SHENZHEN ACCORD PHARMACEUTICAL CO., LTD.

THE FIRST QUARTERLY REPORT OF YEAR 2004

Short Form of Stock: Accord Pharm., Accord Pharm.-B **Stock Code: 000028, 200028**

SHENZHEN ACCORD PHARMACEUTICAL CO., LTD.
THE FIRST QUARTERLY REPORT OF YEAR 2004

1. Important notice

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 The Financial Report of this Quarterly Report was not audited.

1.3 Chairman of the Company Mr. Guo Yuan, General Manager Mr. Shi Jinming and Chief Financial Supervisor Ms. Ling Jing and Person in charge of Accounting Ms. Lai Wanying hereby confirm that the Financial Report of the Quarterly Report is true and complete.

2. Company profile

2.1 Brief information

Short Form of the Stock	Accord Pharm., Accord Pharm.-B	Stock Code	000028,200028
	Secretary of the Board		
Name	Chen Changbing		
Contact address	Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong		
Tel.	+(86)755 25875195, 25875140		
Fax	+(86)755 25875166		
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2.2 Financial information

2.2.1 Major accounting data and financial indexes

Unit: RMB

	End of the report period	End of the last year	Increase/decrease of amount of end of report period than that of end of last year (%)
Total assets	972,123,701.84	1,008,326,556.03	-3.59
Shareholders' equity (excluding minority equity)	344,407,911.21	341,584,149.93	0.83
Net assets per share	1.195	1.185	0.84
Net assets per share after adjustment	1.122	1.110	1.08

	In the report period	Year begin to end of report period	Increase/decrease of amount of report period than that of corresponding period of last year (%)
Net cash flow arising from operating activities	-15,559,833.44	-15,559,833.44	-
Earnings per share	0.012	0.012	-
Return on equity (%)	1.031	1.031	-0.29
Return on equity after deducting non-recurring gains and losses (%)	1.072	1.072	0.66

Items of non-recurring gains and losses	Amount
Nonbusiness income	30,388.50
Nonbusiness expenditure	211,168.95
Total	-180,780.45

2.2.2 Income statement

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. Unit: RMB

Items	Jan.-Mar.2004		Jan.-Mar.2003	
	Consolidated	Parent company	Consolidated	Parent company
I. Income from core business	392,029,213.93	215,552,080.62	472,864,166.91	226,398,630.41
Minus: cost of core business	290,498,591.11	204,623,030.36	357,727,896.31	212,465,222.61
Core business taxation and surcharge	444,951.25		845,442.51	149,398.76
II. Profit of core business (the loss is listed with “-”)	101,085,671.57	10,929,050.26	114,290,828.09	13,784,009.04
Plus: profit of other business (the loss is listed with “-”)	4,792,463.45	1,747,648.70	1,723,911.92	642,275.85
Minus: operating expense	82,476,568.56	10,228,471.36	92,531,339.70	9,287,344.89
Management expense	16,573,076.02	4,126,327.57	20,380,672.73	4,161,191.00
Financial expense	1,655,082.10	1,712,007.87	1,199,253.16	326,290.47
III. Operating profit (the loss is listed with “-”)	5,173,408.34	-3,390,107.84	1,903,474.42	651,458.53
Plus: investment earnings (the loss is listed with “-”)	-1,482,361.56	6,993,400.32	-1,501,395.43	2,822,422.57
Subsidy income				
Nonbusiness income	30,388.50		203,171.51	32,140.00
Minus: nonbusiness expenditure	211,168.95	52,292.26	276,111.35	68,480.20
IV. Total amount of profit (the loss is listed with “-”)	3,510,266.33	3,551,000.22	329,139.15	3,437,540.90
Minus: income tax	1,274,345.16		1,120,063.15	

Minus: Minority gains and losses	-90,032.23		79,469.67	
Plus: investment losses unconfirmed	1,225,046.82		4,307,934.57	
V. Net profit (the net loss is listed with "-")	3,551,000.22	3,551,000.22	3,437,540.90	3,437,540.90

2.3 Total number of shareholders at the end of the report period

Ended Mar.31, 2004, the total number of shareholders of the Company was 33,129 persons, including 22,788 shareholders of A share and 10,341 shareholders of B share.

3. Discussion and analysis of the Management

3.1 Brief analysis of the whole status of operating activities of the Company in the report period

The core business of the Company is production, wholesale and chain retail of pharmaceutical products. According to the arrangement of operating work in the new year, the Company continued to develop all work concretely and effectively. In the pharmaceutical logistics division, the Company actively implemented the bidding contracts of medicine so as to ensure the purchase and supply of medicine, while pharmaceutical enterprises continued to strengthen the cost control and marketing management in order to try hard to expand the market. In the 1st quarter of year 2004, the Company totally realized sales income amounting to RMB 392.03 million, a decrease of 17.09% over the same period of last year, realized net profit amounting to RMB 3.55 million, an increase of 3.2% over the same period of last year with earnings per share amounting to RMB 0.012.

3.1.1 Particulars about core industries or products taking over 10% of the total amount of income from core business or profit of core business

√Applicable ☐Inapplicable Unit: RMB

Classified according to industries or products	Income from core business	Cost of core business	Gross profit ratio (%)
Pharmaceutical industry	125,992,706.26	53,572,136.11	57.48
Pharmaceutical commerce industry	430,175,107.67	401,065,055.00	6.77
Counteracting between internal	164,138,600.00	164,138,600.00	-
Including: related transactions			
Total	392,029,213.93	290,498,591.11	25.90
Head spore series products	58,548,109.96	33,013,004.5	43.61
Jian'er Qingjie Ye	5,924,745.57	2,791,226.73	52.89

3.1.2 Seasonal and periodicity characteristics of the operation
□Applicable √Inapplicable

3.1.3 Profit formation of the report period
√Applicable □Inapplicable

Item	Jan.-Mar.2004		Jan.-Mar.2003		Increase/decrease (%)
	Amount (RMB)	Proportion in the total amount of profit (%)	Amount (RMB)	Proportion in the total amount of profit (%)	
Profit from core business	101,085,671.57	2879.72	114,290,828.09	34,724.17	-91.71
Profit from other business	4,792,463.45	136.53	1,723,911.92	523.76	-73.93
Period expense	100,704,726.68	2868.86	114,111,265.59	34,669.61	-91.73
Investment earnings	-1,482,361.56	-42.23	-1,501,395.43	-456.16	-90.74
Subsidy income					
Net amount of nonbusiness income and expenditure	-180,780.45	-5.15	-72,939.84	-22.16	-76.76
Total amount of profit	3,510,266.33	100.00	329,139.15	100.00	

Explanation of reason of change compared with the corresponding period of the last year:
Profit from main operations, profit from other businesses and proportion of period expense in total profit changed over the same period of last year, which was mainly because that such factors as change in consolidated method and losses deduction in subsidiaries etc. made total profit increase.

3.1.4 Explanation of reason and material change of core business and its structure compared with the previous year
□Applicable √Inapplicable

3.1.5 Explanation of reason and material change of profitability capability of core business (gross profit ratio) compared with the previous year
□Applicable √Inapplicable
3.2 Analysis and explanation of significant events and their influence and solutions
□Applicable √Inapplicable

3.3 Particulars about accounting policies, accounting estimation, change of consolidated scope and significant accounting errors and explanation of reasons
□Applicable √Inapplicable

3.4 Relevant explanation of the Board of Directors and the Supervisory Committee under the situation of being audited and provided “Non-standardized opinion”

□Applicable √Inapplicable

3.5 Estimation of accumulative net profit from the beginning of the year to the end of next report period to be loss probably or the warning of its material change compared with the corresponding period of the last year and explanation of reason

□Applicable √Inapplicable

3.6 Rolling adjustment of annual business plan or budget ever disclosed

□Applicable √Inapplicable

Shenzhen Accord Pharmaceutical Co., Ltd.

Apr. 28, 2004

Attachment: Financial Report (Un-audited)

Balance Sheet

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. Unit: RMB

Items	Mar. 31, 2004		Jan. 1, 2004	
	Consolidation	Parent company	Consolidation	Parent company
Current assets:				
Monetary funds	119,941,570.25	43,772,909.13	163,502,893.04	101,637,979.83
Short-term investment	4,080.00		4,080.00	
Notes receivable	11,522,687.00			
Dividends receivable				
Interests receivable				
Accounts receivable	332,883,891.16	271,526,781.99	326,662,316.63	266,161,740.68
Other receivables	44,714,580.72	42,947,679.42	46,026,669.18	44,470,782.87
Accounts in advance	7,156,611.91	6,568,915.53	5,383,899.53	2,448,202.5
Subsidies receivable	2,156,491.81	2,156,491.81	821,125.50	821,125.50
Inventories	208,735,072.65	84,398,072.92	215,298,635.50	93,583,489.39
Expenses to be apportioned	575,023.34	204,857.22	398,439.37	213,482.26
Long-term credit investment due within one year				
Other current assets	701.29			
Total current assets	727,690,710.13	451,575,708.02	758,098,058.75	509,336,803.03
Long-term investment:				
Long-term equity investment	45,657,726.90	260,534,012.42	47,140,088.46	253,540,612.10
Long-term credit investment	2,690.00		2,690.00	
Total long-term investment	45,660,416.90	260,534,012.42	47,142,778.46	253,540,612.10
Including: consolidated price difference	40,588,140.75		41,947,753.80	
Fixed assets:				
Fixed assets-original value	273,385,031.07	89,297,566.29	272,011,422.04	89,733,526.39
Less: Accumulated depreciation	113,011,823.82	17,247,355.48	108,257,622.86	15,302,608.2
Fixed assets-net value	160,373,207.25	72,050,210.81	163,753.799.18	74,430,918.19
Less: Provision for devaluation of fixed assets	3,836,427.11	512,279.34	3,836,427.11	709,026.66
Net amount of fixed assets	156,536,780.14	71,537,931.47	159,917,372.07	73,721,891.53
Engineering materials				
Construction in progress	31,603,461.59	31,603,461.59	31,607,233.77	31,594,461.59
Disposal of fixed assets	-81,796.00			
Total fixed assets	188,058,445.73	103,141,396.06	191,524,605.84	105,316,353.12
Intangible and other assets:				
Intangible assets	3,141,918.17	2,173,944.00	3,061.951.35	2,324,183.50
Long-term expenses to be apportioned	7,572,210.91	634,823.15	8,499,161.63	681,509.60

Other long-term assets				
Total intangible and other assets	10,714,129.08	2,808,767.15	11,561,112.98	3,005,693.10
Deferred taxes:				
Deferred taxes-borrowing item				
Total assets	972,123,701.84	818,059,880.65	1,008,326,556.03	871,199,461.35

Balance Sheet (Con.)

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. Unit: RMB

Items	Mar. 31, 2004		Jan. 1, 2004	
	Consolidation	Parent company	Consolidation	Parent company
Current liabilities:				
Short-term loans	170,000,000.00	85,000,000.00	190,351,900.00	105,000,000.00
Notes payable	4,011,219.37	1,025,856.00	7,310,361.00	4,046,416.00
Accounts payable	253,863,334.57	210,770,073.74	284,752,340.17	232,396,103.60
Accounts received in advance	15,024,127.36		15,102,037.38	
Wages payable	6,858,984.29	4,547,913.89	12,698,816.36	7,554,456.68
Welfare funds payable	5,471,946.49	1,319,036.60	4,673,066.37	1,276,903.60
Dividends payable				
Taxes payable	32,738,349.14	8,375,745.19	26,947,186.39	8,125,063.78
Other duties payable	33,228.03	1,580.31	31,474.44	1,683.70
Other accounts payable	128,713,370.80	139,076,025.24	113,774,198.78	148,862,286.68
Accrued expenses	7,014,784.77	1,182,626.03	7,024,547.17	726,523.88
Projected liabilities				
Long-term liabilities due within one year				
Other current liabilities				
Total current liabilities	623,729,344.82	451,298,587.00	662,665,928.06	507,989,437.92
Long-term liabilities:				
Long-term loans	2,000,000.00		2,000,000.00	
Bonds payable				
Long-term accounts payable				
Special accounts payable	800,000.00	800,000.00	800,000.00	800,000.00
Other long-term liabilities				
Total long-term liabilities	2,800,000.00	800,000.00	2,800,000.00	800,000.00
Deferred taxes:				
Deferred taxes-credit item				
Total liabilities	626,529,344.82	452,098,857.00	665,465,928.06	508,789,437.92
Minority interests	1,186,445.81		1,276,478.04	
Owners' equity (shareholders' equity)				
Paid-in capital (or share capital)	288,149,400.00	288,149,400.00	288,149,400.00	288,149,400.00

Less: Restituted investment				
Net amount of paid-in capital (share capital)	288,149,400.00	288,149,400.00	288,149,400.00	288,149,400.00
Capital public reserve	17,162,586.79	17,162,586.79	17,162,586.79	17,162,586.79
Surplus public reserve	40,860,055.19	40,860,055.19	40,860,055.19	40,860,055.19
Including: Statutory public welfare funds				
Retained profit	17,516,569.97	19,788,981.67	13,965,569.75	16,237,914.45
Unconfirmed investment losses	-19,280,700.74		-18,553,461.80	
Balance difference of foreign currency translation				
Total owner's equity (shareholders' equity)	344,407,911.21	365,961,023.65	341,584,149.93	362,410,023.43
Total liabilities and owner's equity (shareholder's equity)	972,123,701.84	818,059,880.65	1,008,326,556.03	871,199,461.35

Statement of Profit and Profit Distribution

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. Unit: RMB

Items	Jan.-Mar. 2004		Jan.-Mar. 2003	
	Consolidation	Parent company	Consolidation	Parent company
I. Income from core business	392,029,213.93	215,552,080.62	472,864,166.91	226,398,630.41
Less: Cost of core business	290,498,591.11	204,623,030.36	357,727,896.31	212,465,222.61
Taxes and extras of core business	444,951.25		845,442.51	149,398.76
II. Profit from core business (Loss is listed with "-")	101,085,671.57	10,929,050.26	114,290,828.09	13,784,009.04
Add: Profit from other business lines (Loss is listed with "-")	4,792,463.45	1,747,648.70	1,723,911.92	642,275.85
Less: Operating expense	82,476,568.56	10,228,471.36	92,531,339.70	9,287,344.89
Administrative expense	16,573,076.02	4,126,327.57	20,380,672.73	4,161,191.00
Financial expense	1,655,082.10	1,712,007.87	1,199,253.16	326,290.47
III. Operating profit (Loss is listed with "-")	5,173,408.34	-3,390,107.84	1,903,474.42	651,458.53
Add: Investment income (Loss is listed with "-")	-1,482,361.56	6,993,400.32	-1,501,395.43	2,822,422.57
Subsidy income				
Non-operating income	30,388.50		203,171.51	32,140.00
Less: Non-operating Expenditure	211,168.95	52,292.26	276,111.35	68,480.20
IV. Total profit (Loss is listed with "-")	3,510,266.33	3,551,000.22	329,139.15	3,437,540.90
Less: Income taxes	1,274,345.16		1,120,063.15	
Less: Minority shareholders' gains and	-90,032.23		79,469.67	

losses				
Add: Unconfirmed investment losses	1,225,046.82		4,307,934.57	
V. Net profit (Loss is listed with "-")	3,551,000.22	3,551,000.22	3,437,540.90	3,437,540.90
Add: Retained profits at the year-begin	13,965,569.75	16,237,981.45	-1,225,155.43	-133,466.48
Other transfer-in				
VI. Profit available for distribution	17,516,569.97	19,788,981.67	2,212,385.47	3,304,074.42
Less: Appropriation of statutory surplus public reserve				
Appropriation of statutory public welfare funds				
Appropriation of employees' encouragement and welfare funds				
Appropriation of reserve funds				
Appropriation of enterprise development funds				
Profits' restoring to investments				
VII. Profits available for distribution to investors	17,516,569.97	19,788,981.67	2,212,385.47	3,304,074.42
Less: Dividends of preference share payable				
Appropriation of arbitrary surplus public reserve				
Dividends of ordinary share payable				
Dividends of ordinary share converting into capital (share capital)				
VIII. Retained profit	17,516,569.97	19,788,981.67	2,212,385.47	3,304,074.42

Cash Flow Statement

Jan.-Mar. 2004

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. Unit: RMB

Items	Consolidation	Parent company
Ⅰ. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	439,508,310.05	246,398,910.56
Write-back of tax received	337,602.86	337,602.86

Other cash received concerning operating activities	24,502,269.11	7,676,994.50
Subtotal of cash inflow	464,348,182.02	254,413,507.92
Cash paid for purchasing commodities and receiving labor service	361,486,033.82	267,419,691.73
Cash paid to/for staff and workers	35,161,135.47	9,185,646.42
Taxes paid	14,841,647.82	1.051,115.22
Other cash paid concerning operating activities	68,419,198.35	11,926,607.60
Subtotal of cash outflow	479,908,015.46	289,583,060.97
Net cash flows arising from operating activities	-15,559,833.44	-35,169,553.05
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income		
Net cash received from disposal of fixed, intangible and other long-term assets		
Other cash received concerning investing activities		
Subtotal of cash inflow		
Cash paid for purchasing fixed, intangible and other long-term assets	3,377,586.37	1,743,059.00
Cash paid for investment		
Other cash paid concerning investing activities	12,768.84	
Subtotal of cash outflow	3,390,355.21	1,743,059.00
Net cash flows arising from investing activities	-3,390,355.21	-1,743,059.00
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	20,350,400.00	20,000,000.00
Other cash received concerning financing activities	3,963.37	
Subtotal of cash inflow	20,354,363.37	20,000,000.00
Cash paid for settling debts	43,357,900.00	40,000,000.00
Cash paid for dividends and profit distributing or interest paying	1,587,615.70	952,458.65
Other cash paid concerning financing activities	19,981.81	
Subtotal of cash outflow	44,965,497.51	40,952,458.65
Net cash flows arising from financing activities	-24,611,134.14	-20,952,458.65
IV. Influence on cash due to fluctuation in exchange rate		
V. Net increase of cash and cash equivalents	-43,561,322.79	-57,865,070.70

Cash Flow Statement (Con.)

Jan.-Mar. 2004

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. Unit: RMB

Items	Consolidation	Parent company
Supplementation information		
1. Adjusting net profit to cash flows for operating activities:		
Net profit	3,551,000.22	3,551,000.22
Add: Minority shareholders' gains and losses	-90,032.23	
Unconfirmed investment losses	-1,225,046.82	
Add: Withdrawal of provision for devaluation of assets		
Depreciation of fixed assets	5,063,964.10	1,904,538.10
Amortization of intangible assets	341,165.74	150,239.50
Amortization of long-term expenses to be apportioned	1,564,680.41	108,974.82
Decrease of expenses to be apportioned (Less: increase)	176,583.97	8,625.04
Increase of accrued expenses (Less: decrease)	-9,762.40	456,102.15
Losses on disposal of fixed, intangible and other long-term assets (Less: income)		
Loss on reject of fixed assets		
Financial expenses	1,653,757.27	1,712,007.87
Losses on investment (Less: income)	1,482,361.56	-6,993,400.32
Deferred taxes – credit item (Less: debit item)		
Decrease of inventories (Less: increase)	6,563,652.85	9,185,416.47
Decrease of receivables in operating (Less: increase)	-26,874,139.30	-10,761,057.17
Increase of payables in operating (Less: decrease)	-3,514,887.23	-34,491,999.73
Other	-4,243,131.58	
Net cash flows arising from operating activities	-15,559,833.44	-35,169,553.05
2. Investing and financing activities involving no cash incomings / outgoings:		
Debts transferred into capital		
Convertible bonds of the Company due within 1 year		
Renting fixed assets for financing purpose		
3. Net increase of cash and cash equivalents:		
Balance of cash at the period-end	119,941,570.25	43,772,909.13
Less: Balance of cash at the period -begin	163,502,893.04	101,637,979.83
Add: Balance of cash equivalents at the period -end		
Less: Balance of cash equivalents at the period -begin		
Net increase of cash and cash equivalents	-43,561,322.79	-57,865,070.70