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.

6.2 Statement of main operations classified according to industries or products

Unit: RMB’000

Classified according to industries or products	Income from main operations (RMB)	Cost of main operations (RMB)	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Medical industry	452,909	199,490	55.95	-7.65	-27.68	27.89
Medical wholesale	1,908,084	1,789,717	6.20	43.55	49.38	-37.12
Medical retail	271,575	213,031	21.56	-4.92	-3.37	-5.48
Non-medical trade	55,355	5,3409	3.52	-78.49	-78.98	177.17
Counteracting inside the Company	907,049	906,460	0.06	84.14	84.27	-57.14
Including: related transactions	3,615	3,507	3.00	-85.05	-85.05	0.00
Series products of head	220,463	121,174	45.04	7.02	7.68	0.75

spore						
Jian'er Qingjie Ye	21,353	9,434	55.82	11.09	2.54	7.08
Including: related transactions	0	0				
Pricing rules for related transactions	Market price					
Necessity and durative of related transactions	1. The related businesses of the Company with profitability as purpose and with market price and fair transaction as principle were in compliance with the principles under market economy. 2. The related transactions accounted for a very small proportion in total sales of the Company, which impacted on the Company by a little margin.					

6.3 Particulars about main operations classified according to areas

Unit: RMB'000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
Domestic sales	1,730,188	-0.94
Oversea sales	50,686	-58.93
Total		

6.4 Particulars about the customers of purchase and sales

Unit: RMB'000

Total amount of purchase of the top five suppliers	115,350	Proportion in the total amount of purchase	12.56%
Total amount of sales of the top five sales customers	239,397	Proportion in the total amount of sales	13.44%

6.5 Operation of share-holding companies (applicable to the situation where investment equity takes over 10% of its net profit)

√Applicable ☐Inapplicable

Unit: RMB'000

Name of share-holding company	Shenzhen Modern Computer Co., Ltd.
Investment earnings contributed in the period	-3,705
Proportion in net profit of the listed company	-24.39%

Share-holding company	Business scope	Development and production of software, hardware and external equipments of computers, magcard and IC card; database and network service etc.
	Net profit	-8,072

6.6 Explanation on reasons of material changes in main operations and its structure
□Applicable √Inapplicable

6.7 Explanation on reasons of material changes in profitability capability of main operations (gross profit ratio) than that in the last year
√Applicable □Inapplicable

It was mainly because the Company's affiliated industrial enterprises implemented such ways as international bidding etc. to the purchase of large amount of raw materials through digging potential internally and reinforcing the purchase management, which made the cost of raw materials decrease.

6.8 Analysis to reasons of material changes in operating results and profit structure compared with the previous year
√Applicable □Inapplicable

①The gross profit ratio of the Company's industrial enterprises increased; ②In 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.

Analysis to reasons of material changes in the whole financial position than that in the last year
√Applicable □Inapplicable

1. The Company has established pharmaceutical logistics division through continuous deepened reform and has enhanced the market feedback capability in a better way. Catching the commercial opportunity of increase in demand for medicine against SARS in the first half of the year, while increasing the sales of medicine, the Company has gained a certain reserved financial subsidy, as a pointing reserve enterprise for medicine.

2. The Company has gained a relatively high rate of bidding hitting, replying the

centralized bidding and purchase of medicine with full strength. 3. The industrial enterprises made the profit increase by a relatively large margin by comparison in the same caliber through digging potential and restructuring inside and actively expanding the market outside, under such adverse situations as the policy of local production and local sales being cancelled.

6.9 Explanation on the past, current and future important effects of the material changes in production and operation environment, macro-policies and regulations on the Company's financial position and operating results

√Applicable □Inapplicable

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.

6.10 Completion of the profit estimation

□Applicable √Inapplicable

6.11 Completion of the business plan

□Applicable √Inapplicable

6.12 Application of the raised proceeds

□Applicable √Inapplicable

Particulars about the changed projects

□Applicable √Inapplicable

6.13 Application of the proceeds not raised through shares offering

□Applicable √Inapplicable

6.14 Explanation of the Board of Directors on the "Qualified Opinion" made by the Certified Public Accountants

□Applicable √Inapplicable

6.15 Business plan as of the next year of the Board of Directors (If it has)

√Applicable □Inapplicable

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.

Profit estimation of the next year

□Applicable √Inapplicable

6.16 The preplan on the profit distribution and capitalization of capital public reserve of the Board of Directors

No distribution or capitalization.

§7. Significant Events

7.1 Purchase of assets

√Applicable □Inapplicable

Unit: RMB'000

Transaction parties and the assets purchased	Date of purchase	Purchase price	Contribution to net profit of the Company of the assets purchased from the date of purchase to the year-end	Related transaction or not (if yes, explain principle of pricing)

Fixed assets of Chinese Medicine Drinking Pills Factory of Shenzhen Chengxin Medical Company	Apr. 2, 2003	1,442	0.00	Related transaction. The trading price is by assessed pricing.
30% equity of Liaoning Accord Medication Multiple Co., Ltd held by Shenzhen Accord Pharmaceutical Group Corporation	Nov. 24, 2003	1,895	0.00	Related transaction. The trading price is assessed price.
Two houses of Shenzhen Nanshan Pharmaceutical Company	Dec. 23, 2003	647	0.00	Related transaction. The trading price is assessed price.

7.2 Sales of assets

√Applicable ☐Inapplicable

Unit: RMB'000

Transaction parties and the assets sold	Date of sale	Sale price	Contribution to net profit of the Company of the assets sold from the year-beginning to the date of sale	Profit or loss from sale	Related transaction or not (if yes, explain principle of pricing)
Transfer 79% equity of Shenzhen Jian'an Pharmaceutical Company to Shantou Longhu and etc.	Nov. 24, 2003	8,469	-5,169	-2,706	Non-related transaction
Transfer 45.9% of Shenzhen Modern Computer Manufacture Co., Ltd. to Shenzhen Yinghai Technology Investment Co., Ltd.	Dec. 27, 2003	18,080	-3,705	-1,552	Non-related transaction

Influence on consistence of business and stability of managers caused by the issues interfered in purchase and sale

Through sale of equity, the Company realized invigorating large enterprises while relaxing control over small ones and the separation of the main and auxiliary business and it is in favor of the long-term and stable development of the Company.

7.3 Important guarantee

√Applicable ☐Inapplicable

Unit: RMB’000

Name of the Company guaranteed	Date of happening	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related party (yes or not)
Shenzhen Investment Holding Corporation	Sep. 24, 2002	45,000	Joint liabilities guarantee	Sep. 24, 2002-Sep.24, 2003	No	Yes
Shenzhen Modern Computer Manufacture Co., Ltd.	Nov. 21, 2002	33,200	Joint liabilities guarantee	Nov. 21, 2002-Nov. 21, 2003	No	Yes
Shenzhen Modern Computer Manufacture Co., Ltd.	Dec. 20, 2002	25,070	Joint liabilities guarantee	Dec. 20, 2002-Dec. 31, 2004	No	Yes
Total amount of guarantee				103,270		
Total balance of guarantee				103,270		
Including: total balance of related guarantee				103,270		
Total amount of guarantee the listed company provided for its share-controlling subsidiaries				58,270		
Total amount of guarantee breaking regulations				103,270		
Proportion of total amount of guarantee in net assets of the Company				30.23%		

7.4 Related credits and liabilities current

√Applicable ☐Inapplicable

Unit: RMB’000

Related parties	Supply funds to related parties		Related parties supplied funds to the Company	
	Occurred amount	Balance	Occurred amount	Balance
Shenzhen Medical Trading Company	1000	800		
Total amount	1000	800		

7.5 Entrusted assets

☐Applicable √Inapplicable

7.6 Implementation of commitment items

□Applicable √Inapplicable

7.7 Significant lawsuit and arbitration

√Applicable □Inapplicable

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.

7.8 Particulars about the performance of obligations of 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.

§8.Report of the Supervisory Committee

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.

§ 9. Financial Report

9.1 Auditor's opinion

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

30th March, 2004

9.2 Financial Statements

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		(1,351,824)	(1,459,540)
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		(7,349)	(20,737)
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	980	6,096
Profit before tax		19,731	8,090
Taxation	10	(5,472)	(8,012)
Profit before minority interests		14,259	78
Minority interests		86	647
Net profit for the year		14,345	725
Earnings per share	12	RMB0.0498	RMB0.0025

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER, 2003

	NOTES	2003	2002
		RMB'000	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
		237,559	255,625
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
		757,334	773,473
Total assets		994,893	1,029,098
EQUITY AND LIABILITIES			
Capital and reserves			
Registered capital	22	288,149	288,149
Reserves	23	40,556	24,809
		328,705	312,958
Minority interests		1,276	1,362
Non-current liabilities			
Long-term loan	24	2,000	--
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
		662,912	714,778
Total equity and liabilities		994,983	1,029,098

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

	NOTES	2003 RMB'000	2002 RMB'000
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		98,889	23,819
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		(28,019)	(21,351)
FINANCING ACTIVITIES			
New bank loans raised		152,337	290,708
Repayment of bank loans		(168,856)	(342,906)
NET CASH USED IN FINANCING ACTIVITIES		(16,519)	(52,198)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		54,351	(49,730)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		109,152	158,882
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		163,503	109,152

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

		Reserves				
	Registered capital	Capital reserve	Surplus reserve	Accumulated losses	Reserve sub-total	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	288,149	18,891	40,861	(19,196)	40,556	328,705

9.3 Compared with the latest annual report, there was no change in accounting policy, accounting estimate and calculation method.

9.4 Compared with the latest annual report, explanation on changes in consolidated scope

After transferring the 79% equity of its affiliated enterprise, namely Shenzhen Jian'an Pharmaceutical Company, in the report period, the Company no longer consolidated the statements of this company since from June 2003.

Board of Directors of
Shenzhen Accord Pharmaceutical Co., Ltd.
April 10, 2004