

Shenzhen Accord Pharmaceutical Co., Ltd.

2004 Annual Report

April 2005

Content

Important Notes

I. Company Profile

II. Summary of Financial Highlights and Business Highlight

- (I) Main business data as of the year 2004
- (II) Major accounting data and financial index over previous three years ended the report period
- (III) Supplemental statement of profit
- (IV) Changes in shareholders' equity and reasons in the report year

III. Changes in Share Capital and Particulars about Shareholders

- (I) Changes in shares capital
- (II) Issuance and listing of share
- (III) About shareholders

IV. Particulars about Directors, Supervisors and Senior Executives and Employees

- (I) About directors, supervisors and senior executives
- (II) Number of employees and professional quality

V. Administrative Structure

- (I) Actual situation of company administration
- (II) Particulars about performance of duties by independent directors
- (III) Separation in Business, Assets, Personnel, Organization and Finance between the Company and the controlling shareholder
- (IV) Performance evaluation and binding mechanism for senior executives

VI. Brief Introduction of Shareholders' General Meeting

VII. Report of the Board of Directors

- (I) Discussion and analysis of the management
- (II) Operation of the Company
- (III) Investment and application of raised proceeds
- (IV) Reason for change in financial highlights and operation achievement
- (V) Influence on change of market operating environment, macro-policies and regulations on the Company
- (VI) Routine work of the Board of Directors
- (VII) Profit distribution preplan as of the Year 2004

VIII. Report of the Supervisory Committee

IX. Significant Events

- (I) Material lawsuits and arbitration
- (II) Purchase and sales of assets
- (III) Significant related transaction
- (IV) Significant contract and the implementation
- (V) Commitment of the Company or shareholders
- (VI) Engagement of Certified Public Accountants
- (VII) Other significant events

X. Financial Report

- (I) Auditors' report
- (II) Financial statement
- (III) Notes to financial statement

XI. Documents Available for Reference

IMPORTANT NOTES

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

Chairman of the Company Mr. Chen Weigang, General Manager Mr. Shi Jinming and Chief Financial Officer Mr. Wei Pingxiao 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.

Independent Directors, Mr. Sui Guangjun, and Mr. Zoujun didn't attend 6th meeting of the 4th Board to examine the annual report due to certain reasons, and they entrusted Independent Directors, Ms. Peng Juan and Mr. Yin Jumin to attend the meeting and vote on their behalf in written form.

Domestic Shanghai Shu Lan Pan Certificated Public Accountants and overseas Horwath Certificated Public Accountants audited the Company's Financial Report and issued a standard unqualified Auditors' Report for the Company respectively.

This report has been prepared in Chinese version and English version respectively. In the event of difference in interpretation between the two versions, the Chinese report shall prevail.

CHAPTER I. COMPANY PROFILE

1. Legal Name of the Company

In Chinese: 深圳一致药业股份有限公司

In English: Shenzhen Accord Pharmaceutical Co., Ltd.

Abbr. of English name: Accord Pharm.

2. Legal Representative: Chen Weigang

3. Secretary of the Board of Directors: Chen Changbing

Securities Affairs Representative: Jiao Qi

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

Tel: (86) 755-25875195, 25875140

Fax: (86) 755-25875166

E-mail: investor@szaccord.com.cn

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

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

Post Code: 518029

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

E-mail: 0028@szaccord.com.cn

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

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

<http://www.cninfo.com.cn>

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

6. Stock Exchange Listed with: Shenzhen Stock Exchange

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

Stock Code: 000028

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

Stock Code: 200028

7. Other Information about the Company

(1) Initial registration date: Aug. 2, 1986

Initial registration place: Shenzhen, China

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

Registration place after changed: Shenzhen, China

(3) Registered number for business license of corporation: 4403011001677

(4) Registered number of taxation: GS Zi No. 440301192186267

SDSD Zi No. 440304192186267

(5) Name of the Certified Public Accountants engaged by the Company:

Domestic: Shanghai Shu Lan Pan Certified Public Accountants & Co., Ltd.

Address: 5/F, No. 61, Nanjing East Road, Shanghai

International: Horwath Certified Public Accountants

Address: Central Plaza, Harbour Road 18, Wan Chai District, Hong Kong

CHAPTER II. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

Section I. Main business data as of the year 2004

1. Major profit indexes

Unit: RMB

Items	Amount
Total Profit	25,657,456.44
Net Profit	27,254,148.36
Net profit after deducting non-recurring gains and losses	23,700,002.32
Profit from main operations	370,790,294.26
Other operating profit	18,570,827.17
Operating profit	21,657,217.14
Investment income	- 229,092.27
Subsidy income	5,140,900.00
Net non-operating income/expenses	-911,568.43
Net cash flow arising from operating activities	130,295,006.15
Net increase in cash and cash equivalents	-64,807,660.84

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

Unit: RMB

Items	Amount
All items of subsidy income	4,369,765.00
Net amount of non-operating income and expenses after deducting impairment losses withdrawn	-815,618.96
Total	3,554,146.04

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

Unit: RMB

	Net profit	Net capital
As reported under Chinese Accounting Standards	27,254,148.36	358,197,820.37
Adjustment under International Accounting Standards		
Registration fee of trademark	8,950.00	-69,737.50
Business reputation and its amortization	81,843.09	-8,973,620.27
Unconfirmed investment losses adjustment	-7,870,720.04	-
Adjustment investment for subsidiaries	432,273.16	-542,744.01
Adjustment of public reserve	-	379.38
As reported under International Accounting Standards	19,906,494.57	348,612,097.97

[Note] The net profit as of the year 2003 was RMB 19,906,494.57 as audited by overseas Certified Public Accountants. The main reason for the difference between the results under CAS and IAS is because the different accounting policies were adopted in the treatment of assets replacement over the past years, occurring and amortization of balance of equity investment, and confirmation of investment losses arising from over deficit of subsidiary in the report period.

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

Financial indexes	Unit	2004	2003		2002	
			After adjustment	Before adjustment	After adjustment	Before adjustment
Income from main operations	RMB	1,576,085,283.69	1,729,174,762.27	1,780,873,731.82	1,832,513,852.58	1,869,937,562.72
Net profit	RMB	27,254,148.36	15,190,725.18	15,190,725.18	4,922,754.72	4,922,754.72

Total assets	RMB	846,186,796.73	984,428,227.33	1,008,326,556.03	1,040,928,928.79	1,052,596,979.41
Shareholders' equity (excluding minority interests)	RMB	358,197,820.37	338,235,106.36	341,584,149.93	333,335,056.95	333,335,056.95
Earnings per share	RMB/share	0.095	0.053	0.053	0.017	0.017
Net assets per share	RMB/share	1.243	1.174	1.185	1.157	1.157
Net assets per share after adjustment	RMB/share	1.193	1.092	1.110	0.997	0.997
Net cash flow per share arising from operating activities	RMB/share	0.452	0.236	0.282	0.072	0.100
Return on equity	%	7.609	4.491	4.447	1.477	1.477
Weighted average return on equity	%	7.746	4.456	4.456	1.454	1.454
Weighted average return on equity after deducting non-recurring gains and losses	%	6.736	2.337	2.337	-1.453	-1.453

Section II.I Supplemental statement of profit

Profit in the report period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	103.516	105.379	1.287	1.287
Operating profit	6.046	6.155	0.075	0.075
Net profit	7.609	7.746	0.095	0.095
Net profit after deducting non-recurring gains and losses	6.616	6.736	0.082	0.082

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

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

Items	Share capital	Capital reserve	Surplus public reserve	Statutory public welfare funds	Retained profit	Unrecognized investment losses	Total shareholders' equity
Amount at the period-begin	288,149,400.00	17,162,586.79	51,646,665.79	5,393,305.31	-2,214,346.16	-21,902,505.37	338,235,106.36
Increase in the report period		579,285.69	6,323,930.97	3,161,965.49	17,768,251.90	-7,870,720.04	19,962,714.01
Decrease in the report period							
Amount at the period-end	288,149,400.00	1,7741,872.48	57,970,596.76	8,555,270.80	15,553,905.74	-2,9773,225.41	358,197,820.37
Reason for change		Note 1	Note 2	Note 3	Note 4	Note 5	

Note 1: Increase in the report period was because Chain Company Shenzhen Jian'an Pharmaceutical Co. increase public reserve so as to the holding shares' proportions increased public reserve relatively.

Note 2: Increase in the report period was because the subsidiary of the Company withdrew statutory surplus public reserve;

Note 3: Increase in the report period was because the subsidiary of the Company withdrew statutory surplus public reserve;

Note 4: Increase in the report period was because the Company realized the net profit;

Note 5: Increase in the report period was because Shenzhen Accord Pharmaceutical Chain Co., Ltd., subsidiary of the Company, has a deficit in 2004.

CHAPTER III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

Section I. Statement of change in share capital (Ended Dec. 31, 2004)

Unit: share

Items	Before the change	Increase/decrease in this time (+, -)						After the change
		Allotment of share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub-total	
I. Unlisted Shares								
1. Sponsors' shares	150,935,400							150,935,400
Including:								
State-owned shares	124,864,740							124,864,740
Domestic legal person's shares	26,070,660							26,070,660
Foreign legal person's shares								
Others								
2. Raised legal person's shares	27,442,800							27,442,800
3. Inner employees' shares								
4. Preference shares or others								
Including:								
Transferred / allotted shares								
Total unlisted shares	178,378,200							178,378,200
II. Listed Shares								
1. RMB ordinary shares	54,885,600							54,885,600
2. Domestically listed foreign shares	54,885,600							54,885,600
3. Overseas listed foreign shares								
4. Others								
Total listed shares	109,771,200							109,771,200
III. Total shares	288,149,400							288,149,400

Section II. Issuance and listing of shares

The Company was established as a joint stock company with limited liability through the reorganization for the joint stock system on Feb. 1, 1993 with the approval from the Shenzhen Municipal People's Government with the document Shenzhen-Government-Office Official Reply (1993) No.356. In March, 1993, As approved by Shenzhen Branch of the People's Bank of China, the Company issued an additional 30 million 'A' shares (including 10 million raised legal person shares, 16.5 million public shares and 3.5 million employees' shares) and 20 million 'B' shares at issuing price of RMB 3.50 per

share (HK\$ 3.17) from May 5, 1993 to June 5, 1993. At present, all the employees' shares, domestic and foreign public shares are listed in the Shenzhen Stock Exchange for trading.

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

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

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

On Nov. 12, 1996, the Company transferred capital public reserve into share capital on the basis of 2 for 10. After transfer, the total share capital of the Company was increased to 160,083,000 shares from 133,402,500 shares.

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

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

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

On June 18, 2001, the Company carried out the exchange of Assets with Shenzhen Investment Holding Corporation, the original Company's largest shareholder. The Company's changed its name from Shenzhen Health Mineral Water Co., Ltd. to Shenzhen Accord Pharmaceutical Co., Ltd.

In 2001, 2002 and 2003, the Company conducted neither profit distribution nor capital public reserve transferring into share capital.

Section III. About shareholders

1. Ended Dec. 31, 2004, the Company had totally 34,023 shareholders, including 23,698 shareholders of A-share and 10,325 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders (Ended Dec. 31, 2004)

Shareholders' name	Increase/ Decrease in this year (share)	Number of shares held in the year-end (share)	Proportion (%)	Type of share (Circulating/non -circulating)	Number of shares pledged or frozen (share)	Nature of shareholder (State-owned shareholder or foreign shareholder)
SINOPHARM Medicine Holding Co., Ltd.	124,864,740	124,864,740	43.33	Non-circulating		State-owned shareholder
Shenzhen Baoan District Shiyan Town Economic and Development Corporation	0	26,070,660	9.05	Non-circulating	16,079,700	Other
Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	0	13,942,800	4.84	Non-circulating	13,846,000	Other
Shenzhen Wangzong Industrial Co., Ltd.	0	5,303,200	1.84	Non-circulating		Other
Nanjing Junyue Investment and Consultation Co., Ltd.	0	5,000,000	1.74	Non-circulating		Other

Wuxi Huaxin Investment Management Co., Ltd.	0	1,396,800	0.48	Non-circulating		Other
Shanghai Shisheng Enterprise Development Co., Ltd.	0	1,000,000	0.35	Non-circulating		Other
Shanghai Huaxia Yifu Investment Co., Ltd.	0	800,000	0.28	Non-circulating		Other
HAN WANGCHEN	Unknown	720,000	0.25	Circulating		A-share in circulating
CHEN YONGQUAN	Unknown	509,922	0.18	Circulating		Foreign capital shareholder
Explanation on associated relationship among the top ten shareholders or consistent actionist		Among the above top ten shareholders, there exists no associated relationship among state-owned shareholder and each shareholders of legal person's share, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies. For other shareholders of circulation share, the Company is unknown their relationship.				

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

16,079,700 shares of the Company held by Shenzhen Bao'an District Shiyan Town Economic and Development Corporation ("Shiyan Company") was frozen because Shiyan Company provided the said shares as mutual guarantee for loan to Shenzhen Bao'an District Investment Holding Corporation in 2000. 13,846,000 shares of the Company held by Shenzhen Bao'an Shangwu Economic and Development Co., Ltd. ("Shangwu Company") was mortgaged and frozen to Industrial and Commercial Bank of China, Longhua Sub-branch; the duration of mortgage from Dec. 24, 2003 to Dec. 24, 2004.

4. The controlling shareholder of the Company

Name of the controlling shareholder: SINOPHARM. Medicine Holding Co., Ltd.

Legal representative: Zheng Hong

Date of foundation: Jan. 8, 2003

Registered capital: RMB 1,027,953,725

Nature of economic: state-owned holding company

Business scope: the wholesale of Chinese patent medicines (including ginseng, pilose antler and silver mushroom), chemical material, a chemical agent, antibiotics, biochemical, biological, diagnosis drug, industry investment, entrusted management and assets reorganization of pharmaceutical enterprises, domestic trade (barring specific permission), logistics supply and relevant consultant services (in right of exequatur to run if refers to permission operation).

5. Particulars about the actual controller:

Name of the actual controller: China Medicine Group Headquarter

Legal representative: Zheng Hong

Date of foundation: Mar. 1, 1988

Registered capital: RMB 857,490,000

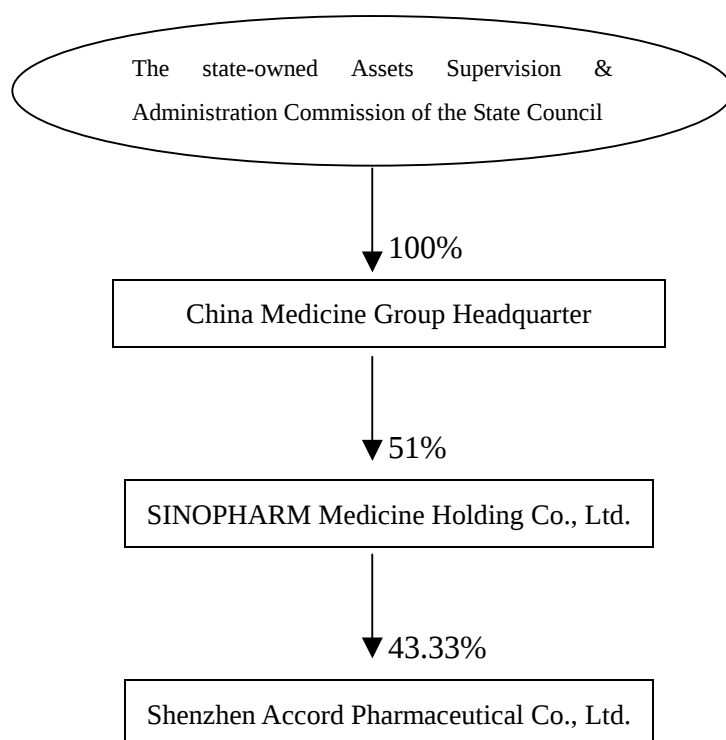
Nature of economic: state-owned sole company

Business scope: entrusted management and assets reorganization of pharmaceutical enterprises, consultant service of medicine industry investment project, holding exhibition and fair of surgical appliance, the wholesale of Chinese medicine, Chinese patent medicines, Chinese medicine herb in pieces, chemical material medicine, a chemical agent, antibiotics, biochemical, biological.

The underling exclusively invested company and controlling subsidiary of China Medicine Group Headquarter includes: China Medicine Industry Co., SINOPHARM Medicine Co., Ltd., China Medicine

Foreign Trade Co., China Medical Appliance Co., China Drugs Group, SINOPHARM Medicine Holding Co., Ltd., SINOPHARM Exhibition Co., Ltd., Sichuan Antibiotics Industrial Institute of China Medicine Group Headquarter, Union Engineering Co. of China Medicine Group and SINOPHARM Advertising Co., Ltd..

6. The property and controlling relationship between the actual controller of the Company and the Company is as follows:



6. In the report period, the controlling shareholder has been changed

The original 1st large shareholder of the Company was Shenzhen Investment Management Company, on Feb. 18, 2004 Shenzhen Investment Management Company signed the Agreement on Transferring the Share Capital with SINOPHARM medicine Holding Co., Ltd. and transferred all state-owned shares (taking up 43.33% of the total share capital) to SINOPHARM medicine Holding Co., Ltd., replied by the state-owned Assets Supervision & Administration Commission of the State Council and administratively permitted by CSRC, the transfer and assignee has fulfilled the register procedure of name transfer in China Securities Registration & Clearing Co., Ltd., SINOPHARM Medicine Holding Co., Ltd. became the 1st large shareholder of the Company.

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

Shareholders' name (full name)	Number of circulation shares held at the year-end	Type (A-share, B-share, H-share and other)
HAN WANGCHEN	720,000	A-share
CHEN YONGQUAN	509,922	B-share
FAN HUIQIONG	484,900	B-share
DENG XIUHE	434,500	A-share
CHEN ZEBING	311,800	B-share
JIANG XIAOMING	309,950	B-share
YANG YUANZHOU	294,500	B-share
LI DONG MEI	270,908	B-share
ZHANG YANDONG	270,000	A-share

WAN JINGDA	265,400	B-share
Explanation on associated relationship among the top ten shareholders of circulation share	Among the top ten shareholders of circulation share, the Company is unknown their relationship.	

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

Section I. Directors, supervisors and senior executives

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

Name	Title	Sex	Age	Office term	Number of shares held at the period-end (share)	Number of shares held at the period-begin (share)
Chen Weigang	Chairman of the Board	Male	46	Jan. 13, 2005 – Sep. 28, 2007	0	0
Wu Ai'ming	Director	Male	35	Jan. 13, 2005 – Sep. 28, 2007	0	0
Zuo Jie	Director	Male	33	Jan. 13, 2005 – Sep. 28, 2007	0	0
Shi Jinmin	Director, general manager	Male	37	Jan. 13, 2005 – Sep. 28, 2007	0	0
Yin Juming	Director	Female	56	Sep. 28, 2004 – Sep. 28, 2007	0	0
Zou Jun	Director	Male	33	Sep. 28, 2004 – Sep. 28, 2007	0	0
Chen Shu	Independent Director	Female	50	Sep. 28, 2004 – Sep. 28, 2007	0	0
Sui Guangjun	Independent Director	Male	43	Sep. 28, 2004 – Sep. 28, 2007	0	0
Peng Jun	Independent Director	Female	40	Sep. 28, 2004 – Sep. 28, 2007	0	0
Zhu Dixin	Convener of the supervisory Committee	Male	57	Jan. 13, 2005 – Jan. 13, 2008	0	0
Shen Tianfang	Supervisor	Male	55	Jan. 13, 2005 – Jan. 13, 2008	0	0
Zhao Junpeng	Supervisor	Male	36	Jan. 13, 2005 – Jan. 13, 2008	0	0
Ou Jianneng	Deputy General Manager	Male	46	Jan. 13, 2005 – Sep. 28, 2007	0	0
Tian Guoshu	Deputy General Manager	Male	50	Jan. 13, 2005 – Sep. 28, 2007	0	0
Yan Zhigang	Deputy General Manager	Male	45	Jan. 13, 2005 – Sep. 28, 2007	0	0
Lin Xinyang	Deputy General Manager	Male	40	Jan. 13, 2005 – Sep. 28, 2007	0	0
Wei Pingxiao	Financial chief supervisor	Male	41	Dec. 7, 2004 – Sep. 28, 2007	0	0

Chen Changbing	Secretary of the Board of Directors	Male	37	Sep. 28, 2004 – Sep. 28, 2007	0	0
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2. Particulars about the position held by directors and supervisors in Shareholding Company

Name	Shareholding company	Position	Office term
Chen Weigang	SINOPHARM Medicine Holding Co., Ltd.	General manager	From Jan. 2003
Wu Aimin	SINOPHARM Medicine Holding Co., Ltd.	Financial chief supervisor	From Jul. 2003
Zuo Jie	SINOPHARM Medicine Holding Co., Ltd.	Section chief	From May 2003
Shi Jinming	SINOPHARM Medicine Holding (Guangzhou) Co., Ltd.	General manager	From Apr. 2003
Yin Junmin	Shenzhen Shiyan Town Investment Management Co., Ltd.	Financial Chief supervisor	From Jan. 1996
Zou Jun	Shenzhen Wangzong Industrial Co., Ltd.	Executive director	From May 2001
Zhao Junpeng	Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	Chairman Of the Board	From Jan. 2000

3. Main work experience of present directors, supervisors and senior executives:

(1) Member of the Board of Directors

Mr. Chen Weigang (chairman of the Board), MBA and senior economist, worked at China Medicine Group (Shanghai) Company from Apr. 1976, took the turns of officer of enterprise management office, commissar of League Commission, associate dean or dean of GMO, manager of business department, manager associate and deputy manager, etc.; he takes the position of secretary of CPC and GM of China Medicine Group (Shanghai) Company from Dec. 1998 till now; and secretary of CPC and GM of SINOPHARM Medicine Holding Co., Ltd. from Jan. 2003 till now; and takes the post of chairman of the Board of the Company from Jan. 2005.

Mr. Wu Ai'min (director), an accountant with bachelor degree, took the turns of senior manager of Jiangsu Property Assessment Firm, copartner of Jiangsu Renhe Property Assessment Company, financial chief supervisor and manager of investment center of Xuzhou Huaihai Food Town, and so on from Aug. 1992; takes the position of financial chief supervisor of SINOPHARM Medicine Holding Co., Ltd. from Jul. 2003; and supplemented to be director by the Shareholders' general meeting of the Company from Jan. 2005.

Mr. Zuo Jie (director), MBA and China economist, worked at the 1st department store Co., Ltd., Shanghai, he took the turns of securities representative of the Board of Directors, deputy MB of finance securities department and of the 1st department store Co., MB of Investment Company and MB associate of the 1st department store east building, and so on from Jul. 1993; from May 2003 takes the post of deputy minister and minister of investment planning department SINOPHARM Medicine Holding Co., Ltd. till now; and supplemented to be director by the Shareholders' general meeting of the Company from Jan. 2005.

Mr. Shi Jinming (director and MB), bachelor degree, took the turns of manager of China Medicine (Group) Guangzhou Yuexing Company, manager of medicine department of SINOPHARM Medicine Co., Ltd., deputy GM of China Medicine (Group) Guangzhou Yuexing Company and concurrently manager of Yuexing Company from Mar. 1995; he takes the post of GM of SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. from Apr. 2003 till now; GM of the Company from Feb. 2004, he was elected as director by the shareholders' general meeting in election at expiration of office term of the

Board of Directors of the Company in Sep. 2004.

Mr. Yin Jumin (director), an accountant, from 1994 to 1996 took the post of project manager of Baoyong CPAs, Bao'an District, Shenzhen; from 1996 takes the post of general accountant and financial chief supervisor of Shiyan Town Investment Management Co., Ltd. Bao'an District, Shenzhen; he was elected as director by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Sep. 2004.

Mr. Zou Jun (director), bachelor degree, from Oct. 1997 to May 2001 worked as deputy GM at Shenzhen Taoxian Industrial Co., Ltd.; takes the post of executive director of Shenzhen Wangzong Industrial Co., Ltd. from May 2001 till now; he was elected as director by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Sep. 2004.

Ms. Chen Shu (independent director), bachelor, ever worked as cadre, secretary of court, judge and vice president, etc. at People's Court of Huangling County, Shanxi province, from Oct. 1985 took the post of section chief of Law Firm of Liwan District, Guangzhou City, vice administrator of administration of justice till now; copartner and section chief of Guangzhou Law Firm from Jan. 1995; copartner and section chief of Guangzhou Jinpeng Law Firm from Feb. 1996; chief secretary of Guangzhou Lawyer Association and concurrently vice president of China National Lawyer Association and vice president of Guangdong province Lawyer Association, as well as NPC deputy of the 10th session from Mar. 2002 till now; she was elected as independent director by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Sep. 2004.

Mr. Sui Guangjun (independent director), professor with doctor degree and instructor for doctorate, ever took the post of superintendent of special zone and pearl river delta economic institute of Jinan University, dean of marketing department, standing vice president and president of management institute of Jinan University, section chief of Oriental Thought Marketing Institute of Jinan University, dean of MBA Education Center and stationmaster of postdoctoral circling station; now he is in charge of vice president of Guangdong Foreign Trade & Language University; he was elected as independent director by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Sep. 2004.

Ms. Peng Juan (independent director), associate professor, mayor research direction is finance strategy and management, marketing auditing and financing marketing. From 1997 taught at financing and accounting department of management institute of Shanghai Jiaotong University till now, now is in charge of deputy dean and concurrently secretary of CPC; she was elected as independent director by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Sep. 2004.

2. Members of supervisors:

Mr. Zhu Dixin (convener of the supervisory committee), senior politic engineer graduated from secondary technology school, from Oct. 1985 took the post of section chief of Shenzhen Discipline Supervision office, deputy director of Shenzhen Fighting Economic Crime Office, dean of supervision office of supervision administration bureau of Shenzhen, secretary of discipline supervision commission of Shenhua Industrial Trade Headquarter of Shenzhen, supervision office dean, secretary of discipline supervision commission and secretary of CPC of Shenzhen Medicine Produce and Supply Headquarter, chairman of the supervisory Committee, and so on; he was elected as supervisor by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Jan. 2005.

Mr. Zhao Junpeng (supervisor), three-year college degree, is now in charge of director of Villager Commission of Shangwu Village of Bao'an, Shenzhen and chairman of the Board of Shangwu Economic and Development Co., Ltd.; took the turns of supervisor of the Company; he was elected as supervisor by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Jan. 2005.

Mr. Shen Tianfang (employee supervisor), three-year college degree, from Nov. 1985 took the turns of sole duty DS cadre, deputy minister and minister of personnel ministry, chairman of Labor Union and commissar of CPC, etc. of Shenzhen Medicine Produce and Supply Headquarter; from 2001 took the post of chairman of LU, commissar of CPC and supervisor, etc. of the 3rd Supervisory Committee of Shenzhen Accord Pharmaceutical Co., Ltd.; he was elected as supervisor by the shareholders' general meeting in election at expiration of office term of the Board of Directors of the Company in Jan. 2005.

3. Senior executives:

Mr. Shi Jinming (director and GM), Pls. Referring to the aforesaid introduction of members of directors.

Mr. Ou Jianneng (deputy GM), chief chemist with on-job master degree, from Jul. 1981 took the post of Huiyong medicine testing institute, Guangdong, Shenzhen Jianmin Medicine Company, Shenzhen Medicine Company and Shenzhen Medicine Produce & Supply Headquarter; manager of sales center of the Company from Jan. 2001; took the post of standing deputy GM of Medicine Logistics department and minister of compound management department of the Company from May 2003, and held the position of deputy GM of the Company from Jun. 2003.

Mr. Tan Guoshu (deputy GM), on-study postgraduate, assistant economist and politic engineer, ever took the post of deputy director of Gongxiaoshe, Dalonghua, Fengshun County, manager of affiliated corporation, deputy GM of Labor Service Company, Labor Bureau, Fengshun, GM of Labor Service Company, Boned Zone, Shatoujiao District, Shenzhen, deputy GM of Shenzhen Best Machinery Electronic Company, organization charger of Labor Service Company of Shenzhen Food Headquarter, and so on; from Apr. 1996 took the post of deputy director, minister of personnel minister and GM associate, etc. of supervision administration office of Shenzhen Medicine Produce & Supply Headquarter, and concurrently GM of Shenzhen Xiannuo Medicine Company, manager of Shatoujiao Medicine Company and manager of Nanshan Medicine Company, etc. during that time; held the position of minister of talents resources department of the Company and later concurrently vice secretary of DSC of the Company from Jan. 2001, and deputy GM of the Company from Jun. 2003.

Mr. Yan Zhigang (deputy GM), MBA, chief chemist, took the turns of technician, section chief of QC department, deputy GM and manager, etc. of Guizhou Medicine Company from Jul. 1983; held the position of plant manager of Shenzhen Medicinal Oil Plant, deputy GM of Shenzhen Medicine Company, deputy GM of Shenzhen Accord Pharm. Chain Company from Jun. 1996; from Feb. 2000 took the post of plant manager of Shenzhen Pharmaceutical Factory; took the post of deputy GM of the Company from Jan. 2005.

Mr. Lin Yangxin (deputy GM), certified chemist with bachelor degree, from Jan. 1996 took the turns of deputy GM of Nanfang Pharm. Co., deputy GM of China Medicine Group (Guangzhou) Company Yuexing Company, general supervisor of PD of SINOPHARM Medicine Holding Guangzhou Company; took the post of deputy GM of SINOPHARM Medicine Holding Guangzhou Company from Jan. 2004; took the post of deputy GM of the Company from Jan. 2005.

Mr. Wei Xiaoping (financial general supervisor), MBA, a China accountant, took the turns of Financial department of State-owned Beijing Electronic Tube Plant, Modern Electronic Shenzhen Industrial Company, China Electronic Industrial Headquarter from Aug. 1985; and took the turns of deputy section chief of financial department of China Electronic Information Industry Group, financial director of AMOI, section chief of planning financial department of China Electronic Finance Leasing Company, Deputy GM of AMOI Beijing branch, financial charger of AMOI and director of its subsidiary from Apr. 1993; and hold the post of financial general supervisor of the Company.

Mr. Chen Changbing (secretary of the Board), double bachelor degree and master degree, China economist, ever took the post of Zhuhai Guangli Industrial Co., Ltd., took the post of minister of designing department and vice plant manager, etc.; from 1999 took the post of deputy office director of Shenzhen Medicine Produce and Supply Headquarter; the post of secretary of the Board of the Company from Dec. 2000; and took the post of secretary of the 4th Board of the Company from Sep.

2004.

4. Position or part-time job in other shareholder's unit held by directors, supervisors and senior executives:

Name	Position/part-time job	Relationship with the Company	Office duty
Chairman of the Board Chen Weigagn	China National Pharmaceutical Group Co.	Holding shareholder of SINOPHARM Holding	Deputy GM
	SINOPHARM Holding Shanghai Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Holding Guangzhou Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Holding Shenyang Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Holding Liuzhou Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Holding Hubei Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Holding Shanxi Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Group Chemicals Co. Ltd.	Subsidiary of holding shareholder	Legal representative
	Shanghai SINOPHARM Logistics Co. Ltd.	Subsidiary of holding shareholder	Legal representative
	Beijing Huahong of SINOPHARM Co., Ltd.	Subsidiary of holding shareholder	Legal representative
Director and GM Shi Jinming	SINOPHARM Medicine Holding Guangzhou Co., Ltd.	Subsidiary of holding shareholder	GM
Deputy GM Ou Jianneng	Shenzhen Accord Pharm. Chain Co., Ltd.	Subsidiary of the Company	Chairman of the Board
Deputy GM Yan Zhigang	Shenzhen Pharmaceutical Factory	Subsidiary of the Company	Factory manager
Independent director Sui Guangjun	Guangdong Foreign Trade & Language University	No relation	Vice president
Independent director Chen Shu	Guangdong Lawyers' Association	No relation	Chief secretary
Independent director Peng Juan	Management Institute of Shanghai Jiaotong University	No relation	Deputy dean of department

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

Ended the permission date of the report, there were 18 directors, supervisors and senior executives in

office at present, in 2004, 6 persons drew their salary from the Company, whose total annual salary (including base salary, reward, welfare, subsidy and allowance etc.) received from the Company was RMB 1,676,500. Of them, 1 enjoy the annual salary below RMB 200,000, 3 between RMB 200,000 and RMB 300,000 respectively, 2 enjoy the annual salary between RMB 300,000 and RMB 360,000 respectively, The present director of the company drew no remuneration from the Company in 2004. The total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB 829,600. Independent directors, Mr. Sui Guangjun, Ms. Chen Shu and Ms. Pengjuan drew the allowance of independent director from the Company respectively were RMB 150,000 (calculated and discharged from Oct. 2004, the annual allowance was 60,000), the expenses that they attended the Board meeting and shareholders' general meeting are reimbursed according to the Company's regulations.

In the report period, the chairman of the Board, Mr. Chen Weigang, director, Mr. Wu Ai'min, Mr. Zuo Jie, Mr. Yin Jumin and Mr. Zou Jun, and supervisor Mr. Zhao Junpeng drew no remuneration from the Company, Mr. Shi Jinming, director and GM, Mr. Lin Yangxin, deputy GM, drew no remuneration from the Company, Mr. Yangang, deputy GM, drew the remuneration from subsidiary Shenzhen Pharmaceutical Factory.

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

(1) On Feb. 27, 2004, the 15th meeting of the 3rd Board of meeting engaged Mr. Shi Jinming to take the post of GM and Ms. Ling Qing as financial chief supervisor during transferring share equity; at the same time, agreed that the original director and GM Su Yanwei resigned the post of GM and left the post of director, the original director and financial chief supervisor Mr. Qin Changsheng would not took the post of FCS and left the post of director, the related public notice has been published on Securities Times and Ta Kong Pao dated Feb. 28, 2004.

(2) On Sep. 28, 2004, the Board of Directors elected at expiration of office terms, after the expiration of the 3rd Board of Directors, the original director Mr. Guo Yuan, Mr. Qin Changsheng, Mr. Zeng Yuxiang, and Mr. Liao Yuchun and independent directors, Mr. Hao Zhujiang, Mr. Guo Jinlong would not took their positions any more, the 1st provisional shareholders' general meeting of the Company elected Mr. Zheng Hongjie, Mr. Su Yanwei, Ms. Yuan Xueping, Mr. Shi Jinming, Mr. Yin Jumin and Mr. Zou Jun as director of the 4th Board of Directors, elected Ms. Chen Shu, Mr. Sui Guangjun and Ms. Peng Juan as independent director of the 4th Board meeting, the related public notice has been published on Securities Times and Ta Kong Pao dated Sep. 29, 2004.

(3) On Sep. 28, 2004, the 1st meeting of the 4th Board of Directors elected Mr. Zheng Hongjie as chairman of the Board and engaged Mr. Chen Changbing as secretary of the Board, the related public notice has been published on Securities Times and Ta Kong Pao dated Sep. 29, 2004.

(4) On Dec. 7, 2004, the 3rd meeting of the 4th agreed Ms. Ling Qing not to take the post of financial chief supervisor any more after transition period, and engaged Mr. Wei Pingxiao as FCS, the Board, the related public notice has been published on Securities Times and Ta Kong Pao dated Dec.8, 2004.

(5) On Dec. 10, 2004, the 4th meeting of the 4th Board of Meeting agreed Mr. Zheng Yanjie, Mr. Su Yanwei and Ms. Yuan Xueping would not take the post of director after transferring share capital, on Jan. 13, 2005, the 1st provisional shareholders' general meeting of the Company additionally elected Mr. Chen Weigang, Mr. Wu Ai'min, and Mr. Zuo Jie as the 4th Board Meeting, the related public notice has been published on Securities Times and Ta Kong Pao dated Jan.14, 2005

(6) On Jan. 13, 2005, the 5th meeting of the 4th Board of Meeting elected Mr. Chen Weigang as chairman of the Board and engaged Mr. Shi Jinming as GM, engaged Mr. Ou Jianneng, Mr. Tan Guoshu, Mr. Yan Zhigang and Mr. Lin Xinyang as deputy general manager; the Board of Meeting agreed Mr. Gao Guoshi to resign GM and Ms. Wang Qiuhui not take the post of deputy GM again due to transferring from the Company; the related public notice has been published on Securities Times and Ta Kong Pao dated

Jan.14, 2005.

Section II. Number of employees and professional quality

At end of the year 2004, the Company had totally 2,632 on-the-job employees.

Profession/occupation composition			Education Background		
Profession	Number	Proportion (%)	Education	Number	Proportion (%)
Production personnel	607	23.06	Master degree or above	28	1.06
Salespersons	876	33.28	Bachelor degree	283	10.75
Technicians	592	22.50	3-years regular college graduate	551	20.94
Financial personnel	108	4.10	Polytechnic school graduate	983	37.35
Administrative personnel and others	449	17.06	Senior high school graduate or below	787	29.90
Total	2632	100	Total	2632	100

At the end of the report period, the Company had totally 239 retirees, whose pensions were borne by Shenzhen Municipal Social Insurance Bureau. The Company took on the expenses of 54 employees who retired early.

CHAPTER V. ADMINISTRATIVE STRUCTURE

I. Company Administration

According to the requirements of the laws and regulations including Company Law, Administration Rules for listed Companies, Guideline on Establishing Independent Director System in Listed Companies, Stock Listed Rules of Shenzhen Stock Exchange, etc., in the report period, the Company further enacted and perfected the other management regulations, continually perfected administration structure in accordance with the requirement of modern enterprise system, based on setting down rules of procedure of “three meetings and one team” (namely shareholders’ general meeting, board of directors, supervisory committee and management team) and work detailed rules; according to the actual requirement of enterprise development, established the specific commission of the Board of Directors, began to form the scientific decision-making mechanism, implement mechanism and supervision mechanism, step by step, were able to protect the reasonable right interests of shareholders, creditor and the Company, the material situations are as following:

1. Shareholders and Shareholders’ General Meeting: The Company operated in a standardized way, safeguards rights and interests of all shareholders especially those medium and small shareholders, and ensured they all fully implement their own rights; The Company established the Rules of Procedures of the Shareholders’ General Meeting, called and held shareholders’ general meeting strictly according to the rules for shareholders’ general meeting.
2. Relationship between the controlling shareholder and the listed Company: The controlling shareholder performed their duties in a standardized way and never overstepped the Shareholders’ General Meeting to interfere in the Company’s decision-making and operation directly and indirectly; The Company pursued the “five separations” in personnel, assets, finance, organization and business from its controlling shareholder, and its Board of Directors, Supervisory Committee and internal organs operated independently.
3. Directors and the Board of Directors: The election and engaging procedures of director was regulated in the Articles of Association of the Company, and adopted the accumulative voting system. The

Company elected directors strictly according to the election and engaging procedures stipulated in the Articles of Association; All directors attended the Board meeting and the shareholders' general meeting diligently and responsibly and strictly implemented duties of directors of listed companies. The Company established Rules of Procedures of Board of Directors; routine meeting of the Board of Directors and decision-making work

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

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

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

7. Information Disclosure: The Company authorized the secretary of the Board to take charge of information disclosing, receiving visits and inquiries of the shareholders. The Company could strictly disclose the relevant information in a real, accurate, complete and timely way according to the law, regulations and the Articles of Association, and Management System of Information Disclosure in order to ensure all the shareholders have equal opportunity to obtain the information; in the report period, the Company established Office Procedure on Investor Investment Relationship so as to enhance benign interaction between senior executives and investors of the Company.

Section II. Performance of the Independent Directors

The Company has engaged 3 independent directors, taking up one third of the total members of directors in accordance with the regulation of Guideline on Establishing Independent Director System in Listed Companies. During their office terms, could attended the Board Meeting and the Shareholders' general meeting according to requirement, independent directors guided the daily operating, legal affairs and financing management of the Company; actively make their suggestion and opinion under the full understanding situation on the significant matters examined by the Board of Directors, for example, changing CPAs, engagement of senior executives, etc.; performed their relevant duties.

3 independent directors began to implement their duties from Sep. 28, 2004, ended the end of the report period, their attending the Board of Directors as follows:

Name of independent directors	Times of this year attending (times)	Presence in person (times)	Entrusted presence (times)	Absence (times)	Note
Sui	4	4	0	0	
Chen Shu	4	4	0	0	
Peng Juan	4	4	0	0	

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

1. In respect of business: The Company is completely independent from the controlling shareholder in business, the Company has independent and integrated business system, and autonomous operation capacity; The Company owned independent purchase and sales system. The purchasing center,

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

2. In respect of personnel:

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

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

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

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

4. In term of finance:

(1) The Company has established independent financial department, independent and complete accounting system and financial management system.

(2) The Company can make the financial decision independently without interfere of its controlling shareholder.

(3) The Company has independent bank account without depositing fund into accounts of the controlling shareholder, finance company or settlement center controlled by related parties

4) The Company pays the tax in compliance with laws.

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

According to requirements of establishing modern enterprise system, the Company has established a fair and transparent procedure and system of engaging for senior executives so as confirm the rights and obligations of senior executive. The Company implemented the performance checking system by the month from the year 2004, and carried out the level checking system for the senior executives, whose results were directly related to their benefit wages. According to the Articles of Association, Rules of Procedures of Board of Directors and Rules of Procedures of Supervisory Committee, the Board and Supervisory Committee carried through the process supervision on the routine performance for senior executives; the Company is establishing the relevant encouragement and binding mechanism gradually in order to further exert the enthusiasm and creativity of senior executives, urge the senior executives to perform the obligations of being honest and diligent.

CHAPTER VI. PARTICULARS ABOUT THE SHAREHOLDER' GENERAL MEETING

In the report period, the Company held two the Shareholders' General Meeting.

I. The 2003 Annual Shareholders' General Meeting

1. The Company published the notice On Holding the 2003 Annual Shareholders' General Meeting in Securities Times and Kung Pao dated Apr. 10, 2004, and the Meeting was fixed on May 20, 2004.

2. The 2003 Annual Shareholders' General Meeting was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on the morning of May 20, 2004. There were 5 shareholders and shareholders' proxies attended the meeting who represented 170,291,308 shares, taking 59.10% of total shares with voting right of the Company (including 4 shareholders and shareholders' proxies of A shares who represented 170,181,400 shares, taking 59.06% of total shares

with voting right of the Company; 1 shareholder of B shares who represented 109,908 shares, taking 0.04% of total shares with voting right of the Company, as well as taking 0.06% of total shares with voting right of attending meeting). The following resolutions were examined and approved by means of registered voting in the Shareholders' General Meeting:

- (1) Approved Work Report 2003 of the Board of Directors;
- (2) Approved Work Report 2003 of the Supervisory Committee;
- (3) Approved 2003 Financial Settlement Report;
- (4) Approved 2003 Profit Distribution Plan;
- (5) Approved Annual Report 2003;

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

3. The resolutions of the 2003 Annual Shareholders' General Meeting were published in Securities Times and Ta Kung Pao dated May 21, 2004.

II. The 2004 1st Provisional Shareholders' General Meeting

1. The Company published the notice On Holding the 2004 1st Provisional Shareholders' General Meeting in Securities Times and Kung Pao dated Aug. 12, 2004, and the Meeting was fixed on Sep. 28, 2004.

2. The 2004 1st Provisional Shareholders' General Meeting was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on the morning of Sep. 28, 2004. There were 6 shareholders and shareholders' proxies attended the meeting who represented 175,291,308 shares, taking 60.84% of total shares with voting right of the Company (including 5 shareholders and shareholders' proxies of A shares who represented 175,181,400 shares, taking 60.80% of total shares with voting right of the Company; 1 shareholder of B shares who represented 109,908 shares, taking 0.04% of total shares with voting right of the Company, as well as taking 0.06% of total shares with voting right of attending meeting). The following resolutions were examined and approved by means of registered voting in the Shareholders' General Meeting:

- (1) Approved Proposal on Election at Expiration of Office Terms of the Board;
- (2) Approved Proposal on Allowance of Independent Directors;
- (3) Approved Proposal on Relocating Project of Shenzhen Pharmaceutical Factory;

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

3. The resolutions of the 2004 1st Provisional Shareholders' General Meeting were published in Securities Times and Ta Kung Pao dated Sep. 29, 2004.

CHAPTER VII. REPORT OF THE BOARD OF DIRECTORS

Section I. Discussion and Analysis of the Management

The report period was transition period of state-owned shares transfer of the Company. Taking interests of the whole into account, with opening mind, all staff of the Company learned and understood management concept and enterprise culture of Sinopharm Medicine Holding Co., Ltd., changed ideas, were pragmatically and enterprisingly devoted to exploiting market, strengthening marketing, and promoting service, which helped production and operation of the Company attain to expecting objective of stable and developing transition period, and obtain better operating results.

In the aspect of pharmaceuticals wholesaling, the Company adjusted operating mechanism of enterprise department, revised and consummated partial business flow to embodying operating concept of "purchase leaded, kind directed"; promoted service and achievements through changing service attitude, behavior way, working method, and management ideas; meanwhile the emphasized on key result areas and key performance index to develop operating and management work, which obtained certain achievements.

In the aspect of manufacturing pharmaceuticals industry, oriented by the market, Shenzhen Pharmaceutical Factory actively reacted to impact brought from policy price-declining of antibiotic pharmaceuticals, adjusted marketing strategies, put emphasis on channel and terminal construction, adopted refined products strategy, promoted market operating efficiency, which helped sales of lead products for the whole year increased by a relative big margin year-on year.

In the aspect of pharmaceuticals retailing, through various measures including developing goods planning, conducting brand management, holding theme promotion, setting up sample store and feature store, Accord Chain Company helped the Company operate consistently well in the aspect of pharmaceuticals retailing and obtain achievements in making profits from losses.

Section II. Operation Result of the Company

I. The scope of main operations was R&D and production of pharmaceuticals, wholesales and chain retails of Chinese and western patent medicine, Chinese traditional medicine, biological products, bio-chemical medicine, health care products and medical apparatus and instruments, of which wholesale and retailing of pharmaceuticals mainly were selling pharmaceuticals produced in factories home and abroad. The sale types reached over 100,000 and sales market mainly were Shenzhen municipality and adjacent areas.

II. Formation of income from main operations

1. Formation of income from main operations classified according to industries and products

(Unit: RMB'0000)

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	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	45,620.96	20,816.22	54.37	0.73	4.35%	Down 1.58%
Medical wholesale	165,784.09	158,426.40	4.44	-10.70	-10.69%	Down 0.01%
Medical retail	23,062.64	18,030.98	21.82	-15.08	-15.36%	Up 0.26%
Less: Counteracting between internal industries	76,859.16	76,990.49	-	-	-	-
Total	157,608.53	120,283.11	23.68	-8.85	-9.79	Up 0.79%
Including: related transactions	3,486.53	1,751.53	49.76	864.44	433.51	Up 45.76%
Note: related transaction in the report period was amount of new controlling shareholder, Sinopharm Medicine Holding Co., Ltd. and its subsidiaries; related transactions in 2003 was amount of Shenzhen Nanshan Pharmaceuticals Company, subsidiary of original controlling shareholder, Shenzhen Investment Holding Corporation.						
Main operations classified according to industries						
Western medicine	40,476.02	18,319.74	54.74	15.32	17.59	Down 0.63%
Chinese medicine	5,319.49	2,566.10	51.76	2.06	-7.98	Up 5.27%
Including: related transactions	3,360.82	1,744.62	48.09	829.66	402.70	Up 44.09%
Pricing principle	Market price adopted					

Necessity and durative of related transactions	1.Related transactions of the Company, with making profit as objective, transacted fairly based on market price, accorded with market economy principles. 2. Related transactions took small part of the total sales amount, which didn't impact the Company severely. 3. To enlarge market share and decrease costs, relevant related transactions of the Company would be necessary and durative.
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2. Income from main operations classified according to areas

(Unit: RMB'0000)

Item	Income from main operations	Cost of main operations
Domestic sales	156,005.02	-7.06%
Oversea sales	1,603.50	-68.36%

Note: The main sales area of the Company was Shenzhen Area.

3. Major suppliers and customers

(Unit: RMB'0000)

Total amount of purchase of the top five suppliers	15,827.11	Proportion in the total amount of purchase	13.16%
Total amount of sales of the top five sales customers	17,613.60	Proportion in the total amount of sales	11.18%

4. Operation of share-holding companies

(Unit: RMB'0000)

Name of the share-holding company	Shenzhen Wanle Pharmaceuticals Co., Ltd.		
Investment earnings contributed in the period	639.10	Proportion in net profit of the listed company	23.45%
Share-holding company	Business scope	Development, research, production and operation of Anti-cancer pharmaceuticals reparation, Famotichang injection and Anti-virus injection	
	Net profit	2,051.26	

III. In the report period, the Company had no other operating business, which would cause big impact on net profit.

IV. Problems and difficulties from the operation and solutions

Since the market competition was intense and the State kept policy decreasing prices of pharmaceuticals, the Company's profitability capability was seriously influenced. Thus, the Company would adopt the following measures in the work in 2005:

1. Continued to react market changes and safeguard profitability through decreasing costs and controlling expenses and expanding operating scale;
2. Actively develop pharmaceuticals bidding purchase, and win cooperation and trust of customers and suppliers with high-efficiency and good quality.
3. Optimizing business flow and strengthen operating management and achievements assessment with KRA and KPI as the core.
4. Accomplish reorganization, and realize complementary advantages in kind resources and sales network with principal shareholder, Sinopharm Medicine Holding Co., Ltd. in way of new structure and business operation.
5. In Pearl River delta, the Company continued developing pharmaceutical store chain network of the

Company firmly.

Section III. Main reasons for changes in financial position and operating results

Unit: RMB

Items	Jan.-Dec. 2004	Jan.-Dec. 2003	Increase/decrease rate
Income from main operations	1,576,085,283.69	1,729,174,762.27	-8.85
Profit from main operations	370,790,294.26	393,269,265.43	-5.72
Net profit	27,254,148.36	15,190,725.18	79.41
Net increase in cash and cash equivalents	-64,807,660.84	45,583,907.81	-
Items	Amount at the end of report period	Amount at the beginning of report period	Increase/decrease rate
Total assets	846,186,796.73	984,428,227.33	-14.04%
Shareholders' equity (excluding minority shareholders' equity)	358,197,820.37	338,235,106.36	5.90%

Notes: (1) Main reason for decrease in income from core business the Company consolidated statement of Shenzhen Jian'an Pharmaceuticals Co., Ltd. amounting to RMB 153,597,000 from Jan.-May, 2003. The Company didn't consolidate statement of that in the report period, therefore income decreased; The Company didn't consolidate Shenzhen Chinese Western Pharmaceuticals Co., Ltd. from Nov., 2004, so income decreased RMB 12,785,000 year-on-year; In the report period, Shenzhen Accord Pharmaceuticals China Co., Ltd. didn't consolidate statements of chain stores, so sales income decreased RMB 19,994,000 year-on-year. Provided that excluding the reason of consolidated statements, accounted as per the same calibre, actual sales income of the Company was RMB 1,542,799,000 last year. In the report period, it increased RMB 33,287,000 with an increase of 2.16% year-on-year.

(2) Decrease in profit from main operations was mainly caused by the above three non-consolidated elements and declining of gross profit resulted from price-decreasing of pharmaceuticals.

(3) Main reason for increase of net profit: Shenzhen Pharmaceuticals Factory operated well and sales of the lead products increased a lot; commercial enterprises actively exploited profit increasing points, which resulted in increase of profit from other business lines year-on-year; the Company decreased capital occupation and returned bank loan, which resulted in decreased of financial expenses; In 2003, after the Company transferred out equity of Shenzhen Modern Computer Co., Ltd. and Shenzhen Jian'an Pharmaceuticals Co., Ltd., the losses of the Company decreased year-on-year.

(4) Decreased of net amount of cash and cash equivalents was mainly because the Company refunded a mature loan to the bank.

(5) Decrease of total assets was mainly because the Company refunded a mature loan to the bank.

(6) Increase of shareholders' equity was mainly due to the net profit realized by the Company in the report period.

Section IV. Influence of changes in market operating environment, macro-policies and regulations on the Company

1. The State implemented the policy depreciation 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 purchasing and distribution service of medicine and at the same time would brought the influence about the Company's gross profit ratio of sales.

2. Changes have been taken 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.

3. Along with the continuously good economic situation of the country, the average level of using medicine of residents increased gradually; the reformation of medicine system 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.

Section V. Investment and application of raised proceeds

1. Investment

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

2. Application of raised proceeds

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

Section VI. Routine work of the Board of Directors

In the year 2004, the Board of the Company held the Meetings and made the resolutions with details as follows:

(1) On Feb. 27, 2004, the 25th meeting of the 3rd Board of Directors of the Company considered and passed Proposal on Adjusting Partial Senior Executives, where Mr. Shi Jinming and Ms. Ling Jing were engaged as General Manager and CFO respectively during the period of transition, Proposal on Making Scraped Disposal for Medicine Losing Effect and Partial Packaging Materials of Shenzhen Pharmaceutical Factory, Proposal on Making Scraped Disposal for Partial Fixed Assets of Jianmin Pharmaceutical Co. and Jianfeng Pharmaceutical Co. and Proposal on Canceling after Verification Losses from Absconding with Funds of Salesperson of Jianmin Pharmaceutical Co..

The said resolutions were published on Securities Times and Ta Kung Pao dated Feb. 28, 2004.

(2) On April 8, 2004, the 26th Meeting of the 3rd Board of Directors of the Company considered and passed Work Report 2003 of the Board of Directors, Financial Settlement Report 2003, Profit Distribution Preplan 2003, Annual Report 2003 and its Summary, 2004 Business Plan and Proposal on Holding Annual Shareholders' General Meeting 2003.

The said resolutions were published on Securities Times and Ta Kung Pao dated Apr. 10, 2004.

(3) On Apr. 27, 2004, the 27th Meeting of the 3rd Board of Directors of the Company considered and passed the 1st Quarterly Report 2004 by means of communication.

The 1st Quarterly Report 2004 was published on Securities Times and Ta Kung Pao dated Apr. 28, 2004.

(4) On Aug. 10, 2004, the 28th Meeting of the 3rd Board of Directors of the Company considered and passed Semi-annual Report 2004 and its Summary, Proposal on Moving and Establishing Project of Shenzhen Pharmaceutical Factory, Proposal on Allowance of Independent Directors, Proposal on Reelection of the Board of Directors and Proposal on Holding the 1st Extraordinary Shareholders' General Meeting 2004.

The Summary of Semi-annual Report 2004 and resolutions of the meeting were published on Securities

Times and Ta Kung Pao dated Aug. 12, 2003.

(5) On Sep. 3, 2004, the Extraordinary Meeting of the 3rd Board of Directors of the Company considered and passed Proposal on Adjusting the Director Candidate of the 4th Board of Directors.

The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Sep. 4, 2004.

(6) On Sep. 28, 2004, the 1st meeting of the 4th Board of Directors of the Company considered and passed Proposal on Electing Chairman of the Board, where Mr. Zheng Hongjie was elected Chairman of the Board; and Proposal on Engaging Secretary of the Board, where Mr. Chen Changbing was engaged as Secretary of the Board.

The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Sep. 29, 2004.

(7) On Oct. 21, 2004, the 2nd Meeting of the 4th Board of Directors of the Company considered and passed the 3rd Quarterly Report 2004 by means of communication.

The 3rd Quarterly Report 2004 was published on Securities Times and Ta Kung Pao dated Oct. 23, 2004.

(8) On Dec. 7, 2004, the 3rd meeting of the 4th Board of Directors of the Company considered and passed Proposal on Changing Auditor Providing Auditing for Annual Report of the Company, Proposal on Canceling after Verification Distressed Asset of Partial Reserves of General Factory and Proposal on Engaging Chief Financial Officer, where Mr. Wei Pingxiao was engaged as CFO of the Company.

The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Dec. 8, 2004.

(9) On Dec. 10, 2004, the 4th meeting of the 4th Board of Directors of the Company considered and passed Proposal on Supplementing Directors, where Mr. Chen Weigang, Mr. Wu Aimin and Mr. Zuo Jie as supplemented as director candidates of the Company.

The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Dec. 11, 2004.

Section VII. 2004 Profit Distribution Plan and Converting Capital Reserve into Share Capital

Audited by Shanghai Shu Lun Pan Certified Public Accountants for A shares and confirmed, the Company realized a net profit amounting to RMB 27,254,148.36 in 2004, after offsetting the losses over the previous years amounting to RMB 2,214,346.16, the profit available for distribution to shareholders was RMB 25,039,802.20 in the year. According to the provisions in the Articles of Association of the Company, after being appropriated 10% of net profit as statutory surplus reserve amounting to RMB 6,323,930.97 (including subsidiaries) and 5% of net profit as statutory welfare funds amounting to RMB 3,161,965.49 (including subsidiaries), the profit available for distribution to shareholders was RMB 15,553,905.74 in the year.

Audited by Horwath Certified Public Accountants for B shares and confirmed, the Company's accumulative losses was RMB 35,375,000 in the previous years; the Company realized a net profit amounting to RMB 19,907,000 in 2004, after appropriating statutory surplus reserve of RMB 9,486,000, the accumulative losses of RMB 24,954,000 still not offset.

According to the provisions in Letter on How to Confirm Profit Distribution Standard for Enterprises Issuing B Shares During Dividends Distribution released by China Securities Regulatory Commission with ZJHZ [1994] No. 1 document, the principle of taking the lower amount of the two was adopted in the profit distribution. Moreover, according to the provisions in Company Law of the P.R.C., Normative Interlocution No. 3 for Information Disclosure in Companies Publicly Issuing Securities—Origin, Procedure and Information Disclosure of Losses Offsetting released by China Securities Regulatory Commission and the Articles of Association of the Company, before the accumulative losses not being

offset at full amount, it was forbidden to distribute dividends to the shareholders or convert reserve into share capital. Thus, the 6th Meeting of the 4th Board of Directors of the Company decided not to distribute profits or convert capital reserve into share capital in 2004.

The said distribution plan should be submitted to the 2004 Annual Shareholders' General Meeting for consideration.

Independent opinion expressed by independent directors on reason why the Board of Directors did not appropriate profit distribution preplan in cash:

Independent directors agreed that the Board of Directors did not distribute dividend and convert capital reserve into share capital to shareholders in 2004 before unoffsetting the accumulative losses completely according to the relevant regulations and the lower principle.

Section VIII. Other events

1. In the report period, the newspapers of information disclosure of A-share and B-share chosen by the Company were Securities Times and Ta Kung Pao.
2. Special explanation of Shanghai Shu Lun Pan Certified Public Accountants Co., Ltd. on capital occupied by the controlling shareholder and other related parties

Special Auditing Opinion

XCKSHZ (2005) No. 121

To the Board of Directors of Shenzhen Accord Pharmaceutical Co., Ltd.

Accepting the commission of the Company, we have conducted special checking on the Company's capital occupied by the controlling shareholder and other related parties of the Company ended Dec. 31, 2004 related with auditing of annual report and the external guarantee. Our checking was conducted according to Circular on Standardizing Capital Current between Listed Company and Related Parties and External Guarantees and Other Several Problems of Listed Company (ZJF [2003] No. 56) jointly released by China Securities Regulatory Commission and State-owned Assets Supervision and Administration Commission. The responsibility of the Management Team of the Company is to provide all information related with capital occupation and external guarantees in a true, legal and complete way, including information or copy information such as original contracts or agreements etc., accounting warrants and book recordation, accounting statements, relevant practical evidences and other information necessary in our opinion. Our responsibility was to conduct relevant investigations, verifications and produce special auditing opinion on capital current between the related parties and the Company and the external guarantee according to the provisions in the said Circular on Standardizing Capital Current between Listed Company and Related Parties and External Guarantees and Other Several Problems of Listed Company. During the course of investigation and verification, we have implemented such inspection procedures necessary in our opinion as consulting relevant information, accounting warrants and checking accounting book records etc..

Explanations on auditing situations are as follows:

I. Capital occupied by the controlling shareholder and other related parties:

Ended Dec. 31, 2004, the balance of capitals receivable of the controlling shareholder and other related parties recorded in the Company's book was RMB 12,200,300, including:

- (1) Shenzhen Investment Holding Corporation, the original controlling shareholder of the Company, did not occupy the capital of listed company at the year-end;
- (2) Shenzhen Medication Production Supplying General Company, the original related party of the Company, and its subsidiaries did not occupy the capital of the Company at the year-end, while the balance of capital occupation was RMB 29,058,600 at the year-begin (including Shenzhen Medication Production Supplying General Company occupied RMB 15,954,600), which was refunded instead by

SINOPHARM Medicine Holding Co., Ltd. (the new largest shareholder of the Company) by cash on Nov. 2, 2004.

(3) The balance of capital occupied by SINOPHARM Medicine Holding Co., Ltd., the current holding shareholder of the Company, and its subsidiaries was RMB 2,900 at the year-begin, while the balance of capital occupation was RMB 8,632,100 at the year-end, which increased by RMB 8,629,200 compared with the year-begin.

(4) The balance of capital occupied by other related parties was RMB 5,644,600 at the year-begin, while the balance of capital occupation was RMB 3,568,300 at the year-end, which decreased by RMB 2,076,300 compared with the year-begin.

II. Illegal guarantee

As audited, ended Dec. 31, 2004, the amount of the illegal external guarantee provided by the Company was RMB 39,765,100.

Illegal reason	Amount of guarantee
The Company provided the guarantee to other related parties that the Company holds under 50% equity.	RMB 39,765,100

Attachment 1. Summary sheet on capital occupation

2. Summary sheet on illegal guarantee

Shanghai Shu Lun Pan Certified Public Accountants Co., Ltd.

III Independent opinion of independent directors on capital occupied by the controlling shareholder and related parties:

According to the requirements of the Circular on Standardizing Capital Current between Listed Company and Related Parties and External Guarantees and Other Several Problems of Listed Company jointly released by China Securities Regulatory Commission and State-owned Assets Supervision and Administration Commission, as independent director of the Company, we expressed the independent opinion on capital occupied by the related parties and external guarantee for the report period as follows:

The capital of the Company occupied by the original related party of the Company, Shenzhen Medication Production Supplying General Company and its subsidiaries has been refunded by SINOPHARM Medicine Holding Co., Ltd. (the new largest shareholder of the Company) by cash instead. The new largest shareholder of the Company has no new non-operating occupation.

The guarantee provided by the Company to other related parties that the Company held under 50% equity was caused due to historical reason. Under making joint effort of the Company and the relevant departments, Of the above guarantees, guarantee amounting to RMB 23,212,100 was removed on Jan. 7, 2005; guarantee amounting to RMB 16553000 was not removed on Feb. 9, 2005, because the guaranteed didn't settle the loan amounting to RMB 2984300. The Company was transacting removal procedures in further step.

Chapter VIII. Report of the Supervisory Committee

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

1. All supervisors had attended each meeting of the Board of Directors as non-voting delegates and supervised over the content of the meetings of the Board and operation decision-making procedure.
 2. The 12th meeting of the 3rd Supervisory Committee held on Apr. 8, 2004 examined and approved 2003 Annual Report and its Summary, 2003 Work Report of the Supervisory Committee and 2003 Profit Distribution Preplan. The resolutions of the meeting were published on Securities Times and Ta Kung Pao dated Apr. 10, 2004.
 3. On Dec. 9, 2004, the 13th meeting of the 3rd Supervisory Committee examined and approved the Proposal on the Changing Election of the Supervisory Committee. Resolutions of this meeting had been published in Securities Times and Ta Kung Pao dated Dec. 11, 2004.
 4. Part of the supervisors of the Company had attended the meetings of the management team as non-voting delegates and put forward opinions and suggestions for significant events of management and operation for the management team.
- II. The Supervisory Committee had strictly supervised over the Company's operation and decision-making in 2004, and expressed independent opinions concerning relevant issues as follows:
1. In the report year, the Supervisory Committee supervised over the Company's various work in terms of the procedures of holding the Shareholders' General Meeting and the Board of Directors, resolutions, implementation of the resolutions of the Shareholders' General Meeting by the Board of Directors, the Company's production and operation and management of decision-making according to the law, regulations and Articles of Association, and believed the Company had abided by the 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 had neither violated the laws, regulations, Articles of Association and resolutions of the Shareholders' General Meeting, nor had they abused their posts and rights or done harm to the interests of shareholders, the Company or employees.
 3. The Supervisory Committee believed the Financial Report of 2004 had objectively and truly reflected the Company's financial status and operation achievements, and agreed with the standard unqualified Auditors' Reports furnished by Shu Lun Pan Certified Public Accountants Co., Ltd. and Horwath Certified Public Accountants.
 4. In the report period, the Company had no significant related transactions and the prices of other related transactions had been set based on the market principle and been fair. No actions that would do harm to the interest of the Company had been discovered.

Chapter IX. Significant Events

I. Significant lawsuits and arbitrations

There had been no significant lawsuits or arbitrations in the report period.

II. Purchases and sales of assets

In the report period, the Company had made no important purchases or sales of assets.

III. Important related transactions

(I) Related transactions of purchases of goods

1. Purchases of goods from related parties:

(Unit: RMB)

Name of enterprise	This year			Last year
	Amount	Including		Amount
		January to November	December	
Shenzhen Main Luck Pharmaceuticals Inc.	311,311.10			
Shenzhen Chinese and Western Pharmaceutical Company	2,131,799.16			
Shenzhen Chengxin Medical Company (the former Shenzhen Medicine Materials Company)	277,760.53	249,273.84	28,486.69	
Shenzhen Xiannuo Pharmaceutical Company				3,953,127.90
Sinopharm Medicine Holding Shanghai Co., Ltd.	203,903.02	203,903.02	0.00	
Sinopharm Medicine Holding Guangzhou Co., Ltd.	26,809,298.49	26,771,150.52	38,147.97	21,399,166.29
Guangzhou Southern Pharmaceutical Company	315,429.09	294,810.28	20,618.81	
Guangzhou New & Special Drugs Company	382,674.11	382,373.26	300.85	

Note: the purchase prices had all been set according to market prices.

2. Sales of goods to related parties:

(Unit: RMB)

Name of enterprise	This year			Last year
	Amount	Including		Amount
		January to November	December	
Sinopharm Medicine Holding Shanghai Co., Ltd.	23,331,739.49	21,575,439.49	1,756,300.00	
China National Group Corporation of Medicines Shanghai Likang Pharmaceutical Co., Ltd.	538,685.47	482,512.39	56,173.08	
Shanghai Guoda Pharmacy Franchise Co., Ltd.	51,282.05	43,000.00	8,282.05	
Sinopharm Medicine Holding Tianjin Co., Ltd.	1,421,420.45	1,340,199.94	81,220.51	
Sinopharm Medicine Holding Guangzhou Co., Ltd.	34,611.45	31,358.97	3,252.48	

Guangzhou Southern Pharmaceutical Company	114,771.01	81,276.82	33,494.19	
Guangdong Guoda Chain Drugstore Co., Ltd.	1,362,643.33	1,055,448.19	307,195.14	
Shaanxi Guoda Chain Drugstore Co., Ltd.	2,538.38	2,538.38	0.00	
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd.	1,653,567.95	958,747.44	694,820.51	
China National Group Corporation of Medicines Guoda Pharmacy Co., Ltd.	78,888.89	20,769.23	58,119.66	
China National Group Corporation of Medicines S. W. Co., Ltd.	762,943.59		762,943.59	
China National Group Corporation of Medicines Hangzhou Xinya Co., Ltd.	37,179.49		37,179.49	
China National Group Corporation of Medicines Shaanxi Pharmaceutical Co., Ltd.	127,362.39		127,362.39	
China National Medicines Shenyang Company	2,960,555.56		2,960,555.56	
Shaanxi Yiyue Chinese Medicine Co., Ltd.	360,897.44		360,897.44	
China National Medicines Shanxi Company	577,692.31	86,666.67	491,025.64	
Shenzhen Chinese and Western Pharmaceutical Company	1,448,502.50			
Shenzhen Nanshan Pharmaceutical Company				3,615,105.05

Notes:

(1) The prices of related transactions had all been set according to market prices;

(2) Explanation on the necessity and continuity of related transactions: A) The related transaction, aiming at making profit and based on the market prices and fair principle, all were in accordance with the principles of market economy; B) The amount involved in the related transactions took up a very small part of the Company's total sales amount, and thus they bore no great influence on the Company.

(II) Other related transactions

1. Shenzhen Pharmaceutical & Supply General Company, which was the subsidiary of the Company's former shareholder Shenzhen Investment Holding Corporation, had owed the Company RMB 29,058,600 (Of which, non-operating occupancy amounted to RMB 16,414,400, while the remaining RMB 12,644,200 was trade funds.). On Nov. 2, 2004, the new principal shareholder of the Company Sinopharm Medicine Holding Co., Ltd. paid this debt in cash on behalf of Shenzhen Pharmaceutical & Supply General Company to the Company.

2. The Company had not provided guarantees for related parties.

(III) Creditor's rights and liabilities between related parties and the Company:

Please refer to the Notes in III. Accounting Statement of the 10th Chapter, Financial Report.

IV Important contracts and implementation

1. Entrustment, contracting and leasing

In the report period, the Company had not entrusted, contracted or leased assets of other companies, nor had other companies ever entrusted, contracted or leased the assets of the Company.

2. Important guarantees

By Dec. 31, 2004, contingent liabilities that had occurred due to the debt guarantees provided by the Company for other units were as follows:

(1) Guarantees not relieved

Guarantor	Guarantee	Guarantee amount	Guarantee term	Explanatory comment
Related party				
Shenzhen Pharmaceutical Plant	Shenzhen Accord Pharmaceutical Co., Ltd.	RMB 10 million	Jun. 29, 2004 – Jun. 29, 2005	
Non-related party				
Shenzhen Accord Pharmaceutical Co., Ltd.	Shenzhen Modern Computer Manufacture Co., Ltd	USD 2 million	Feb. 9, 2004 – Feb. 9, 2005	Note 1
Shenzhen Accord Pharmaceutical Co., Ltd.	Shenzhen Modern Computer Manufacture Co., Ltd	RMB 23.212 million	Dec. 24, 2002 – Dec. 31, 2004	Note 2

Note 1: Of the above guarantees, guarantee amounting to RMB 23,212,100 was removed on Jan. 7, 2005; guarantee amounting to RMB 16553000 was not removed on Feb. 9, 2005, because the guaranteed didn't settle the loan amounting to RMB 2984300. The Company was transacting removal procedures in further step.

Note 2: this guarantee had been freed on Jan. 7, 2005.

(2) On Sep, 19, 2002, the Company furnished a letter of counter-guarantee to the Company's former principal shareholder Shenzhen Investment Holding Corporation, and provided counter-guarantee for the guarantee it had provided for the RMB 45 million current funds line of credit that Shenzhen Modern Computer Manufacture Co., Ltd had obtained from Industrial Bank Co., Ltd.. This guarantee would expire on Oct. 10, 2004. On Sep. 7, 2004, the Company received the "Letter on Cancellation of the Counter-Guarantee Accord Pharm Has Provided for the Company" from former principal shareholder Shenzhen Investment Holding Corporation, and this counter-guarantee was cancelled.

(3) The Company had no other external guarantees.

3. Entrustment of cash assets management

The Company had not entrusted others with its cash assets management in the report period, nor had it entrusted others with cash assets management in previous period and continued in the report period.

4. Other important contracts

In the report period, the Company had no other important contracts.

V. Commitments of the Company or shareholders holding over 5% shares of the Company

In the report period, the shareholders holding over 5% equity (including 5%) of the Company had no commitment events, which had occurred in the report period or occurred in previous period and lasted in the report period, with possible influence on operation achievements or financial status.

VI. Engagement of Certified Public Accountants

1. Engagement of Certified Public Accountants

In the report period, the Company's 1st Provisional Shareholders' General Meeting of 2005 decided to engage Shu Lun Pan Certified Public Accountants Co., Ltd. and Horwath Certified Public Accountants as the auditing institutions for the A-share and B-share of the Company on Jan. 13, 2005. Relevant notifications had been published on Securities Times and Ta Kung Pao dated Jan. 14, 2005.

2. Remuneration paid to Certified Public Accountants

The auditing fees the Company paid to the Certified Public Accountants for the Annual Report 2004 totaled RMB 550 thousand (A-share, B-share), and the fees for the business trips the Certified Public Accountants took for the Company's auditing affairs had been paid by the Company.

3. Years of auditing service the audit institutions had provided the Company

Since initially signing audit business agreement, Shu Lun Pan Certified Public Accountants Co., Ltd. and Horwath Certified Public Accountants had provided auditing service consistently for the Company for one year.

4. In the report period, the Company, the Board of Directors and directors had not been inspected by CSRC, or received administrative penalty, or circulating criticism, nor had them ever been criticized publicly by Stock Exchange.

VII. Other important events

1. The change of principal shareholder

On Feb. 18, 2004, former principal shareholder of the Company Shenzhen Investment Holding Corporation signed the Equity Transfer Agreement with Sinopharm Medicine Holding Co., Ltd. (previously named China National Medicines Holding Co., Ltd.), and transferred all the 43.33% share equity of the Company it had held to Sinopharm Medicine Holding Co., Ltd.. The legal formalities of the aforesaid equity transfer had been completed. At the same time, through the approval of the State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission by GZCQ (2004) No. 525 Document and ZJGSZI (2004) No. 94 Document respectively, the nature of this part of equity had changed from the original state shares into state-owned legal person shares.

2. Main changes of the accounting policy and accounting estimation, as well as modification of significant accounting errors and their influence

(1) When combining statements each year, the Company had not restored the withdrawal of statutory surplus reserve and public welfare fund withdrawn by subsidiaries according to their investment proportion, and this had not conformed to relevant regulations concerning combined statements. Taking this matter as a significant accounting error, the Company had made corrections according to retroactive adjustment approach. This retroactive adjustment had led to a decrease amounting to RMB 16,179,915.91 of the total retained profit, and an increase amounting to RMB 16,179,915.91 of total surplus reserve at the beginning of 2004 as stated in the Combined Balance Sheet of the Company, while net assets at the year-begin had not been influenced.

(2) The Company held 35.19% share equity of the subordinate affiliated enterprise Shenzhen Main Luck Pharmaceuticals Inc.. However, the Company had been taking this company as a joint-venture enterprise in previous years, and combined its Accounting Statement using the proportion method. According to the regulations of documents such as the Business Accounting System, Business Accounting Rules-Investment, CKZI (1995) No. 11 Notice on the Publish and Issuance of Provisional Regulations on the Combination of Accounting Statement, and CKEZI (96) No. 2 Return to the Instruction Request on the Combined Range of Combined Sheet issued by the Ministry of Finance, etc., this company should be taken as an affiliated enterprise, calculated according to equity method only, and should not be listed in the combined range.

The Company had taken this matter as a significant accounting error and made corrections using retroactive adjustment method. This retroactive adjustment had led to the decrease amounting to RMB 20,549,285.13 of total assets and total liabilities at the beginning of 2004 respectively, but the net assets at the year-begin and net profit of 2003 had not been influenced.

(3) The net assets of the wholly-owned subsidiary of the Company Shenzhen Accord Pharm Chain Store Co., Ltd. turned minus in 2003, and the Company had written off the book value of the long-term equity investment for it down to zero according to Business Accounting System. However, when compiling the Combined Sheet 2003, the Company had not written off the book value of the long-term investment for it down to zero, leaving out the equity investment balance amounting to RMB 3,349,043.57 uncanceled.

The Company had taken this matter as a significant accounting error and made corrections according retroactive adjustment method. This retroactive adjustment had led to a decrease amounting to RMB 3,349,043.57 of the long-term equity investment, and an increase of RMB 3,349,043.57 of the uncertain investment loss at the beginning of 2004.

As a conclusion to the aforesaid retroactive adjustment items (1), (2), (3), major changes to the data at the beginning of the period in the Comparative Accounting Statement 2004 of the Company were as follows:

	Disclosed data at the year-begin after the retroactive adjustment	Former data disclosed on newspapers in 2003	Balance
Current assets	725,826,540.47	758,098,058.75	-32,271,518.28
Long-term investment	60,561,408.72	47,142,778.46	13,418,630.26
Total of fixed assets	184,951,602.42	191,524,605.84	-6,573,003.42
Total assets	984,428,227.33	1,008,326,556.03	-23,898,328.70
Current liability	642,116,642.93	662,665,928.06	-20,549,285.13
Total liability	644,916,642.93	665,465,928.06	-20,549,285.13
Surplus reserve	57,039,971.10	40,860,055.19	16,179,915.91
Retained profit	-2,214,346.16	13,965,569.75	-16,179,915.91
Uncertain investment loss	-21,902,505.37	-18,553,461.80	-3,349,043.57
Total shareholders' equity	338,235,106.36	341,584,149.93	-3,349,043.57
Profit from core business	393,269,265.43	429,049,604.10	-35,780,338.67
Operating profit	14,727,239.02	19,685,447.02	-4,958,208.00
Total profit	11,745,225.46	12,233,020.20	-487,794.74
Net profit	15,190,725.18	15,190,725.18	0.00

Chapter X Financial Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF SHENZHEN ACCORD PHARMACEUTICAL CO., LTD. (Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 2 to 29 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2004 and of its profit and cash flows for the year then ended.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

18 April 2005

Chan Kam Wing, Clement
Practising Certificate number P02038

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

(Expressed in Renminbi thousands)

		2004	2003
	Notes	RMB'000	(Restated) RMB'000
Turnover	4	1,576,085	1,729,175
Cost of sales		<u>(1,205,295)</u>	<u>(1,335,906)</u>
Gross profit		370,790	393,269
Other operating revenue	5	29,275	25,229
Selling and distribution costs		(294,613)	(311,057)
Administrative expenses		(76,668)	(75,275)
Other operating expenses		<u>(1,817)</u>	<u>(3,118)</u>
Profit from operations	6	26,967	29,048
Finance costs	7	(7,192)	(11,868)
Share of results of associates		6,991	5,131
Loss on disposal of an associate		-	(3,560)
Gain on disposal of a subsidiary		<u>-</u>	<u>980</u>
Profit before taxation		26,766	19,731
Taxation	8	<u>(7,529)</u>	<u>(5,472)</u>
Profit before minority interests		19,237	14,259
Minority interests		<u>670</u>	<u>86</u>
Profit for the year		<u>19,907</u>	<u>14,345</u>
Earnings per share	9	<u>RMB0.069</u>	<u>RMB0.050</u>

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004
(Expressed in Renminbi thousands)

		2004	2003
	Notes	RMB'000	(Restated) RMB'000
Non-current assets			
Property, plant and equipment	10	143,544	166,459
Construction in progress	11	40,963	31,595
Interest in a subsidiary not consolidated	12	-	68
Interests in associates	13	24,069	21,291
Goodwill	14	23,476	29,544
Other investments		<u>284</u>	<u>337</u>
		<u>232,336</u>	<u>249,294</u>
Current assets			
Inventories	15	162,484	210,728
Accounts receivable and other receivables		338,410	333,952
Amounts due from related companies	23(c)	8,529	29,341
Prepayments		11,521	5,350
Other investments		-	4
Cash and bank balances		80,867	145,675
		<u>601,811</u>	<u>725,050</u>
Current liabilities			
Bank loans - due within one year	16	12,500	190,000
Accounts payable, other payables and accruals		444,053	429,362
Receipts in advance		19,413	15,102
Amounts due to related companies		7,184	5,040
Tax payable		2,385	2,859
		<u>485,535</u>	<u>642,363</u>
Net current assets		<u>116,276</u>	<u>82,687</u>
Total assets less current liabilities			
carried forward		<u>348,612</u>	<u>331,981</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2004
(Expressed in Renminbi thousands)

		2004	2003
	Notes	RMB'000	(Restated) RMB'000
Total assets less current liabilities			
brought forward		348,612	331,981
Non-current liabilities			
Long-term bank borrowings – due after one year	16	-	(2,000)
Minority interests		-	(1,276)
		<u>348,612</u>	<u>328,705</u>
Representing:			
Share capital	17	288,149	288,149
Reserves		<u>60,463</u>	<u>40,556</u>
Shareholders' funds		<u>348,612</u>	<u>328,705</u>

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

(Expressed in Renminbi thousands)

	Share capital RMB'000 (Note 17)	Reserves			Total Reserve RMB'000	Total RMB'000
		Capital reserve RMB'000	Statutory reserve RMB'000 (Note 18)	Accumulated loss RMB'000		
Balance at 31 December 2002						
- As previously reported	288,149	17,489	40,861	(33,541)	24,809	312,958
- Prior year adjustment (Note 19(i))	_____	_____ -	10,544	(10,544)	_____ -	_____ -
- As restated	288,149	17,489	51,405	(44,085)	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
Income appropriation	_____ -	_____ -	5,635	(5,635)	_____ -	_____ -
Balance at 31 December 2003	<u>288,149</u>	<u>18,891</u>	<u>57,040</u>	<u>(35,375)</u>	<u>40,556</u>	<u>328,705</u>
Balance at 31 December 2003						
- As previously reported	288,149	18,891	40,861	(19,196)	40,556	328,705
- Prior year adjustment (Note 19(i))	_____ -	_____ -	16,179	(16,179)	_____ -	_____ -
- As restated	288,149	18,891	57,040	(35,375)	40,556	328,705
Net profit for the year	-	-	-	19,907	19,907	19,907
Income appropriation	_____ -	_____ -	9,486	(9,486)	_____ -	_____ -
Balance at 31 December 2004	<u>288,149</u>	<u>18,891</u>	<u>66,526</u>	<u>(24,954)</u>	<u>60,463</u>	<u>348,612</u>

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in Renminbi thousands)

	2004	2003
	RMB'000	(Restated) RMB'000
Operating activities		
Profit before taxation	26,766	19,731
Adjustments for:		
Interest income	(3,928)	(3,429)
Interest expenses	6,524	11,227
Depreciation	26,321	27,775
Gain on disposal of property, plant and equipment	480	(216)
Amortisation of goodwill	3,913	4,391
Goodwill written off	2,155	-
Provision for impairment on revaluation of property, plant and equipment and construction in progress	62	1,850
Share of results of associates	(6,991)	(5,131)
Disposal of subsidiaries	-	2,580
Loss on short term investments	5	-
Provision for impairment in value of other investments	<u>50</u>	<u>-</u>
Cash flow from operations before changes in working capital	55,357	58,778
Decrease/(increase) in inventories	37,343	(33,947)
Decrease/(increase) in accounts receivables and other receivables and amount due from related parties	1,415	(97,703)
(Increase)/decrease in prepayments	(6,171)	2,240
Increase in accounts payable, other payables and accruals receipts in advance and amounts due to related companies	<u>48,032</u>	<u>176,522</u>
Cash generated from operating activities	135,976	105,890

Interest paid		(6,524)	(11,227)
Income taxes paid		<u>(7,418)</u>	<u>(5,602)</u>
Net cash generated from operating activities		<u>122,034</u>	<u>89,061</u>
Investing activities			
Interest received		3,928	3,429
Dividend received		4,168	-
Purchase of property, plant and equipment		(6,008)	(36,602)
Proceeds from disposal of property, plant and equipment		1,542	652
Payment for construction in progress		(10,546)	-
Proceeds on disposal of a subsidiary		-	(4,241)
Proceeds from disposal of associates		-	9,100
Proceeds from disposal of other investments		2	-
Cash outflow on change of status of a consolidated subsidiary to an associate	20	<u>(3,933)</u>	<u>-</u>
Net cash used in investing activities		<u>(10,847)</u>	<u>(27,662)</u>
Financing activities			
New bank loans raised		119,005	152,337
Repayment of bank loans		<u>(295,000)</u>	<u>(168,152)</u>
Net cash used in financing activities		<u>(175,995)</u>	<u>(15,815)</u>
Net (decrease)/increase in cash and cash equivalents		(64,808)	45,584
Cash and cash equivalents, at beginning of year		<u>145,675</u>	<u>100,091</u>
Cash and cash equivalents, at end of year		<u><u>80,867</u></u>	<u><u>145,675</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi thousands)

1. ORGANISATION AND OPERATIONS

Shenzhen Accord Pharmaceutical Co., Ltd. (the “Company”) was established as a joint stock company with limited liability through the reorganisation for the joint stock system on 1 February 1993 with the approval from the Shenzhen Municipal People’s Government under the document; Shenzhen Government-Office Reply (1993) No.356.

On 18 February 2004, the Company’s former major shareholder, Shenzhen Investment Holding Corporation and Sinopharm Holdings Co., Ltd. (formerly known as Sinopharm Medicine Holding Co., Ltd.

(“Sinopharm”) signed a Share Transfer Agreement whereby the former major shareholder transferred 124,864,740 “A” shares in the Company, representing 43.33% to total registered, issued and paid-up capital of the Company, to Sinopharm. The procedures of share transfer had been completed and Sinopharm became the major shareholder of the Company since December 2004.

The principal activities of the Company and its subsidiaries are collectively referred to as the “Group” are manufacture and trading of Chinese medical materials, Chinese patent drugs and western patent drugs.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a historical cost basis, except for other investments, as further explained below. The Group also prepares consolidated financial statements which comply with accounting regulations in the People’s Republic of China (the “PRC”). A reconciliation of the Group’s results and shareholders’ equity under IFRS and PRC accounting regulations is presented in Note 27. The principal accounting policies adopted by the Group are as follows:

(a) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all operating subsidiaries that are controlled by the Company. Where an entity either began or ceased to be controlled by the Company during the year, the results are included only from

the date control commenced or up to the date control ceased.

All material intra-group transactions and balances are eliminated on consolidation.

(b) Subsidiaries

A subsidiary is a company in which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities. Details of the Company's subsidiaries as of 31 December 2004 are set out in Note 25 to the consolidated financial statements.

(c) Interests in associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate. Investments in associates are accounted for using the equity method of accounting.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition is reported in the balance sheet as an intangible asset and amortised using the straight-line method over its estimated useful life.

The carrying amount of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to that entity.

(e) Other investments

Other investments are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with

other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investment other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the balance sheet date. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. For available-for-sale investments that do not have quoted market prices, the fair value is constructed on the basis of the market prices of the similar financial instruments or derived from cash flow model. For available-for-sale investments that the fair value cannot be reliably determined, the investments are carried at cost less accumulated impairment losses.

(f) Property, plant and equipment and depreciation

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. 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 assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period 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 assets. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the consolidated financial statements and any gain or loss resulting from their disposal is included in the income statement.

(f) Property, plant and equipment and depreciation (continued)

(ii) Depreciation

Depreciation is provided to write off the costs or valuation of other fixed assets, after taking into account their estimated residual value, over their anticipated useful lives using the straight line method. The rates of depreciation used are based on the following estimated useful lives:

Land use rights lease terms	Over the
Buildings years	20 - 35
Motor vehicles years	5 - 10
Electronic equipment, office equipment and software years	5 - 14
Leasehold improvements	10 years

The useful lives of assets and depreciation method are reviewed periodically.

(g) Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction and is stated at cost. Cost comprises direct costs of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to property, plant and equipment when it is completed and ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the appropriate PRC authorities.

No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

(h) Impairment

Property, plant and equipment, intangible assets, investments in associates and joint ventures and long term investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment, intangible assets, investments in associates and joint ventures and long term investments carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset

no longer exist or has decreased. The reversal is recorded as income.

(i) Inventories

Inventories comprise raw materials, work-in-progress and finished goods. Inventories are stated at the lower of cost and net realisable value. Cost includes direct materials, direct labour costs and overheads that have been incurred in bringing the inventories and work in progress to their present location and condition and is calculated using the weighted average method. Net realisable value is estimated by management and is determined by reference to the selling price less all costs to completion and costs to be incurred in selling and distribution.

Spare parts and consumables are stated at cost less any provision for obsolescence.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

(j) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and net of bank overdrafts. In the consolidated balance sheet, bank overdrafts are included in borrowings in current liabilities.

(k) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to the ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight line basis.

(l) Provisions

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(m) Deferred taxation

Deferred taxation is provided under the liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised.

(n) Financial assets and liabilities

Other investments and trade receivables are stated at carrying amounts determined in accordance with notes 2(e) and (j) respectively. Other financial assets and financial liabilities are stated at cost.

(o) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (i) In relation to the sale of goods, revenue is recognised upon delivery of goods to customers, and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.
- (ii) Interest income is accrued on a time proportion basis on the principal outstanding and at the applicable rate.
- (iii) Dividend income is recognised when the right to receive such income by shareholders is confirmed.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to be ready for their intended use or sale are capitalised as part of the assets. All other borrowing costs are recognised as an expense in the period in which they are incurred.

(q) Foreign currency transactions

The Group maintains its books and records in RMB. Foreign currency transactions during the year are translated into RMB at the rates of exchange prevailing at the transaction dates as quoted by the People's Bank of China ("PBOC").

Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the rates prevailing at the balance sheet date as quoted by the PBOC. Non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange differences other than those capitalised as a component of borrowing costs, are recognised in the income statement in the period in which they arise.

(r) Pension obligations

As a statutory requirement, the Company and its subsidiaries have to contribute 25.5% of total salaries as retirement benefits for employees to a government agency. All contributions are dealt with in the consolidated income statement.

(s) Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3. SEGMENT INFORMATION

(a) Primary reporting format - business segments

In 2004, the major product of the Group are Chinese medical materials, Chinese patent drugs and western patent drugs.

(b) Secondary reporting format - geographical segments

In 2004 the revenue of the Group mainly arises from the operations in the PRC and the related operating assets are located in the PRC.

4. TURNOVER

Turnover represents the gross value of goods, net of value-added tax and allowances for discounts and returns.

5. OTHER OPERATING REVENUE

	2004	2003
	RMB'000	(Restated) RMB'000
Commission income	9,604	5,369
Rental income	6,215	2,206
Financial subsidies	5,141	9,401
Interest income	3,948	3,429
Sale of other materials	219	70
Network service income	168	1,483
Sale of intangible assets	-	1,156
Others	<u>3,980</u>	<u>2,115</u>
	<u><u>29,275</u></u>	<u><u>25,229</u></u>

6. PROFIT FROM OPERATIONS

2004	2003
RMB'000	(Restated) RMB'000

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

Provision for/(write back of) obsolete inventories	3,556	(459)
Amortisation of goodwill	3,913	4,391
Depreciation on property, plant and equipment	26,321	27,775
Gain on disposal of property, plant and equipment	480	(216)
Impairment loss on property, plant and equipment	62	-
Impairment loss on construction in progress	-	1,580
Provision for impairment on other investments	50	-
Provision for bad debts	1,019	1,281
Staff benefit costs	8,829	8,056
Staff costs	<u>117,921</u>	<u>100,701</u>

7. FINANCE COSTS

	2004 RMB'000	2003 (Restated) RMB'000
Interest expenses	6,524	11,227
Bank charges	606	621
Exchange loss	<u>62</u>	<u>20</u>
	<u>7,192</u>	<u>11,868</u>

8. TAXATION

(a) Taxation in the consolidated income statement represents:

2004 RMB'000	2003 (Restated) RMB'000
-----------------	-------------------------------

Provision for PRC income taxes is calculated based on the estimated assessable profits for the year determined in accordance with the relevant tax rules and regulations applicable in the PRC. The Company is subject to income tax at the rate of 15%. The income tax rate applicable to subsidiary companies is 15%.

No provision for deferred taxation has been made in the consolidated financial statements as the directors are of opinion that the recognition of deferred tax assets arising on the temporary differences are uncertain.

The calculation of the basic profit per share is based on the profit for the year of RMB19,907,000 (2003: RM14,345,000) and the number of shares outstanding during the year of 288,149,400 (2003: 288,149,400).

			Electronic equipment, office			
Land use rights and buildings	Machinery and equipment	Motor vehicles	equipment and software	Leasehold improve- ments	2004 Total	2003 Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Restated)

Cost:

At 1 January (restated)	120,672	71,425	26,623	41,134	26,471	286,325	257,613
Additions	699	1,313	1,678	1,246	1,072	6,008	37,249
Transfer from construction in progress	-	-	1,178	-	-	1,178	1,175
Disposals	(1,100)	(3,677)	(5,250)	(1,111)	-	(11,138)	(9,712)
Other decrease (Note)	<u>-</u>	<u>-</u>	<u>(654)</u>	<u>(551)</u>	<u>-</u>	<u>(1,205)</u>	<u>-</u>
At 31 December	<u>120,271</u>	<u>69,061</u>	<u>23,575</u>	<u>40,718</u>	<u>27,543</u>	<u>281,168</u>	<u>286,325</u>

Accumulated
depreciation
and impairment
loss:

At 1 January (restated)	29,129	43,196	14,123	18,942	14,476	119,866	100,093
Charge for the year	6,267	4,017	2,925	6,271	6,841	26,321	27,775
Impairment loss	-	-	-	62	-	62	-
Written back on disposal	-	(3,375)	(3,616)	(1,025)	-	(8,016)	(8,002)
Other decrease (Note)	<u>-</u>	<u>-</u>	<u>(277)</u>	<u>(332)</u>	<u>-</u>	<u>(609)</u>	<u>-</u>
At 31 December	<u>35,396</u>	<u>43,838</u>	<u>13,155</u>	<u>23,918</u>	<u>21,317</u>	<u>137,624</u>	<u>119,866</u>

Net book value:

At 31 December	<u>84,875</u>	<u>25,223</u>	<u>10,420</u>	<u>16,800</u>	<u>6,226</u>	<u>143,544</u>
2004						

At 31 December						
2003	<u>91,543</u>	<u>28,229</u>	<u>12,500</u>	<u>22,192</u>	<u>11,995</u>	<u>166,459</u>
(Restated)						

As at 31 December 2004, the Group's leasehold land and buildings with a carrying amount of RMB34,794,000 was pledged to a bank as security for corporate banking facilities granted to the Group.

Note: Other decrease represented the exclusion of the assets of a former subsidiary which became an associate on 31 October 2004.

11. CONSTRUCTION IN PROGRESS

	2004 RMB'000	2003 (Restated) RMB'000
At 1 January	31,595	34,033
Additions	10,546	587
Transferred to property, plant and equipment	(1,178)	(1,175)
Less : Impairment losses	<u>-</u>	<u>(1,850)</u>
At 31 December	<u>40,963</u>	<u>31,595</u>

12. INTEREST IN A SUBSIDIARY NOT CONSOLIDATED

	2004 RMB'000	2003 RMB'000
Share of net assets of a subsidiary	-	-
Amount due from a subsidiary	-	800
Amount due to a subsidiary	<u>-</u>	<u>(732)</u>
	<u>-</u>	<u>68</u>

Details of the unconsolidated subsidiary which was incorporated in the PRC at 31 December 2004 are as follows:-

<u>Name of company</u>	<u>Registered capital</u> RMB'000	Percentage of equity interest held by the Company	<u>Principal activity</u>
Shenzhen Medicine Trading Company	1,880	100%	Ceased operation

The name of the above company is directly translated from its registered name in Chinese and may not represent its legal name.

13. INTERESTS IN ASSOCIATES

	2004 RMB'000	2003 (Restated) RMB'000
Share of net assets of associates	23,854	21,230
Amounts due from associates	373	651
Amounts due to associates	<u>(158)</u>	<u>(590)</u>
	<u>24,069</u>	<u>21,291</u>

Details of the associates, all of which are incorporated and operated in the PRC, at 31 December 2004 are as follows:-

<u>Name of associate</u>	<u>Registered capital</u>	<u>Percentage of equity interest held by the Group</u>	<u>Principal activity</u>
Shenzhen Wanle Pharmaceutical Co., Ltd.	USD5,000,000	35.19%	Research and development, manufacture of anticancer drugs, antiviral injection and interferon powder
Shenzhen Chinese and Western Pharmaceutical Company	RMB3,000,000	50%	Trading of Chinese patent drugs including capsule, granule or powder preparations
Shenzhen Jian'an Pharmaceutical Company	RMB10,720,000	21%	Trading of western drugs, Chinese patent drugs, medical equipment, chemical reagent
Dongyuan & Accord Pharm Chain Store Co., Ltd.	RMB5,000,000	45%	Retailing of Chinese patent drugs and western drugs

The names of the above companies are directly translated from their registered names in Chinese and may not represent their legal names.

14. GOODWILL

	2004 RMB'000	2003 (Restated) RMB'000
Cost:		
At 1 January 2004	42,718	43,917
Disposal of a subsidiary	-	(1,199)
Written off	<u>(3,591)</u>	<u>-</u>
At 31 December 2004	<u>39,127</u>	<u>42,718</u>
Accumulated depreciation:		
At 1 January 2004	13,174	8,783
Amortisation for the year	3,913	4,391
Written off	<u>(1,436)</u>	<u>-</u>
At 31 December 2004	<u>15,651</u>	<u>13,174</u>
Net book value	<u><u>23,476</u></u>	<u><u>29,544</u></u>

Goodwill arose from the exchange of assets and is amortised over its expected useful life 10 years.

15. INVENTORIES

	2004 RMB'000	2003 (Restated) RMB'000
Raw materials	18,208	20,263
Work in progress	1,143	2,266
Finished goods	<u>143,133</u>	<u>188,199</u>
	<u><u>162,484</u></u>	<u><u>210,728</u></u>

16. BANK LOANS

	2004 RMB'000	2003 (Restated) RMB'000
Bank loans:		
- Secured	-	-
- Unsecured	<u>12,500</u>	<u>192,000</u>
	12,500	192,000
Less : Amount due within one year	<u>(12,500)</u>	<u>(190,000)</u>
Amount due after one year	<u>-</u>	<u>2,000</u>

As at 31 December 2004, the bank and other loans are interest bearing of annual rates ranging from 5.49% to 5.84% (2003 : 4.536% to 5.31%).

17. SHARE CAPITAL

As of 31 December 2004, outstanding share capital represented ordinary shares ("A Shares") and domestically listed foreign investment shares ("B Shares"). The B Shares ranked pari passu in all respects with the A Shares.

	2004		2003	
	Number	RMB'000	Number	RMB'000
Issued and fully paid shares of RMB1 each:				
State owned share	124,864,740	124,865	124,864,740	124,865
Legal person share	53,513,460	53,513	53,513,460	53,513
Other A shares	54,885,600	54,885	54,885,600	54,885
B shares	<u>54,885,600</u>	<u>54,886</u>	<u>54,885,600</u>	<u>54,886</u>
	<u>288,149,400</u>	<u>288,149</u>	<u>288,149,400</u>	<u>288,149</u>

18. RESERVES

Movements in reserves are set out in the consolidated statement of changes in shareholders' equity.

(a) Statutory surplus fund

In accordance with PRC Companies Law, the Company shall appropriate 10% of its annual statutory net profit (after offsetting any losses of prior years) to statutory surplus fund. When the balance of such reserve reaches 50% of the registered share capital of the Company, any further appropriation is optional. Statutory surplus fund can be utilised to offset losses of prior years or for the issuance of bonus shares. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(b) Statutory public welfare fund

The Company is required by PRC Companies Law to appropriate 5% to 10% of its annual statutory net profit to the statutory public collective welfare fund, which is restricted to capital expenditure for collective welfare of their employees. This reserve is non-distributable other than in liquidation.

(c) Discretionary surplus reserve

Discretionary surplus reserve is appropriated based on the resolution of the directors' meeting. The discretionary reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares.

19. PRIOR YEAR ADJUSTMENTS

- (i) In prior years, in the preparation of consolidated financial statements, the Company had not appropriated its annual statutory net profit to statutory reserves in correspondence with its subsidiaries' income appropriation based on its shareholdings. This is not in accordance with relevant regulations of PRC Company

Law. The Company had made a prior year adjustment on this aspect, resulting that both accumulated losses and statutory reserves as at 31 December 2002 and 2003 increased by RMB10,544,000 and RMB16,179,000 respectively.

- (ii) In prior years of which the Company holds 35.19% equity interest was classified as a joint venture and was consolidated using the proportionate consolidation method of accounting. This company should be classified as an associate and accounted for using the equity method of accounting. The Company had made a prior year adjustment to restate the 2003 consolidated financial statements.

20. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

Change of status of a consolidated subsidiary to an associate

During the period from December 2002 to October 2004, one shareholder of Shenzhen Chinese and Western Pharmaceutical Company “SCW”, of which the Company previously held 30% equity interest, conferred the voting rights of its 26% shareholding in SCW to the Company on trust. Therefore, the Company held 56% of the voting rights of SCW. Accordingly, SCW was classified as a subsidiary and included in the consolidation. The above trust had been terminated in October 2004 and the voting rights in SCW held by the Company were reduced from 56% back to 30%. The status of SCW was changed from a consolidated subsidiary to an associate. As at 31 October 2004 the assets and liabilities of SCW were as follows:

	RMB'000
Net assets:	
Property, plant and equipment	596
Inventories	10,901
Accounts receivable and other receivables	16,017
Cash and bank balance	3,933
Other loans	(3,505)
Accruals, accounts payable and other payables	(26,950)
Minority interests	<u>(606)</u>

Cash outflow on change of status of a consolidated subsidiary to an associate:

Cash and bank balance (3,933)

21. CONTINGENT LIABILITIES

At 31 December 2004, the Group had given the following guarantees to banks in respect of banking facilities granted to:

	2004 RMB'000	2003 (Restated) RMB'000
Related parties	-	45,000
Associates	-	58,180
Third parties	<u>39,765</u>	<u>-</u>
	<u>39,765</u>	<u>103,180</u>

The above guarantees had been released by 28 February 2005.

22. OPERATING LEASE COMMITMENTS

At 31 December 2004, the Group had minimum rental payments under irrevocable operation leases as follows:

	2004 RMB'000	2003 RMB'000
Within one year	18,435	22,610

Over one year but less than 5 years	<u>26,275</u>	<u>43,003</u>
	<u>44,710</u>	<u>65,613</u>

23. RELATED PARTY TRANSACTIONS

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.

- (a) The names and relationships of related parties, other than the unconsolidated subsidiaries and associates, are as follows:

<u>Name</u>	<u>Relationship</u>
SinoPharm Holdings Co., Ltd. ("SinoPharm")	Major shareholder of the Company
Shenzhen Investment Holding Corporation ("SIH")	Former major shareholder of the Company

The directors consider that transactions with SinoPharm, SIH or entities controlled by SinoPharm or SIH are related party transactions.

- (b) During the year, the Group had the following transactions with its related parties which, in the opinion of the Directors, were entered into in the normal course of business:

	2004 RMB'000	2003 RMB'000
Sales to associated companies	1,449	-
Sales to related companies under common control	33,417	3,615
Purchases from associated companies	2,443	-
Purchases from related companies under common control	27,989	3,953
Assets purchased from shareholders	-	1,895
Assets purchased from related companies under common control	<u>-</u>	<u>2,089</u>

- (c) Amounts due from / to related companies are unsecured, interest free and have no fixed repayment terms.

24. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The interest rates and terms of repayment of bank borrowings of the Group are disclosed in Note 16. Other financial assets and financial liabilities do not have material interest rate risk.

(b) Credit risk

Accounts receivable of the Group are spread among a number of customers in the PRC and cash is deposited with registered banks in the PRC.

The Directors are of the opinion that the Group has no significant concentrations of credit risk on financial assets.

(c) Foreign currency risk

Most of the transactions of the Group are settled in Renminbi. In the opinion of the Directors, the Group does not have significant foreign currency risk exposure.

(d) Fair value

The carrying amounts of the following financial assets and financial liabilities approximate their fair value: cash and bank balances, investments and trade receivables. Financial assets of the Group include bank balances, accounts receivable, bills receivable, other receivables and short and long term investments. Financial liabilities of the Group include short term bank and other loans, accounts payable, bills payable and other payables.

25. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are incorporated and operated in the PRC, at 31 December 2004 are as follows:-

<u>Name of company</u>	<u>Registered capital</u> RMB'000	<u>Effective interest held by the Group</u>	<u>Principal activity</u>
Shenzhen Pharmaceutical Plant	24,190	100%	Manufacture of raw material for chemical medicine, processing of Chinese patent drugs and medical chemical raw materials
Shenzhen Chinese Medicine General Plant	13,140	100%	Manufacture and trading of oral liquid, tablets and external lotion
Shenzhen Baokang Pharmaceutical Co., Ltd.	1,890	100%	Sales of Chinese medical materials, Chinese patent drugs, medical chemical materials, antibiotic preparations

Shenzhen Accord Pharm Materials Company	4,000	100%	Sales of Chinese patent drugs and western patent drugs
Shenzhen Pharmaceutical Company	1,250	100%	Sales of western medicine, chemical reagent, Chinese medical crop, Chinese patent drug
Shenzhen Accord Pharm Chain Store Co., Ltd.	10,800	100%	Retailing of Chinese patent drugs and western medicine
Shenzhen Medicine Trading Company	500	100%	Wholesale and retailing of Chinese patent drugs and western medicine

The names of the above companies are directly translated from their registered names in Chinese and may not represent their legal names.

26. 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 to make the specified contribution.

27. IMPACT OF IFRS ADJUSTMENTS ON PROFIT AFTER TAXATION AND MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

The statutory accounts of the Group are prepared in accordance with PRC accounting regulations applicable to joint stock limited companies. These accounting principles differ in certain significant respects from IFRS. The effects of these differences on the profit after taxation and minority interests for the year ended 31 December 2004 and shareholders' funds at that date are summarised as follows:

		Profit after taxation and minority interests RMB'000	Shareholders' funds RMB'000
	Note		
As determined pursuant to PRC accounting regulations		27,254	358,198
Unrecognised investment losses	(a)	(7,871)	-
Goodwill on acquisition of subsidiaries and amortisation	(b)	82	(8,974)
Others		<u>442</u>	<u>(612)</u>
As determined pursuant to IFRS		<u>19,907</u>	<u>348,612</u>

Note:

- (a) The losses of subsidiaries in excess of the Company's investment costs were directly recorded in shareholders' equity as unrecognised investment losses in A share. In B share, such losses are recognised in the profit and loss account.
- (b) At end of 2000 the Company carried out an assets exchange with its former major shareholder in which the Company transferred all of its assets and liabilities to its former major shareholder in exchange for the equity interest in 12 enterprises. The net book value of the assets and liabilities transferred were determined differently by A share and B share due to the adoption of different accounting treatments, resulting in different amounts of goodwill arising on the acquisition of the 12 subsidiaries.

Chapter XI Documents for Reference

1. Accounting Statement carrying the signatures and seals of the legal representative, financial chief and person in charge of accounting;
 2. Original of Auditors' Report carrying the seals of Certified Public Accountants, and signatures and seals of the CPAs;
 3. Originals of all the documents and notifications of the Company ever disclosed in the report period in Securities Times and Ta Kung Pao designated by CSRC;
 4. Original of the Annual Report carrying the signature of the Chairman of the Board.
- Place the documents stored: Office of the Secretary of the Board, Accord Pharm Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen.

Board of Directors of Shenzhen Accord Pharmaceutical Co., Ltd.

Chairman of the Board: Chen Weigang

Apr. 18, 2005