深圳一致药业股份有限公司

**Shenzhen Accord Pharmaceutical Co., Ltd.**

# Semi-annual Report 2005

## August 2005

Contents

# SECTION Ⅰ. IMPORTANT NOTES

1. The Board, along with all its directors, hereby assures that there are no false records, misleading statements or significant omissions in this report, and it would shoulder any individual as well as joint responsibility concerning to the authenticity, accuracy and completeness of the contents.
2. This report has been compiled in both Chinese and English. Should be any ambiguity arise about the contents of the two versions, the Chinese version shall prevail.
3. No director would claim that he or she could not guarantee the authenticity, accuracy or completeness of the report's contents or that he or she holds different opinions.
4. The semi-annual financial report of the Company has not been audited.
5. Chairman of the Board Mr. Chen Weigang, General Manager Mr. Shi Jinming, and CFO Mr. Wei Pingxiao hereby declare that they would assure the authenticity and completeness of the financial accounting report in this semi-annual report.

## SECTION II. COMPANY PROFILE

I. Company information

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. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock: Accord Pharm./Accord Pharm. B
   Stock Code: 000028/200028
3. 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
   The Company's Internet Website: http://www.szaccord.com.cn
   E-mail: 0028@szaccord.com.cn
4. Legal Representative: Chen Weigang
   General Manager: Shi Jinming
5. Secretary of the Board: 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, 25875198
   Fax: +(86) 755 25875166
   E-mail: investor@szaccord.com.cn
6. Newspapers Chosen for Disclosing the Information of the Company: Securities Times and Hong Kong Ta Kung Pao
   Internet Website Appointed by CSRC: http://www.szse.cn
   http://www.cninfo.com.cn
   The Place Where the Semi-Annual Report Is Prepared: Secretariat of the Board of Directors

## II. Major financial data and indexes

### (I) Major accounting data and financial indexes

| Financial indexes | Unit | At the end of the report period | At the end of the last year | Increase/decrease at the end of this report period compared with the year-begin （%） |
|---|---|---|---|---|
| Current assets | RMB | 728,260,371.58 | 604,359,113.70 | 20.50 |
| Current liabilities | RMB | 584,000,442.32 | 487,188,976.36 | 19.87 |
| Total assets | RMB | 962,295,667.52 | 846,186,796.73 | 13.72 |
| Shareholders' equity (excluding minority interests) | RMB | 377,495,225.20 | 358,197,820.37 | 5.39 |
| Net assets per share | RMB/share | 1.310 | 1.243 | 5.39 |
| Net assets per share after adjustment | RMB/share | 1.275 | 1.193 | 6.87 |
| | | **The report period (Jan.-Jun. 2005)** | **At the same period of the last year** | **Increase/decrease in this report period compared with the same period of last year (%)** |
| Net profit | RMB | 19,300,281.44 | 11,953,370.81 | 61.46 |
| Net profit after deducting non-recurring gains and losses | RMB | 19,300,935.02 | 11,838,004.74 | 63.04 |
| Earnings per share | RMB/share | 0.067 | 0.041 | 63.41 |
| Profit ratio of net assets | % | 5.113 | 3.398 | Increased by 1.715% |
| Net cash flow arising from operating activities | RMB | 58,338,411.18 | -7,317,280.66 | -- |

| Items of non-recurring gains and losses deducted | Amount (Unit: RMB) |
|---|---|
| Non-operating income | 247,645.11 |
| Non-operating expenses | 248,298.69 |
| Total non-recurring gains and losses | -653.58 |

### (II) Explanation on the difference in the net profit items in the domestic accounting statement and the overseas accounting statement.

Unit: RMB

| | Net profit | Net assets |
|---|---|---|
| Amount set according to the Accounting System for Business Enterprises | 19,300,281.44 | 377,495,225.20 |
| Adjusted according to the International Accounting Standards: | | |
| Trademark registration fee | | -69,737.50 |
| Goodwill and amortization | 760,362.29 | -8,213,257.98 |
| Adjustment of other unconfirmed investment losses | -2,876.61 | |

| | | |
|---|---|---|
| Others | | -542,364.63 |
| Amount set according to International Accounting Standards | 20,057,767.12 | 368,669,865.09 |

Explanation on the differences: the net profit of the report period is RMB 20,057,767.12 calculated according to the International Accounting Standards, mainly because of the amortization of equity investment balance arising out of the assets replacement activities during the previous year, as well as the adjustment of unconfirmed investment losses brought along by the above-quota loss of the subsidiaries in the report period.

(III) Supporting statement to the profit statement

| **Profit of the report period** | **Profit ratio of the net assets (%)** | | **Earnings per share (RMB/share)** | |
|---|---|---|---|---|
| | **Fully diluted** | **Weighted average** | **Fully diluted** | **Weighted average** |
| Profit from main businesses | 50.85 | 52.18 | 0.666 | 0.666 |
| Operating profit | 6.45 | 6.62 | 0.085 | 0.085 |
| Net profit | 5.11 | 5.25 | 0.067 | 0.067 |
| Profit after deducting non-recurring gains and losses | 5.11 | 5.25 | 0.067 | 0.067 |

# SECTION III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHARES HELD BY MAIN SHAREHOLDERS

I. Particulars about change in share capital

In the report period, the Company's total shares and the structure remained unchanged.

II. About shareholders

1. Ended Jun. 30, 2005, the Company had totally 32,329 shareholders, including 22,380 shareholders of A-share and 9,949 shareholders of B-share.

2. Particulars about shares held by the top ten shareholders (ended Jun. 30, 2005)

| **Total shareholder at the end of report period** | 32,329 | | | | | |
|---|---|---|---|---|---|---|
| **Particulars about shares held by the top ten shareholders** | | | | | | |
| **Shareholders' name (full name)** | **Increase/ decrease in this report period (share)** | **Holding shares at the period-end (share)** | **Proportion (%)** | **Type of share (circulating or non-circulating)** | **Shares pledged or frozen** | **Nature of shareholder (state-owned shareholder or foreign-funded shareholder)** |
| SINOPHARM MEDICINE HOLDING CO., LTD. | 0 | 124,864,740 | 43.33 | Non-circulating | 0 | State-owned share |

| | | | | | | |
|---|---|---|---|---|---|---|
| SHENZHEN BAO'AN DISTRICT SHIYAN TOWN ECONOMIC DEVELOPMENT CORPORATION | 0 | 26,070,660 | 9.05 | Non-circulating | 16,079,700 | Legal person share |
| SHENZHEN BAO'AN SHANGWU ECONOMIC DEVELOPMENT CO., LTD. | 0 | 13,942,800 | 4.84 | Non-circulating | 13,846,000 | Legal person share |
| SHENZHEN WANGZONG INDUSTRIAL CO., LTD. | 0 | 5,303,200 | 1.84 | Non-circulating | Unknown | Legal person share |
| NANJING JUNYUE INVESTMENT CONSULTATING CO., LTD. | 0 | 5,000,000 | 1.74 | Non-circulating | Unknown | Legal person share |
| WUXI HUAXIN INVESTMENT MANAGEMENT CO., LTD. | 0 | 1,396,800 | 0.48 | Non-circulating | Unknown | Legal person share |
| SHANGHAI SHISHENG ENTERPRISE DEVELOPMENT CO., LTD. | 0 | 1,000,000 | 0.35 | Non-circulating | Unknown | Legal person share |
| YAO JUN | Unknown | 821,870 | 0.29 | Circulating | Unknown | A-share in circulating |
| SHANGHAI HUAXIA YIFU INVESTMENT CO., LTD. | 0 | 800,000 | 0.28 | Non-circulating | Unknown | Legal person share |
| CHEN YONG QUAN | Unknown | 509,922 | 0.18 | Circulating | Unknown | B-share in circulating |
| Explanation on the associated relationship among the top ten shareholders or consistent action | | Among the above top ten shareholders, there exists no associated relationship among state-owned shareholder and each shareholders of legal person's share, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies. As to other shareholders of circulation share, the Company does not know their relationship. | | | | |

| Particulars about shares held by the top ten shareholders of circulation share | | |
|---|---|---|
| **Full name of Shareholders** | **Number of circulation shares held at the period-end** | **Type (A-share, B-share, H-share and other)** |
| YAO JUN | 821,870 | A-share |
| CHEN YONG QUAN | 509,922 | B-share |
| FAN HUI QIONG | 484,900 | B-share |
| WANG XIAO TIAN | 369,278 | B-share |
| EVER POINT INVESTMENTS LIMITED | 366,099 | B-share |
| YAO JIAN PING | 327,800 | A-share |
| CHEN ZE BING | 311,800 | B-share |
| JIANG XIAO MING | 309,950 | B-share |
| YANG YUAN ZHOU | 294,500 | B-share |
| FANG JING DA | 265,400 | B-share |
| Explanation on associated relationship among the top ten shareholders or consistent action | The Company was unknown whether there existed associated relationship among these shareholders or whether they belong to consistent actors. | |

| | |
|---|---|
| Explanation on the appointed period of holding shares which strategic investor or general legal person participates in the allotment of new shares | Naught |

3. In the report period, the controlling shareholder of the Company remained unchanged.

The Company's controlling shareholder is Sinopharm Medicine Holding Co., Ltd., while the actual controller is China National Pharmaceutical Group Corporation.

# SECTION IV. PARTICULARS ABOUT DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

I. In the report period, directors, supervisors and senior executives of the Company did not hold the Company's shares.

II. Particulars about the changes in directors, supervisors and senior executives during the report period:

(1) On Jan. 13, 2005, on the 1st Provisional Shareholders' General Meeting 2005 of the Company, Chen Weigang, Wu Aimin and Zuo Jie were elected directors of the 4th Board of Directors through supplementary election.

(2) On Jan. 13, 2005, the 1st Provisional Shareholders' General Meeting 2005 of the Company finished the changing election of the Supervisory Committee. Zhu Dixin, Zhao Junpeng and Shen Tianfang were elected supervisors of the 4th Supervisory Committee.

(3) On Jan. 13, 2005, the 5th meeting of the 4th Board of Directors was held. Shi Jinming was engaged as the general manager of the Company, while Ou Jianneng, Tan Guoshu, Yan Zhigang and Lin Xinyang as vice general manager. Gao Guoshi and Wang Qiuhui resigned from the position of vice general manager.

# SECTION Ⅴ. DISCUSSION AND ANALYSIS OF THE MANAGEMENT

I. The overall operation of the Company in the report period

During the first half year of 2005, under the wise guidance of the Board and with "integrating inner resources, perfecting business processes, establishing a management system of high efficiency, and upgrading overall operation quality " as the goal, the Company has been able to continuously improve the operation quality through a series of measures, such as the adjustment of organization structure, the improvement of the financial management and control mode, the construction of an integrated operating platform, and the advance of the operation and management concept, etc.. The segment of pharmaceutical industry maintains its encouraging development momentum, while the medicine wholesale progresses smoothly and the retail chain turns an unfavorable balance into a favorable one, and all this has contributed to the promising achievement of “time half gone, work half done”.

The Company realizes a net profit of RMB 19.3003 million during the first half-year of 2005, an increase of RMB 7.3469 million year-on-year, which accounts for 61.46%; the net cash flow arising out of operating activities amounts to RMB 58.3384 million, an increase of RMB 65.6557 million year-on-year; the earnings per share is RMB 0.067, and an increase of 63.41% year-on-year.

The segment of pharmaceutical industry continued to maintain a fast-growing momentum, and the sales volume of leading products increased by a fairly large margin. All this had laid a foundation for the accomplishment of the operation budget goal.

The segment of commercial wholesale progressed smoothly. Besides making full use of its leading status in the pharmaceutical business of Shenzhen region, the Company also strengthened cooperation with suppliers in the upper stream and enriched the variety of the products for which the Company acted as an exclusive distributor or agency.

Confronted with the increasingly stressful market environment in the chain industry in Shenzhen, the retail chain segment has tried various promoting measures and operating modes to upgrade the brands’ influence, and has began to turn an unfavorable balance into a favorable one.

II. Analysis on the main operating results and financial status

(I) The main business scope of the Company includes the production, wholesale and chain retail, of which the wholesale and chain retail mainly deals with medical products about 10 thousand kinds produced by both domestic and overseas manufacturers, with Shenzhen city and the regions near this city as the main market.

(II) Formation of income from main operations

1. Statement of main operations classified according to industries or products

Unit: RMB

| Industries or products | Income from main operations | Cost of main operations | Gross profit ratio (%) | Increase/decrease in income from main operations compared with the last year (%) | Increase/decrease in cost of main operations compared with the last year (%) | Increase/decrease in gross profit ratio compared with the last year (%) |
|---|---|---|---|---|---|---|
| Pharmaceutical industry | 258,564,878.98 | 119,651,593.37 | 53.72 | 3.71 | 7.13 | Decreased by 1.49% |
| Pharmaceutical wholesale | 767,578,333.55 | 736,905,475.84 | 4.00 | -2.68 | -2.13 | Decreased by 0.53% |
| Pharmaceutical retail | 108,131,064.75 | 84,623,586.55 | 21.74 | -13.36 | -15.64 | Increased by 2.12% |
| Minus: sales among internal enterprises | 43,235,744.15 | 18,234,801.14 | | | | |
| Total | 791,615,992.22 | 598,522,370.70 | 24.39 | -1.74 | -1.33 | Decreased by 0.31% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Including: related transactions | 43,235,744.15 | 18,234,801.14 | 57.82 | | | |
| | | | | | | |
| Series of products of cophalosporin | 111,931,352.79 | 84,138,235.67 | 24.83 | -2.51 | 21.77 | Decreased by 14.99% |
| Jian'er Qingjie Ye | 14,817,250.84 | 4,942,571.59 | 66.64 | 21.73 | -13.51 | Increased by 13.59% |
| | | | | | | |
| Including: related transactions | 3,667,636.20 | 1,930,355.75 | 47.37 | - | - | - |
| Pricing rules for related transactions | | Related transactions has been conducted according to market price | | | | |

Note: in the report period, the amount that the Company has obtained from related transactions of selling products to the shareholding subsidiaries of the controlling shareholder was RMB 43,235,744.15. The related transactions from which this money has come from were mainly transactions with the subordinate enterprises of the controlling shareholder Sinopharm Medicine Holding Co., Ltd., while the money of the same period last year had mainly come from related transactions with the subordinate enterprises of the former controlling shareholder Shenzhen Investment Management Company.

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

| Items | Income from main operations | Increase/decrease in income from main operations over the same period of last year (%) |
|---|---|---|
| Domestic sales | 789,863,699.93 | -0.24 |
| Overseas sales | 1,752,292.29 | -87.32 |
| Total | 791,615,992.22 | -1.74 |

Note: the domestic sales were carried out mainly in Shenzhen region. The import and export agency business had been suspended by the Company in the report period, resulting in the large-margin decrease year-on-year in overseas sales.

(III) Brief analysis about the financial status

In the report period, changes of main financial indexes (Unit: RMB)

| Items | Jan.-Jun. 2005 | Jan.-Jun. 2004 | Increase/decrease (%) |
|---|---|---|---|
| Income from main operations | 791,615,992.22 | 805,598,687.87 | -1.74 |
| Profit from main operations | 191,949,277.28 | 197,950,636.63 | -3.03 |
| Net profit | 19,300,281.44 | 11,953,370.81 | 61.46 |
| Net increase in cash and cash equivalents | 51,869,585.98 | -118,919,806.73 | |
| **Items** | **Amount at period-end** | **Amount at period-beginning** | **Increase/decrease (%)** |
| Total assets | 962,295,667.52 | 846,186,796.73 | 13.72 |

| | | | |
|---|---|---|---|
| Shareholders' equity | 377,495,225.20 | 358,197,820.37 | 5.39 |

Notes: (1) The decrease of income from main operations was mainly because the consolidating scope of the consolidated statement of the same period last year had included the sums from the shareholding company Shenzhen Sino-Western Pharmaceutical Co., Ltd. and the affiliated company Shenzhen Wanle Pharmaceutical Co., Ltd. according to proportion, while that of this period did not include them. This factor excluded, there was an increase of 7.84% about this index.

(2) Profit from main operations decreased due to the decrease of income from main operations, which had been caused by the change of consolidating scope of the consolidated statement and the decline of gross profit ratio led by the price down-fall of the medicines.

(3) Net profit has increased, and the reasons were: ① The efficiency of the Shenzhen Pharmaceutical Factory, which is the subordinate of the Company, has improved; ② The operation of the Company's subordinate Shenzhen Accord Pharmaceutical Chain Co., Ltd. has gone well, and began to turn an unfavorable balance into a favorable one; ③ Three charges have decreased year-on-year.

(4) Increase of cash and cash equivalents was mainly due to: ① many accounts receivable has been recovered during the report period; In the meantime, the Company's subordinate enterprise Shenzhen Chinese Medicine General Factory received a transaction fund amounting to RMB 26.3 million from Sinopharm Medicine Holding Co., Ltd. in the report period (investment fund, suspended transaction since some industrial and commercial registration processes have not been finished yet); ② Compared with the same period of the last year, the money used to repay bank loans due has decreased by a large margin in the report period.

(5) Caused by the cash increase, the total assets of the Company have also increased; meanwhile, to cater to the customers' needs, the amount of stock has been increased, resulting in the corresponding increase of accounts receivable.

(6) Increase of shareholders' equity was mainly caused by the net profit realized this period.

(IV) In the report period, there was no operating business exerting material influence on net profit.

(V) Problems and difficulties arising out of operation

1. Due to some objective reasons, the purchase bid for medical products by medical institutions of Shenzhen region during the first half year of 2005 lasted a longer time, which had influenced the sale expansion of the Company's pure sales business in hospitals.

2. Decrease of medicine prices have had a negative effect on the Company's profit. The decrease of antibiotics price was certain, but this also had put greater stress on the production and sales of part of the leading products produced by the Company's pharmaceutical industry.

3. With the increasingly fierce competition among the medicine retail chain enterprises, the ability of the Company's retail chain segment to better adapt to the

changes in the market and improve operating methods needs to be strengthened.

III. Investments of the Company

(I) In the report period, the Company had not raised any proceeds or proceeds raised in previous years lasting into the report period.

(II) The actual progress of some important projects invested with capital not through raising:

In the report period, the project of the new location of the medicine R&D and production base of the Company's subordinate Shenzhen Pharmaceutical Factory has finished the bid of fundamental construction and the work of foundation laid. It is estimated that the total investment in this project would be RMB 0.22 billion. Right now, the project has entered the primary phase of the fundamental construction, and the overall construction would be launched in the second half year according to estimation.

IV. Estimates on the changes of the net profit made from the beginning of the year to the end of the next report period

Thanks to the positive effects beginning to show under the Company's "reforming, adjusting and upgrading" measure, the operation budget for the upper half year of 2005 has been carried out well and the production and operation have been healthy and stable. It is estimated that the Company's net profit made between January and September would increase by 50% year-on-year.

## SECTION Ⅵ. SIGNIFICANT EVENTS

I. Actual situation of the Company's administration

The Company has operated strictly in conformity with the requirements stipulated in the Company Law, Securities Law and the Administration Rules of Listed Companies. According to relevant regulations and rules issued by the Securities Regulatory Commission, the Company has actively carried out various adjustment works and unceasingly perfected the Company's administration structure. In the report period, the Company has finished the work of changing the Supervisory Committee, modified the Articles of Association and Rules of Procedure of the Board of Directors, and established a Special Committee of the Board as well.

II. The Company would neither conduct profit distribution nor convert public capital reserve into share capital in the first half of 2005.

III. Material lawsuits and arbitrations

In the report period, there existed no significant lawsuits or arbitrations about the Company, nor any material lawsuits or arbitrations occurred in previous periods and lasted into the report period.

IV. Significant purchases, sales and reorganizing of assets

(1) According to the resolution on increasing investment and shares of Shenzhen

Chinese Medicine General Factory passed at the 6th meeting of the 4th Board of Directors on Apr. 18, 2005, the Company and Sinopharm Medicine Holding Co., Ltd. signed an Agreement on Increasing Investment and Shares on Jun. 1, 2005. According to this agreement, the registered capital of this factory would be increased to RMB 50 million after the system change, of which the Company would take the estimated value of Shenzhen Chinese Medicine General Factory amounting to RMB 23.6972 million as its investment and hold 47.39% shares correspondingly, while Sinopharm Medicine Holding Co., Ltd. would invest in cash totaling RMB 26.3028 million and hold 52.61% shares. The factory had been renamed as Sinopharm Medicine Holding Shenzhen Chinese Medicine Co., Ltd. Relevant industrial and commercial registration of the change is under way right now.

(2) On Jun. 21, 2005, the Company signed a Share Transfer Agreement with principal shareholder Sinopharm Medicine Holding Co., Ltd.. The Company would buy 90% shares of Sinopharm Medicine Holding Guangzhou Co., Ltd. held by Sinopharm Medicine Holding Co., Ltd. at the price of RMB 106.7311 million. This significant assets purchase belonged to related transaction and had been examined and approved at the 8th meeting of the 4th Board of Directors on Jun. 21, 2005. Relevant work conducted for the CSRC's approval is under way.

The aforesaid issues had borne no influence on the operation achievement or financial status of the Company in the report period.

V. Daily related transactions

Related transactions of purchase or sale of commodity

| Items | Name of companies | Occurred amount | | Proportion in income (cost) from main businesses | |
|---|---|---|---|---|---|
| | | Jan.-Jun., 2005 | Jan.-Jun., 2004 | Jan.-Jun., 2005 | Jan.-Jun., 2004 |
| Sale of goods | Related companies | 43,235,744.15 | 256,410.26 | 5.46% | 0.03% |
| Purchase of goods | Related companies | 25,544,124.24 | 790,366.15 | 4.27% | 0.13% |

Notes: The related transactions from which the money this period has come from were mainly transactions with the subordinate enterprises of the controlling shareholder Sinopharm Medicine Holding Co., Ltd., while the money of the same period last year had mainly come from related transactions with the subordinate enterprises of the former controlling shareholder Shenzhen Investment Management Company.

VI. Significant contracts and their implementations

(I) Entrustment, contract and lease

In the report period, the Company has no significant custody, contract or lease of other companies, nor vice visa occurred in the report period or occurred in previous period and lasted in the report period.

(II) Significant guarantee

In the report period, the guaranteed amount of the letter of credit of Shenzhen Modern Computer Co., Ltd. has been cleared in the upper half year of 2005. So far, the Company's irregular external guarantees that occurred in previous years have all been freed. The Company is free from any external guarantees, now.

(III) Related financial claims and liabilities

Unit: (RMB'0000)

| Related parties | Funds offered to related parties | | Funds offered to the listed company by related parties | |
|---|---|---|---|---|
| | Amount occurred | Balance | Amount occurred | Balance |
| Accounts receivable from related units (lender) | 5036.66 | 2009.56 | | |
| Other accounts receivable from related units (lender) | | 29.02 | | |
| Accounts payable to related units (borrower) | | | 2554.62 | 768.78 |
| Other accounts payable to related units (borrower) | | | 2632.01 | 2630.72 |
| Total | 5036.66 | 2038.58 | 5186.63 | 3399.50 |

The Company has not provided any non-operating funds to the controlling shareholder or its subsidiaries.

(IV) Entrustment of cash assets management

In the report period, the Company has not entrusted others with cash assets management, nor had it done so in previous periods and lasted into the report period.

(V) Other important contracts

In the report period, Shenzhen Honggang Sub-branch of Merchants Bank signed a comprehensive line of credit amounting to RMB 80 million with the Company. The Company had no other important contracts other than this one.

VII. Commitment made by the Company or shareholders holding over 5% shares of the Company

(I) In the report period, the Company had no commitment that would likely exert great influence on the operation achievements and financial status, nor had there been any such commitment made in previous periods and lasted into the report period.

(II) In the report period, the principal shareholder Sinopharm Medicine Holding Co., Ltd. signed a Share Transfer Agreement with the Company. According to this agreement, the Company would buy 90% shares of Sinopharm Medicine Holding Guangzhou Co., Ltd. held by Sinopharm Medicine Holding Co., Ltd. After the share transfer, the principal shareholder promised to ensure the independence of Accord Pharmaceutical Company, and to avoid competition with Accord Pharmaceutical in the same industry, as well as to reduce and normalize related transactions. The work conducted for the approval of the CSRC is under way.

VIII. Certified Public Accountants engaged by the Company

In the report period, the Company continued to engage Shu Lun Pan Certified Public Accountants Co., Ltd. and Horwath Certified Public Accountants as the auditing institutions for the year 2005 according to the decision of the Shareholders' General Meeting.

IX. The semi-annual financial report of the Company has not been audited.

X. In the report period, neither the Company nor the Board or its directors have been inspected by the CSRC, nor have them received any administrative punishments or circulating criticism, nor have them been publicly criticized by Shenzhen Stock Exchange.

XI. Index to the information disclosure

Notices published by the Company in Securities Times, Hong Kong Ta Kung Pao, website of Shenzhen Stock Exchange (http://www.szse.cn) and Juchao website (http://www.cninfo.com.cn) are as follows:

1. On Jan. 14, 2005, Notice on the Resolutions of the 1st Provisional Shareholders' General Meeting 2005 on the issues of supplementing directors and changing the Supervisory Committee; Notice of the Board of Directors on Engaging Senior Management Personnel;

2. On Apr. 20, 2005, Summary of the Annual Report 2004 and the all text (A-share, B-share); Notice of the Board of Directors on Increasing investment and shares of Shenzhen Chinese Medicine General Factory; Notice on the Convening of the Annual Shareholders' General Meeting 2004;

3. On Apr. 28, 2005, the 1st Quarterly Report 2005 (A-share, B-share);

4. On May 28, 2005, Notice on the Resolutions of the Shareholders' General Meeting 2004;

5. On Jun. 23, 2005, Notice of the Board on the Company's Significant Assets Purchase; Notice of the Supervisory Committee on the Company's Significant Assets Purchase; Report on the Significant Assets Purchase (Draft) and Paper of Legal Opinions;

6. On Jul. 5, 2005, Notice on the Estimated Increase of Operation Achievement of the Upper Half Year 2005.

## Section VII. Financial Report (Un-audited)

# Balance sheet

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

| Items | | June 30, 2005 | | Dec.31, 2004 | |
|---|---|---|---|---|---|
| | | Consolidation | Parent Company | Consolidation | Parent Company |
| Current assets: | | | | | |
| Monetary funds | | 132,736,883.37 | 83,687,113.29 | 80,867,297.39 | 67,695,256.31 |
| Short-term investment | | | | | |
| Notes receivable | | 10,430,878.26 | | 21,078,697.51 | 877,715.36 |
| Dividends receivable | | | | | |
| Interest receivable | | | | | |
| Accounts receivable | | 358,214,247.10 | 253,637,126.28 | 312,617,514.85 | 229,642,774.30 |
| Other receivable | | 19,580,928.83 | 80,370,451.85 | 15,292,088.97 | 59,143,417.16 |
| Accounts in advance | | 18,149,411.86 | 15,427,740.61 | 11,400,510.03 | 9,085,597.05 |

| | | | | | |
|---|---|---|---|---|---|
| Subsidy receivable | | 324,171.69 | 324,171.69 | 324,171.69 | 324,171.69 |
| Inventory | | 188,594,745.16 | 89,492,267.09 | 162,483,993.78 | 73,134,717.53 |
| Expenses to be apportioned | | 296,330.56 | 207,379.26 | 294,839.48 | 217,839.48 |
| Long-term credit investment due within one year | | -67,225.25 | | | |
| Other current assets | | | | | |
| Total current assets | | 728,260,371.58 | 523,146,250.07 | 604,359,113.70 | 440,121,488.88 |
| Long-term investment | | | | | |
| Long-term equity investment | | 55,659,483.30 | 291,419,213.08 | 57,131,077.30 | 260,044,682.77 |
| Long-term credit investment | | | | | |
| Total long-term investment | | 55,659,483.30 | 291,419,213.08 | 57,131,077.30 | 260,044,682.77 |
| Including: Consolidation price variance | | 28,792,045.34 | | 31,409,504.12 | |
| Fixed assets | | | | | |
| Original value of fixed assets | | 258,640,491.28 | 86,895,450.76 | 255,367,806.88 | 86,736,802.57 |
| Less: Accumulative depreciation | | 123,286,307.13 | 24,871,284.05 | 115,055,997.43 | 21,109,766.46 |
| Net value of fixed assets | | 135,354,184.15 | 62,024,166.71 | 140,311,809.45 | 65,627,036.11 |
| Less: Provision for devaluation of fixed assets | | 3,627,795.61 | 512,279.34 | 3,627,795.61 | 512,279.34 |
| Net amount of fixed assets | | 131,726,388.54 | 61,511,887.37 | 136,684,013.84 | 65,114,756.77 |
| Engineering material | | | | | |
| Construction in progress | | 43,102,324.27 | 31,604,961.59 | 40,962,584.89 | 31,604,961.59 |
| Disposal of fixed assets | | 10,742.70 | 5,636.20 | | |
| Total fixed assets | | 174,839,455.51 | 93,122,485.16 | 177,646,598.73 | 96,719,718.36 |
| Intangible and other assets: | | | | | |
| Intangible assets | | 1,853,182.79 | 1,707,095.90 | 2,215,859.06 | 2,034,967.24 |
| Long-term expenses to be apportioned | | 1,683,174.34 | 401,390.90 | 4,834,147.94 | 494,763.80 |
| Other long-term assets | | | | | |
| Total intangible and other assets | | 3,536,357.13 | 2,108,486.80 | 7,050,007.00 | 2,529,731.04 |
| Deferred tax: | | | | | |
| Deferred tax-borrowing item | | | | | |
| Total assets | | 962,295,667.52 | 909,796,435.11 | 846,186,796.73 | 799,415,621.05 |

## Balance sheet (Con.)

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

| Items | | June 30, 2005 | | Dec. 31, 2004 | |
|---|---|---|---|---|---|
| | | Consolidation | Parent Company | Consolidation | Parent Company |
| Current liabilities: | | | | | |
| Short-term loans | | 10,000,000.00 | 10,000,000.00 | 10,500,000.00 | 10,000,000.00 |
| Notes payable | | 214,676.00 | 214,676.00 | 12,427,407.22 | 12,427,407.22 |
| Accounts payable | | 315,027,679.74 | 254,733,663.27 | 268,549,787.77 | 218,503,610.55 |
| Accounts received in advance | | 8,061,053.15 | 106,264.74 | 19,412,923.35 | 4,617.52 |
| Wage payable | | 4,554,047.26 | 3,089,738.92 | 13,424,867.53 | 7,241,115.30 |
| Welfare funds payable | | 3,025,844.75 | 1,258,623.12 | 3,614,591.08 | 1,274,025.47 |
| Dividends payable | | | | | |
| Taxes payable | | 11,820,863.64 | -577,136.42 | 6,352,615.05 | 2,056,911.82 |
| Other duties payable | | 62,698.64 | 11,261.63 | 122,605.02 | 68,811.79 |
| Other accounts payable | | 223,772,940.27 | 230,717,099.61 | 145,695,235.21 | 158,149,871.32 |
| Accrued expenses | | 7,460,638.87 | 2,097,762.50 | 5,088,944.13 | 845,049.76 |
| Projected liabilities | | | | | |
| Long-term liabilities due within 1 year | | | | 2,000,000.00 | |
| Other current liabilities | | | | | |
| Total current liabilities | | 584,000,442.32 | 501,651,953.37 | 487,188,976.36 | 410,571,420.75 |
| Long-term liabilities | | | | | |
| Long-term loans | | | | | |
| Bonds payable | | | | | |
| Long-term accounts payable | | | | | |
| Special accounts payable | | 800,000.00 | 800,000.00 | 800,000.00 | 800,000.00 |
| Other long-term liabilities | | | | | |
| Total long-term liabilities | | 800,000.00 | 800,000.00 | 800,000.00 | 800,000.00 |
| Deferred tax | | | | | |
| Deferred tax-credit item | | | | | |
| Total liabilities | | 584,800,442.32 | 502,451,953.37 | 487,988,976.36 | 411,371,420.75 |
| Minority interests | | | | | |
| Owner's equity (or shareholders' equity): | | | | | |
| Paid-in capital (or share capital) | | 288,149,400.00 | 288,149,400.00 | 288,149,400.00 | 288,149,400.00 |
| Less: Restituted investment | | | | | |
| Net amount of paid-in capital (share capital) | | 288,149,400.00 | 288,149,400.00 | 288,149,400.00 | 288,149,400.00 |
| Capital public reserve | | 17,741,872.48 | 17,741,872.48 | 17,741,872.48 | 17,741,872.48 |
| Surplus public reserve | | 66,525,867.56 | 44,618,288.87 | 66,525,867.56 | 44,618,288.87 |
| Including: Statutory public welfare fund | | 8,555,270.80 | 1,252,744.56 | 8,555,270.80 | 1,252,744.56 |
| Retained profit | | 34,854,187.18 | 56,834,920.39 | 15,553,905.74 | 37,534,638.95 |
| Add: Loss of unconfirmed investment | | -29,776,102.02 | | -29,773,225.41 | |
| Balance difference of foreign currency | | | | | |

| | | | | |
|---|---|---|---|---|
| translation | | | | |
| Total owner's equity (shareholders' equity) | 377,495,225.20 | 407,344,481.74 | 358,197,820.37 | 388,044,200.30 |
| Total liabilities and owner's equity (shareholder's equity) | 962,295,667.52 | 909,796,435.11 | 846,186,796.73 | 799,415,621.05 |

## Statement of Profit and Profit Distribution

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

| Items | Jan.-Jun. 2005 | | Jan.-Jun. 2004 | |
|---|---|---|---|---|
| | Consolidation | Parent Company | Consolidation | Parent Company |
| I. Income from core business | 791,615,992.22 | 468,413,172.26 | 805,598,687.87 | 455,538,850.67 |
| Less: Cost of core business | 598,522,370.70 | 449,037,517.29 | 606,580,415.66 | 432,489,765.05 |
| Taxes and extras of core business | 1,144,344.24 | 64,704.52 | 1,067,635.58 | 62,999.06 |
| II. Profit of core business (Loss is listed with “-”) | 191,949,277.28 | 19,310,950.45 | 197,950,636.63 | 22,986,086.56 |
| Add: Profit of other business (Loss is listed with “-”) | 10,471,260.85 | 1,698,880.16 | 9,289,401.72 | 2,903,736.49 |
| Less: Operating expense | 134,637,305.21 | 15,478,273.54 | 156,506,944.32 | 19,951,617.26 |
| Administrative expense | 43,602,150.90 | 16,427,596.66 | 31,645,986.99 | 8,612,655.53 |
| Financial expense | -182,672.86 | 281,383.47 | 2,703,144.76 | 2,035,387.12 |
| III. Operating profit (Loss is listed with “-”) | 24,363,754.88 | -11,177,423.06 | 16,383,962.28 | -4,709,836.86 |
| Add: Investment earnings (Loss is listed with “-”) | 370,517.53 | 30,474,530.31 | -2,869,889.07 | 16,023,711.58 |
| Subsidy income | - | - | | |
| Non- operating income | 247,645.11 | 3,330.19 | 696,668.38 | 299,000.00 |
| Less: non-operating expenditure | 248,298.69 | 156.00 | 581,302.31 | 180,141.14 |
| IV. Total profits (Total loss is listed with “-”) | 24,733,618.83 | 19,300,281.44 | 13,629,439.28 | 11,432,733.58 |
| Less: Income tax | 5,436,214.00 | | 3,534,160.16 | 630,859.61 |
| Add: Loss of unconfirmed investment | 2,876.61 | | -131,229.71 | |
| Less: Minority interests | | | 1,726,861.98 | |
| V. Net profit (Net loss is listed with “-”) | 19,300,281.44 | 19,300,281.44 | 11,953,370.81 | 10,801,873.97 |
| Add: Undistributed profits at the year-begin | 15,553,905.74 | 37,534,638.95 | 13,965,569.75 | 16,237,981.45 |
| Other transfer-in | | | | |
| VI. Profit available for distribution | 34,854,187.18 | 56,834,920.39 | 25,918,940.56 | 27,039,855.42 |
| Minus: appropriation of statutory surplus public reserve | | | | |
| Appropriation of statutory public welfare funds | | | | |
| Appropriation of employees’ encouragement and welfare funds | | | | |
| Appropriation of reserve funds | | | | |
| Appropriation of enterprise development funds | | | | |
| Profits’ restoring to investments | | | | |
| VII. Profits available for distribution to investors | 34,854,187.18 | 56,834,920.39 | 25,918,940.56 | 27,039,855.42 |
| Less: dividends of preference share payable | | | | |
| Appropriation of arbitrary surplus public reserve | | | | |
| Dividends of ordinary share payable | | | | |
| Dividends of ordinary share converting into capital (share capital) | | | | |
| VIII. Retained profit | 34,854,187.18 | 56,834,920.39 | 25,918,940.56 | 27,039,855.42 |
| Supplemental information: | | | | |

| | | | | |
|---|---|---|---|---|
| 1. Income from selling or disposal branch and investee enterprise | | | | |
| 2. Losses due from natural disaster | | | | |
| 3. Increase (or decrease) of total profit due to the change of accounting policies | | | | |
| 4. Increase (or decrease) of total profit due to the change of accounting estimation | | | | |
| 5. Loss on debts reorganization | | | | |
| 6. Others | | | | |

# Statement of Cash Flow

Jan.-Jun. 2005

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

| Items | Consolidation | Parent Company |
|---|---|---|
| Ⅰ. Cash flows arising from operating activities: | | |
| Cash received from selling commodities and providing labor services | 844,688,253.85 | 563,514,388.34 |
| Write-back of tax received | - | - |
| Other cash received concerning operating activities | 64,159,679.54 | 7,437,219.54 |
| Subtotal of cash inflow arising from operating activities | 908,847,933.39 | 570,951,607.88 |
| Cash paid for purchasing commodities and receiving labor service | 667,766,695.83 | 501,451,691.94 |
| Cash paid to/for staff and workers | 68,615,691.97 | 16,892,623.47 |
| Taxes paid | 41,881,311.90 | 5,524,090.83 |
| Other cash paid concerning operating activities | 72,245,822.51 | 10,927,078.39 |
| Subtotal of cash outflow arising from operating activities | 850,509,522.21 | 534,795,484.63 |
| Net cash flows arising from operating activities | 58,338,411.18 | 36,156,123.25 |
| II. Cash flows arising from investing activities: | | |
| Cash received from recovering investment | - | - |
| Cash received from investment income | 2,668,957.01 | 207,049.77 |
| Net cash received from disposal of fixed, intangible and other long-term assets | 120,850.00 | 3,600.00 |
| Other cash received concerning investing activities | 486,499.32 | - |
| Subtotal of cash inflow from investing activities | 3,276,306.33 | 210,649.77 |
| Cash paid for purchasing fixed, intangible and other long-term assets | 5,782,056.26 | 212,398.19 |
| Cash paid for investment | 900,000.00 | 900,000.00 |
| Other cash paid concerning investing activities | - | - |
| Subtotal of cash outflow from investing activities | 6,682,056.26 | 1,112,398.19 |
| Net cash flows arising from investing activities | -3,405,749.93 | -901,748.42 |
| Ⅲ. Cash flows arising from financing activities | | |
| Cash received from absorbing investment | - | - |
| Cash received from loans | - | - |
| Other cash received concerning financing activities | 3,333.06 | 1,000,000.00 |
| Subtotal of cash inflow from financing activities | 3,333.06 | 1,000,000.00 |
| Cash paid for settling debts | 2,500,000.00 | - |
| Cash paid for dividend and profit distributing or interest paying | 565,579.56 | 262,517.85 |
| Other cash paid concerning financing activities | 828.77 | 20,000,000.00 |
| Subtotal of cash outflow from financing activities | 3,066,408.33 | 20,262,517.85 |
| Net cash flows arising from financing activities | -3,063,075.27 | -19,262,517.85 |
| IV. Influence on cash due to fluctuation in exchange rate | | |
| V. Net increase of cash and cash equivalents | 51,869,585.98 | 15,991,856.98 |

## Statement of Cash Flow (Con.)

Jan.-Jun. 2005

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

| Items | Consolidation | Parent Company |
|---|---|---|
| Supplement information: | | |
| 1. Adjusting net profit to cash flows for operating activities: | | |
| Net profit | 19,300,281.44 | 19,300,281.44 |
| Add: Withdrawal of provision for devaluation of assets | 2,128,863.14 | 137,903.25 |
| Loss of unconfirmed investment | -2,876.61 | |
| Depreciation of fixed assets | 9,489,782.81 | 3,820,024.54 |
| Amortization of intangible assets | 399,092.90 | 353,621.34 |
| Amortization of long-term expenses to be apportioned | 3,150,973.60 | 93,372.90 |
| Decrease of expenses to be apportioned (Less: increase) | -1,491.08 | 10,460.22 |
| Increase of accrued expenses (Less: decrease) | 2,152,601.44 | 1,252,712.74 |
| Loss on disposal of fixed, intangible and other long-term assets (Less: income) | 12,859.20 | 5,636.20 |
| Loss on rejection of fixed assets | 75,530.12 | |
| Financial expenses | -182,672.86 | 281,383.47 |
| Investment loss (less: income) | -370,517.53 | -30,474,530.31 |
| Deferred tax- credit item (Less: debit) | | |
| Decrease of inventories (Less: increase) | -25,487,288.26 | -16,357,549.56 |
| Decrease of receivables in operating (less: increase) | -49,206,754.76 | -28,622,780.88 |
| Increase of payables in operating (less: decrease) | 96,939,771.22 | 86,355,587.90 |
| Other | -59,743.59 | |
| Income of minority shareholders in this period | | |
| Net cash flows arising from operating activities | 58,338,411.18 | 36,156,123.25 |
| 2. Investment and financing activities with no cash incomings/outgoings involved | | |
| Capital transferred from debts | | |
| Convertible company bonds due within one year | | |
| Fixed assets leasing for financing | | |
| 3. Net increase of cash and cash equivalents: | | |
| Balance of cash at the period-end | 132,736,883.37 | 83,687,113.29 |
| Less: Balance of cash at the period -begin | 80,867,297.39 | 67,695,256.31 |
| Add: Balance of cash equivalents at the period -end | | |
| Less: Balance of cash equivalents at the period -begin | | |
| Net increase of cash and cash equivalents | 51,869,585.98 | 15,991,856.98 |

## Statement of Provision for Devaluation of Assets

June 30, 2005

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd.

| Items | Balance at the begin of this year | Increase in this year | Decrease in this year | | | Balance at the end of the period |
|---|---|---|---|---|---|---|
| ① | ② | ③ | Switching back due to assets price recovery④ | Switching out due to other reason⑤ | Total ⑥ | ⑦ |
| I. Total of provision for bad debts | 15,292,922.58 | 2,454,773.56 | - | 221,398.87 | 221,398.87 | 17,526,297.27 |
| Including: Accounts receivable | 8,314,457.76 | 2,459,611.06 | | 221,398.87 | 221,398.87 | 10,552,669.95 |
| Other receivable | 6,978,464.82 | -4,837.50 | | | | 6,973,627.32 |
| II. Total of provision for falling price of short-term investment | | | | | | |
| Including: Stock investment | | | | | | |
| Bond investment | | | | | | |
| III. Provision for falling price of inventory | 11,098,629.29 | 42,885.69 | - | 666,348.81 | 666,348.81 | 10,475,166.17 |
| Including: Raw material | 634,977.03 | 24,195.69 | | 632,667.78 | 632,667.78 | 26,504.94 |
| Work in process | | | | | | - |
| Finished goods | 14,991.03 | | | 14,991.03 | 14,991.03 | - |
| Merchandise inventory | 1,203,390.06 | | | | | 1,203,390.06 |
| Low price consumable commodity | | | | | | - |
| Commodity issued on instalment | 9,245,271.17 | 18,690.00 | | 18,690.00 | 18,690.00 | 9,245,271.17 |
| Packing | | | | | | - |
| Other | | | | | | - |
| IV. Total of provision for devaluation of long-term investment | 521,027.36 | - | - | - | - | 521,027.36 |
| Including: Long-term equity investment | 521,027.36 | | | | | 521,027.36 |
| Long-term credit investment | | | | | | - |
| V. Total of provision for devaluation of fixed assets | 3,627,795.61 | - | - | - | - | 3,627,795.61 |
| Including: Building | 2,063,013.88 | | | | | 2,063,013.88 |
| Machinery and equipment | 26,681.70 | | | | | 26,681.70 |
| Equipment of conveyance | 482,114.08 | | | | | 482,114.08 |
| Electronic equipment | 1,055,985.95 | | | | | 1,055,985.95 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other equipment | | | | | | - |
| VI. Provision for devaluation of intangible assets | | | | | | - |
| Including: Patent right | | | | | | - |
| Trademark right | | | | | | - |
| VII. Provision for devaluation of construction in progress | 1,850,000.00 | | | | | 1,850,000.00 |
| VIII. Provision for devaluation of commission loan | | | | | | - |
| Total | 32,390,374.84 | 2,497,659.25 | - | 887,747.68 | 887,747.68 | 34,000,286.41 |

## Section VIII. Documents Available for Reference

1. Accounting statements carried with signatures and seals of the legal representative, chief financial supervisor and person in charge of accounting affairs;
2. Originals of all documents and manuscripts of public notices of the Company disclosed in public in Securities Times and Ta Kung Pao designated by CSRC in the report period;
3. Original of Semi-annual Report with signature of Chairman of the Board.
4. The depositary of documents: Secretariat of the Company, AP Building, No. 15 Ba Gua 4th Rd., Futian Dis., Shenzhen
5. The report is prepared in Chinese and English. Shall there exist any differences between the two versions, Chinese version shall prevail.

**Chairman : Chen Weigang**
**Board of Directors of**
**Shenzhen Accord Pharmaceutical Co., Ltd.**
Aug. 5, 2005