# SHENZHEN ACCORD PHARMACEUTICAL CO., LTD.

## REPORT AND FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31ST DECEMBER, 2003

SHENZHEN ACCORD PHARMACEUTICAL CO., LTD.

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2003

CONTENTS

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<br>RMB'000 | 2002<br>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 |

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

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 |

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

| | | 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 |

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

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

| | NOTES | 2003<br>RMB'000 | 2002<br>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 |

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 | 2002 |
|---|---|---|
| | RMB'000 | 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 |
| | 1,780,874 | 1,869,937 |

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 |
| | 30,092 | 40,112 |

## 7. PROFIT FROM OPERATIONS

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

| | 2003 | 2002 |
|---|---|---|
| | RMB'000 | 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 | 2,624 | 3,425 |

## 8. FINANCE COSTS

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

## 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 | 980 |

## 10. TAXATION

| | 2003 | 2002 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Income tax | | |
| - the Company and its subsidiaries | 5,472 | 8,012 |
| - associates | - | - |
| | 5,472 | 8,012 |

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 | 2002 |
|---|---|---|
| | RMB'000 | 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 | 12,233 | 2,078 |
| Tax at the domestic rate of 15% | 1,835 | 312 |
| Net tax effect of expenses not deductible for tax purposes and other factors | 3,637 | 7,700 |
| Tax expense | 5,472 | 8,012 |

## 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 | RMB14,345,000 | RMB725,000 |
| Issued shares | 288,149,400 | 288,149,400 |

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

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Machinery and equipment | Motor vehicles | Electronic equipment, office equipment and software | Leasehold improvement | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 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 in 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 1st January 2003 | 43,917 |
| Disposal of a subsidiary | (1,199) |
| 31st December, 2003 | 42,718 |
| **ACCUMULATED AMORTISATION** | |
| 1st January, 2003 | (8,783) |
| Charge for the year | (4,391) |
| On disposal | (1,199) |
| 31st December, 2003 | (14,373) |
| **NET BOOK VALUE** | |
| At 31st December, 2003 | 29,544 |
| At 31st December, 2002 | 35,134 |

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

| | 2003 | 2002 |
|---|---|---|
| | RMB'000 | 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 | -- | -- |
| | -- | (1,106) |
| Amounts due from a subsidiary | 800 | 3,416 |
| Amounts due to a subsidiary | (732) | (11,760) |
| | 68 | (9,450) |

## 17. INTERESTS IN ASSOCIATES

| | 2003 | 2002 |
|---|---|---|
| | RMB'000 | RMB'000 |
| 1st 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 | 2002 |
|---|---|---|
| | RMB'000 | 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 | 2002 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Accounts receivable | 318,625 | 259,063 |
| Less: Allowance for doubtful debts | (6,129) | (7,720) |
| | 312,496 | 251,343 |
| Other receivables | 37,139 | 68,366 |
| Less: Allowance for doubtful debts | (6,403) | (7,755) |
| | 30,736 | 60,611 |
| | 343,232 | 311,954 |

## 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<br>RMB'000 | 2002<br>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 | -- |
| | 14,011 | 18,741 |
| 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 |
| | 15,330 | 21,110 |
| | 29,341 | 39,851 |

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 PARIES – (continued)

(b) Amounts due to related parties

| | 2003 | 2002 |
|---|---|---|
| | RMB'000 | 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 |
| | 3,424 | 2,811 |
| 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 |
| | 1,616 | 2,375 |
| | 5,040 | 5,186 |

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

## 23. RESERVES

| | Capital reserve | Surplus reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | 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 | 17,489 | 40,861 | (33,541) | 24,809 |
| Net profit for the year | -- | -- | 14,345 | 14,345 |
| Addition | 1,402 | -- | -- | 1,402 |
| Balance at 31st December, 2003 | 18,891 | 40,861 | (19,196) | 40,556 |

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<br>RMB'000 | 2002<br>RMB'000 |
|---|---|---|
| Bank Loans: | | |
| - secured | -- | 18,900 |
| - unsecured | 192,352 | 152,904 |
| | 192,352 | 151,804 |
| Other unsecured loans | -- | 352 |
| | 192,352 | 172,156 |
| Less: Amount due within one year | (190,352) | (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<br>RMB'000 | 2002<br>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 Liguo | 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 Liguo | 12,709 |
| Cash proceeds on disposal of a subsidiary | (4,241) |

## 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 |
| | 103,180 | 131,150 |

* 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 | 2002 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Contracted for but not provided for in the financial statements: | | |
| Acquisition of property, plant and equipment | -- | 9,067 |
| Development of technology knowhow | -- | - |
| | -- | 9,067 |

## 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 | 2002 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Within one year | 22,610 | 27,203 |
| Over one year but less than 5 years | 43,003 | 25,226 |
| | 65,613 | 52,429 |

## 30. RELATED PARTY TRANSACTIONS

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

| | 2003 | 2002 |
|---|---|---|
| | RMB'000 | 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 (深圳市醫藥生產供應總公司) | -- | 836 |

## 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<br>— (深圳市誠信醫藥公司) | 1,442 | -- |
| — Shenzhen Nanshan Pharmaceutical Company<br>— (深圳市南山醫藥公司) | 647 | -- |
| — Shenzhen Accord Pharmaceutial (Group) Company<br>— (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:

| Name of subsidiary | Place of incorporation, registration and operation | Effective rate of equity held | Principal activities |
|---|---|---|---|
| Shenzhen Pharmaceutical Plant (深圳市制藥廠) | 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 Company (深圳市醫藥貿易公司) | PRC | 100% | Wholesale and retail of drugs and 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 | 14,345 | 725 | 328,705 | 312,957 |

## 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 vertified 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(深圳市健安醫藥公司)("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.