

本董事會謹向股東提呈本公司二零零四年董事會報告和本公司及本集團截至二零零四年十二月三十一日止年度經審核之帳目。

經營管理研討與分析

1. 主營業務範圍及其經營狀況

本集團主要從事開發、製造和銷售化學原料藥、製劑、化工及其他產品。本集團利潤主要來源於主營業務。

銷售分析

本集團截至二零零四年十二月三十一日止年度按中國會計準則編製的銷售額為人民幣1,511,296千元，其中化學原料藥、製劑、商業流通、化工產品及其他銷售額所佔比重分別為54.89%、19.59%、24.43%、1.09%，分別較二零零三年上升3.21個百分點、下降6.33個百分點、上升3.29個百分點和下降0.17個百分點。

二零零四年本集團化學原料藥銷售總額完成人民幣829,565千元，較上年度增長20.82%，增長的主要原因是本公司充分發揮自身競爭優勢，加大市場開拓力度，特別是加大國際醫藥市場開拓力度，產品出口增長較快。

製劑產品銷售額完成人民幣296,084千元，較上年度下降14.00%，下降的主要原因是國內製劑產品市場競爭日益加劇，及受國家對部分抗生素新藥價格調整及實施處方藥管理等影響。

商業流通完成銷售額人民幣369,215千元，較上年度增長31.45%，增長主要原因是二零零四年建成的物流中心的營業規模不斷擴大所致。

The Board of Directors sincerely submits to the shareholders the report of the Board of Directors and the audited accounts of the Company and the Group for the year ended 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

1. The business scope and operating results of the Company

The Group is mainly engaged in the development, production and sales of bulk pharmaceuticals, preparations, chemical products and other products. The profit of the Group is mainly attributable to its principal operations.

Sales Analysis

Under PRC accounting standards, the Group achieved a turnover of RMB1,511,296,000 for the year ended 31 December 2004. Sales of bulk pharmaceuticals accounted for 54.89% of the total sales of the Group, representing an increase of 3.21% as compared with 2003. Sales of preparations, medical logistics, chemical and other products accounted for 19.59%, 24.43% and 1.09% respectively of the total sales of the Group, representing a decrease of 6.33%, an increase of 3.29% and a decrease of 0.17% respectively as compared with 2003.

In 2004, Sales of bulk pharmaceuticals of the Group were increased by 20.82% to RMB829,565,000. The increase was mainly due to the deepening of market promotion and full utilization of the Company's advantages, especially in expanding the international pharmaceutical markets which resulted in a growth of the exports of the Company.

Sales of preparations was RMB296,084,000, decreased by 14.00% which was mainly attributable to increasingly intense competition in the domestic market of preparation and the State police of reducing prices of new antibiotic drugs and OTC drug administration.

Turnover generated from the medical logistics business was RMB369,215,000, increased by 31.45% as compared to that of Last year. The main reason for the increase was expanding business scale of the Medical Logistical Center established in 2004.

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

化工產品及其他銷售額完成人民幣16,432千元，較上年度下降1.67%。

業績分析

截止二零零四年十二月三十一日止年度，按香港普遍採納之會計原則審計的本集團股東應佔虧損為人民幣52,485千元，較上年度下降201.33%；按中國會計準則審計的淨虧損為人民幣55,608千元，較上年度下降232.16%。本年度本集團出現虧損，主要原因為：

1. 二零零四年以原油為基礎的化工原料價格大幅度上揚，動力能源價格上升、運輸費用增加、出口退稅率下降，導致產品成本上升，毛利率下降，其影響額分別約為人民幣67,600千元、人民幣7,300千元、人民幣9,400千元及人民幣16,400千元。
2. 受國內製劑產品市場競爭日益加劇，國家對部分抗生素新藥價格調整及實施處方藥管理等影響，本公司製劑產品銷售額下降。
3. 年末計提減值準備

MANAGEMENT DISCUSSION AND ANALYSIS

(continued)

1. The business scope and operating results of the Company (continued)

The sales of chemical and other products were RMB16,432,000, decreased by 1.67% as compared with that of last year.

Results Analysis

The Group's loss attributable to shareholders for the year ended 31 December 2004 prepared in accordance with HKGAAP were RMB52,485,000 and the loss after taxation prepared in accordance with PRC accounting standards was RMB55,608,000, representing a decrease of 201.33% and 232.16% respectively as compared to last year. The main reasons for the loss were:

1. The gross margins of the Company decreased in 2004 owing to the rise in prices of petro-chemical materials, power and energy as well as an increase in transportation expenses and a decrease in the level of tax rebate in respect of exported products in the amounts of RMB67,600,000, RMB7,300,000, RMB9,400,000 and RMB16,400,000 respectively.
2. Sales of preparations of the Company decreased as a result of intense competition in the PRC domestic market for preparations and implementation of the State policies in respect of adjusting prices of certain new antibiotic drugs and administration on prescription.
3. Provision for impairment of assets made by the Company at the end the financial year of 2004.

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

主要產品及其於中國市場佔有率為：

主要產品	Major Products	佔二零零四年 總銷售額百分比(%) As % of total sales in 2004	二零零四年 國內市場佔有率(%) Market share in the domestic market in 2004
A. 化學原料藥	A. Bulk Pharmaceuticals		
安乃近	Analgin	11.64	46.35
咖啡因	Caffeine	7.83	41.05
氨基比林	Aminopyrine	4.28	68.26
阿斯匹林	Aspirin	5.70	64.54
氫化可的松	Hydrocortisone	3.82	32.97
吡哌酸	Pipemidic acid	1.82	100
布洛芬	Ibuprofen	3.99	38.80
茶碱	Theophylline	1.04	33.78
B. 製劑	B. Preparations		
吡哌酸片	Pipemidic acid tablets	2.26	N/A
複方甘草片	Co-liquorice tablets	1.02	3.33
尼莫地平片	Nimodipine tablets	0.96	18.73

按中國會計準則對財務狀況、經營成果的分析

2004年末本集團總資產為人民幣2,298,470千元，較年初人民幣2,085,381千元增加人民幣213,089千元，增長10.22%，總資產增長的主要原因是本集團固定資產以及長期投資增加。2004年年末股東權益為人民幣1,340,005千元，較年初人民幣1,413,304千元減少人民幣73,299千元，下降5.19%，減少的主要原因是2004年本集團出現虧損以及分配二零零三年度現金紅利。

2004年末本集團負債總額為人民幣955,560千元，較年初增加人民幣287,452千元，增長43.02%，增長的主要原因是銀行借款，應付票據及應付帳款增加。

Financial and results analysis in accordance with PRC accounting standards

Total assets of the Group as at 31 December 2004 increased by 10.22% or RMB213,089,000 to RMB2,298,470,000, as compared with the figure at the beginning of the year of RMB2,085,381,000. This increase in total assets was mainly attributable to the increase in fixed assets and long-term investments of the Group. Shareholders' equity of the Group as at 31 December 2004 decreased by RMB73,299,000 or 5.19% from RMB1,413,304,000 at the beginning of the year to RMB1,340,005,000. The decrease in shareholders' equity was mainly attributable to the loss generated in 2004 and the distribution of a cash dividend for 2003.

The total liabilities of the Group as at 31 December 2004 were RMB955,560,000, representing an increase of RMB287,452,000 or 43.02%, as compared with that of last year. The increase was mainly attributable to the increase in bank loans, notes payable and accounts payable.

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

2004年度本集團實現主營業務利潤為人民幣234,801千元，較上年同期降低人民幣57,830千元，下降19.76%；虧損為人民幣55,608千元，較上年的盈利降低人民幣97,684千元，2004年出現虧損，下降的主要原因見「業績分析」。

2004年年度末本集團現金及現金等價物淨減少額為人民幣76,053千元，現金及現金等價物淨額變動的主要原因為：2004年加大產品技術改造項目投入及對外投資的影響。

2004年按中國會計準則編製的分產品情況如下：

分行業或分產品	By product or By section	主營業務收入 Turnover 人民幣千元 RMB'000	主營業務成本 Cost of goods sold 人民幣千元 RMB'000	毛利率% Rate of gross margin %
化學原料藥	Bulk pharmaceuticals	829,565	698,022	15.86
製劑	Preparations	296,084	184,717	37.61
商業流通	Medical Commercial Logistics	369,215	362,418	1.84
化工產品及其他	Chemical & other products	16,432	21,495	(30.81)
合計	Total	1,511,296	1,266,652	16.19

按香港普遍採納之會計原則分析

截至2004年12月31日，本集團流動比率為119.72%，速動比率為87.83%，年應收帳款周轉率為488.16%（年應收帳款周轉率＝營業額／平均應收帳款及票據淨額×100%），年存貨周轉率為460.11%（年存貨周轉率＝產品銷售成本／平均存貨淨額×100%）。

本集團資金需求無明顯季節性規律。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

Profit from principal operations of the Group for 2004 amounted to RMB234,801,000, representing a decrease of 19.76% or RMB57,830,000, as compared with that of last year. The loss after taxation of the Group was RMB55,608,000, represents a decrease of RMB97,684,000 as compared with the net profit realized in 2003. The Company recorded a loss in 2004, The main reasons for the loss are set out in the above section headed "Results Analysis".

The net decrease in cash and cash equivalents were RMB76,053,000 as at 31 December 2004. The decrease was mainly attributable to the increase in investment for the renovation construction projects and other investment.

Segmental information of the main products for 2004 prepared under PRC accounting standards is as follows:

Analysis of the Group's performance under HKGAAP

As at 31 December 2004, the current ratio and the quick ratio of the Group were 119.72% and 87.83% respectively, and the rate of accounts receivable turnover (being turnover / average trade and bill receivables x 100%) and rate of stock turnover (being cost of goods sold / average inventories x 100%) for the year were 488.16% and 460.11% respectively.

The Group's demand for working capital was constant throughout the year.

經營管理研討與分析 (續)**1. 主營業務範圍及其經營狀況 (續)**

本集團資金來源主要是向金融機構借款。於2004年12月31日，本集團銀行借款除出口押匯人民幣21,358千元外，其餘均為無抵押貸款，總額為人民幣556,285千元。於2004年12月31日本集團共有貨幣資金人民幣337,933千元。本集團資金流動性較好，償債能力較強。

截至2004年12月31日，本公司投入資金人民幣4,900千元成立了一家合資公司，本公司佔合資公司註冊資本的98%。我們對這家公司的發展前景充滿信心。

截至2004年12月31日，除期末應收賬款中包含已向銀行質押借入短期借款的應收債權人民幣21,794千元外，本公司其他資產均為無抵押的資產。

本公司未來計劃內重大投資項目均為A股增發招股說明書承諾項目，資金主要來源於A股增發所募集資金。

本集團的資本負債率為40.62%。
(資本負債率=借款總額 / 股本及儲備總額 × 100%)

公司現有的銀行存款主要目的是為生產經營及科研開發投入作資金準備。

截至2004年12月31日，公司無或有負債。

本集團之資產及負債主要以人民幣為主，故無須承擔重大匯率波動風險。

**MANAGEMENT DISCUSSION AND ANALYSIS
(continued)****1. Business scope and operating results of the Company
(continued)**

The main source of funds of the Group was loans from financial institutions. As at 31 December 2004, the total amount of bank loans (except for documentary credits in the amount of RMB21,358,000) was RMB556,285,000, which were unsecured. As at 31 December 2004, cash on hand and in bank amounted to RMB337,933,000. The Group maintained a good level of liquidity and had the ability to repay its debts as they fall due.

During the year ended 31 December 2004, the Company established a joint venture company by investing RMB4,900,000 in the Company and hold 98% of the total equity interests in the joint venture company. The Company is confident of the future development of the joint venture company.

As at 31 December 2004, except for accounts receivable in the amount of RMB21,794,000 used for documentary credits there was no charge on the Group's assets.

In the coming year, significant investment plans will be focused on the projects described in the prospectus on issue of Company's A Shares in relation to the use the proceeds or the issue of new A Shares in 2001.

The gearing ratio of the Group was 40.62%. (being total borrowings / share capital & total reserves x 100%)

The cash and bank balances of the Company will mainly be used as working capital for production, sales and research.

As at 31 December 2004, the Company had no significant contingent liabilities.

The Group's assets and liabilities are recorded as Renminbi. Therefore, it is not necessary for the Group to undertake any hedge against risks associated with foreign exchange fluctuation.

經營管理研討與分析 (續)

2. 控股子公司經營及業績情況

- (i) 本公司享有山東淄博新華大藥店連鎖有限公司88%的股東權益。該公司於1999年11月19日由淄博工商行政管理局批准正式登記設立，經營範圍包括：中成藥、中藥飲片、化學藥製劑、診斷藥品、保健食品、計劃生育藥品、醫療器械、化妝品的零售。

2004年實現銷售收入人民幣25,065千元，較上年度下降8.56%，虧損人民幣708千元，較上年同期下降12.56%，虧損的主要原因為當地醫藥零售市場競爭加劇，毛利空間下降。

- (ii) 本公司與日本共和株式會社、北京三田化工技術開發有限公司成立「淄博新華—三和化工有限公司」，合資公司註冊資本50萬美元，本公司出資35萬美元，佔註冊資本70%，合資公司經營範圍為：醫藥中間體、香料中間體等化工產品（不含危險品）的研究、開發、生產和銷售。

- (iii) 本公司享有淄博新華醫藥設計院有限公司90%股東權益。該公司於2002年3月由本公司與山東新華醫藥集團有限責任公司合資成立，註冊資本人民幣200萬元，合資公司主要經營醫藥工程的設計等，2004年實現營業額人民幣680千元，較上年同期下降81.58%。主要是由於工程設計量下降。

MANAGEMENT DISCUSSION AND ANALYSIS

(continued)

2. Operations and Results of subsidiaries of the Company

- (i) Shandong Zibo Xinhua Pharmacy Chain Company Limited ("Xinhua Pharmacy"), in which the Company holds 88% of the total equity interest, was approved for incorporation by the Zibo Municipal Industrial and Commercial Administration on 19 November 1999. The main operations of the subsidiary are the sale of traditional Chinese medicines, prepared herbal medicines for decoction, preparations, drugs for diagnose, drugs for birth control, medical devices, health foods and cosmetics.

In 2004, the total turnover of the subsidiary was RMB25,065,000, decreased by 8.56% and the loss after taxation was RMB708,000, representing a decrease of 12.56% as compared to 2003. The loss were mainly due to fierce competition in the local retail market and the compression of gross profit.

- (ii) Zibo-Xinhua Sanhe Chemical Company Limited is a subsidiary and joint venture established by the Company with Kyowa Pharmaceutical Co., Ltd. and Beijing Mita Chemical Technology Development Co., Ltd. The registered capital of the joint venture is USD500,000, in which the Company invested USD350,000 and accounted for 70% of the total equity interests. The operating scope of this joint venture includes research, development, production and sale of chemical products including pharmaceutical intermediates, perfume intermediates etc, except for dangerous materials.

- (iii) Zibo Xinhua Pharmaceutical Design Institute Company Limited is another subsidiary of the Company. This subsidiary was established with SXPGC in March 2002. The total registered capital of the subsidiary is RMB2,000,000 in which the Company invested RMB1,800,000 and accounted for 90% of total equity interests. This subsidiary is mainly engaged in the business of the design of projects and achieved a turnover of RMB680,000 in 2004, a decrease of 81.58% as compared to that of last year, which was mainly attributable to a decrease in the volume of the design business.

經營管理研討與分析 (續)**2. 控股子公司經營及業績情況 (續)**

- (iv) 2003年本公司與德意志聯邦共和國LI PENG先生合資成立山東新華製藥(歐洲)有限公司，本公司享有該公司70%的股東權益。合資公司註冊資本總額為100萬歐元，主要經營醫藥原料藥及中間體。2004年實現銷售收入人民幣2,367千元，虧損人民幣2,263千元。
- (v) 2004年本公司與山東淄博新華大藥店連鎖有限公司共同出資成立山東新華醫藥貿易有限公司。公司註冊資本為人民幣500萬元，其中本公司出資人民幣490萬元，佔98%；淄博新華大藥店連鎖有限公司出資人民幣10萬元，佔2%。該公司主要經營生物製品、中藥飲片、中成藥、化學原料藥、化學製劑、抗生素製劑、生化藥品、保健食品、醫療器械、計劃生育藥具、化妝品等。2004年實現銷售收入人民幣59,677千元，虧損人民幣256千元。

3. 募集資金使用情況

本公司於2001年9月3日增發3,300萬股A股(含國有股減持300萬股)，募集資金淨額為人民幣370,517千元，截止2004年12月31日，共使用募集資金人民幣317,708千元，主要用於以下項目：

MANAGEMENT DISCUSSION AND ANALYSIS*(continued)***2. Operation and Results of subsidiaries of the Company (continued)**

- (iv) Shandong Xinhua Pharmaceutical (Europe) GmbH is a subsidiary established in Germany with Mr. Li Peng in 2003. The Company accounted for 70% of total equity interests. The total registered capital of this subsidiary is Euro1,000,000. The subsidiary is mainly engaged in the business of bulk pharmaceutical intermediates. In 2004, the subsidiary achieved a turnover of RMB2,367,000 and a loss of RMB2,263,000.
- (v) In 2004, the Company established Shandong Xinhua Medical Trade, Co., Ltd. with Shandong Zibo Xinhua Pharmacy Chain Co., Ltd.,. The registered capital of the subsidiary is RMB5,000,000 in which the Company invested RMB4,900,000 and accounted for 98% of the total equity interest. Shandong Zibo Xinhua Pharmacy Chain Co., Ltd. invested RMB100,000 and accounted for 2% of the total equity interests. The subsidiary is mainly engaged in the business of biologic products, prepared herbal medicines for decoction, traditional chinese medicines, bulk pharmaceuticals, preparation, antibiotic preparation biochemical medicine, health food, medical appliances, drugs and wares for birth control and cosmetic etc. In 2004, the subsidiary realized a turnover of RMB59,677,000 and a loss of RMB256,000.

3. Use of Proceeds

On 3 September 2001, the Company raised an amount of RMB370,517,000 from the issue and offer of 33,000,000 A Shares (including the offer of 3,000,000 state-owned shares). As at 31 December 2004, a total of RMB317,708,000 from the proceeds of the above issue of A Shares was used in the following projects:

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

經營管理研討與分析 (續)

MANAGEMENT DISCUSSION AND ANALYSIS

(continued)

3. 募集資金使用情況 (續)

3. Use of Proceeds (continued)

募集資金投資項目名稱 Name of project	募集資金 投入計劃 Total investment 人民幣千元 RMB'000	2004年 實際投入 Investment in 2004 人民幣千元 RMB'000	累計投資額 Accumulated investment 人民幣千元 RMB'000	完成計劃投 資額的比例 % of the total investment	備註 Remark
國家級技術中心改造項目 State-level technical centre	74,500	—	10,123	13.59%	N/A
針劑GMP改造項目 Injection workshop GMP renovation	80,000	47,833	77,878	97.35%	N/A
咖啡因技術改造項目 Caffeine technical renovation	160,000	12,120	188,201	117.63%	完工 Completed
L-350技術改造項目 L-350 technical renovation	29,980	—	23,442	78.19%	完工 Completed
安乃近精幹包(GMP)改造項目 Analgin GMP renovation	39,800	—	46,265	116.24%	完工 Completed
合計 Total	384,280	59,953	345,909		其中28,201千元為 自有資金投入 RMB28,201,000 financed by the Company

附註：

1. 安乃近精幹包(GMP)改造項目、L-350項目、咖啡因技術改進項目均已經完工，但由於受市場競爭影響，銷售價格下降，加上化工原料價格大幅度上升，除L-350項目外，其他均未達到盈利預測水平。

2. 針劑(GMP)改造項目目前正處於設備安裝調試過程中。

3. 國家級技術中心改造項目處於前期準備階段。

尚未使用的募集資金存於銀行，將按照承諾投資項目使用。

Note:

1. Analgin GMP renovation project, L-350 project and Caffeine technical renovation project already have finished. However, because of the effects of drop in the prices of sales as a result of market competition and rise in the prices of chemical raw materials, the profit forecast of projects (except for L-350 project) has not been attained.

2. Injection GMP renovation project is under installation of equipment.

3. The Company is preparing for the construction of a State-level technical center.

The unused proceeds were deposited in banks and will be used in accordance with project commitments.

董事會工作報告

1. 在本年度內，本公司董事會分別七次通過決議：

A. 本公司於二零零四年三月二十六日在公司住所召開第一次董事會會議，通過如下決議：

- (i) 通過本公司二零零三年度的報告和業績公告；
- (ii) 通過關於本公司會計政策和會計估計變更的議案；
- (iii) 通過本公司二零零三年度利潤分配方案；
- (iv) 通過二零零三年度發生的關聯交易及調查控股股東資金佔用的議案；
- (v) 批准公司總經理提交的有關核銷和計提資產減值準備的書面報告；
- (vi) 通過續聘國際及國內核數師並授權董事會釐定其酬金提案；
- (vii) 通過本公司高級管理人員二零零四年度薪酬考核發放辦法的議案；
- (viii) 審議並通過關聯交易協議的議案。

Working Report of the Board

1. During the year, the Board of Directors passed resolutions on seven occasions:

A. On 26 March 2004, the first meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the annual report and results announcement of the Company for the year 2003;
- (ii) To approve the proposal in respect of the change of accounting policies and estimate of the Company;
- (iii) To approve the profit appropriation proposal of the Company for the year 2003;
- (iv) To approve a proposal in respect of the connected transactions and investigation on the funds borrowed by the controlling shareholder;
- (v) To approve the written report on the provisions for diminution in value of assets and treatment of related losses submitted by the general manager.
- (vi) To approve the re-appointment of the international and domestic auditors for the year 2004 and authorise the Directors to determine their remuneration;
- (vii) To approve the proposal in respect of measures to evaluate and examine the remuneration of senior officers of the Company and payment methods for the year 2004;
- (viii) To approve a proposal for connected transaction;

董事會工作報告 (續)

1. 在本年度內，本公司董事會分別七次通過決議：(續)

B. 本公司於二零零四年四月十六日在公司住所召開第二次董事會會議，通過如下決議：

- (i) 通過本公司二零零四年第一季度報告；
- (ii) 通過關於公司章程修改的議案；
- (iii) 通過二零零四年度董事、監事酬金的議案；
- (iv) 通過關於二零零三年股息派發有關事宜的議案；
- (v) 通過關於召開二零零三年度周年股東大會的議案。

C. 本公司於二零零四年五月二十八日以書面方式簽署了第三次董事會決議，同意參加青島海協信托投資有限公司信托計劃。

D. 本公司於二零零四年七月二十八日在公司住所召開第四次董事會會議，通過如下決議：

- (i) 審議通過截至二零零四年六月三十日止六個月的中期報告；
- (ii) 建議不派發二零零四年中期股息，也不進行公積金轉增股本；
- (iii) 審議通過本公司《對外擔保管理規定》；
- (iv) 審議通過關於感冒新藥愛菲樂市場策劃追加預算的議案。

Working Report of the Board (continued)

1. During the year, the Board of Directors passed resolutions on seven occasions: (continued)

B. On 16 April 2004, the second meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the quarterly report of the Company for the first quarter of 2004;
- (ii) To approve the amendments to the Articles of Association;
- (iii) To approve the remuneration of the Directors and the Supervisors for the year 2004;
- (iv) To approve the distribution of dividend for the year 2003;
- (v) To approve the convening of 2003 Annual General Meeting of the Company;

C. On 28 May 2004, the Board of Directors signed a written resolution approving the participation in a trust program promoted by Qingdao Hisyn Trust Investment Company Limited.

D. On 28 July 2004, the fourth meeting was convened at the Company's registered office, during which the following resolutions were passed:

- (i) To approve the interim report of the Company for the six months ended 30 June 2004;
- (ii) To recommend neither the distribution of an interim dividend, nor any transfer from the Company's capital reserve into share capital;
- (iii) To approve the "rules on security given by the Company to other entities";
- (iv) To approve the proposal of increasing the budget for marketing of AiFeiLe, a new drug used for treatment of cold;

董事會工作報告 (續)

1. 在本年度內，本公司董事會分別七次通過決議：(續)
 - E. 本公司於二零零四年十月二十日在公司住所召開第五次董事會會議，通過如下決議：
 - (i) 審議通過二零零四年第三季度報告；
 - (ii) 審議通過成立山東新華醫藥貿易有限公司的議案；
 - (iii) 審議通過成立山東新華隆信化工有限公司(暫定名)的議案。
 - F. 本公司於二零零四年十二月三日以書面方式簽署了第六次董事會決議，同意成立山東新華化工設備有限公司(暫定名)的議案；並通過了關於資產收購的關聯交易的議案。
 - G. 本公司於二零零四年十二月二十日在公司住所召開第七次董事會會議，通過如下決議：
 - (i) 同意李士祥因年齡原因辭去董事職務；
 - (ii) 同意馬永因工作變動辭去副總經理職務；
 - (iii) 聘任任福龍為本公司副總經理。
2. 二零零三年度公司股息已於二零零四年八月上旬派發完畢。

董事、監事及高級管理人員簡介

董事、監事及高級管理人員簡介見「**董事、監事、高級管理人員和員工情況**」之「**董事、監事及高級管理人員簡介**」。

Working Report of the Board (continued)

1. During the year, the Board of Directors passed resolutions on seven occasions: (continued)
 - E. On 20 October 2004, the fifth meeting was convened at the Company's registered office, during which the following resolutions were passed:
 - (i) To approve the quarterly report of the Company for the third quarter of 2004;
 - (ii) To approve the proposed establishment of Shandong Xinhua Medical Trade Co., Ltd.;
 - (iii) To approve the proposed establishment of Shandong Xinhua Longxin Chemical Co., Ltd (temporary name).
 - F. On 3 December 2004, the Board of Directors signed written resolutions approving the proposals the establishment of Shandong Xinhua Chemical Equipment Co., Ltd. and a connected transaction in respect of acquisition of assets.
 - G. On 20 December 2004, the seventh meeting was convened at the Company's registered office, during which the following resolutions were passed:
 - (i) To approve the resignation of Mr. Li Shixiang from the position of director due to age reason;
 - (ii) To approve the resignation of Mr. Ma Yong from the position of deputy general manager;
 - (iii) To appoint Mr. Ren Fulong as new deputy general manager.
2. The dividends for 2003 were fully paid at the beginning of August 2004.

Brief Introduction of Directors, Supervisors and Senior Officers

Brief introduction of Directors, Supervisors and Senior Officers are listed in the above section headed “**BRIEF INTRODUCTION OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS**” under the section “**DIRECTORS, SUPERVISORS, SENIOR OFFICERS AND STAFF**”.

董事、監事及高級管理人員在股份中的權益

本公司董事、監事及其他高級管理人員持有根據《證券及期貨條例》第352條規定而記錄於本公司保存的登記冊的股份權益或淡倉，或根據上市規則附錄十中的「上市公司董事進行證券交易的標準規則」須知會本公司及香港聯交所的權益或淡倉見「董事、監事、高級管理人員和員工情況」之「董事、監事及高級管理人員持有本公司股份情況」。

主要股東在股份中的權益

除根據上文「股本變動及股東情況」所披露外，就公司董事、高級管理人員及監事所知悉，於二零零四年十二月三十一日，沒有其他董事、高級管理人員及監事以外的任何人士於本公司股份或相關股份（視情況而定）中擁有根據《證券及期貨條例》第XV部第2和第3分部之規定須向本公司及香港聯交所披露的權益或淡倉，或根據《證券及期貨條例》第336條規定記錄於本公司保存的登記冊的權益或淡倉。

公眾持股

本公司確認於本報告期內及截至發出本報告前的最後可行日期本公司公眾股東持股量滿足有關要求。

董事、監事的酬金

本年度本公司董事、監事的酬金詳情載於按香港普遍採納之會計原則編製帳目附註10。

最高酬金人士

本年度本集團獲最高酬金的前五名人士均為本公司董事。

董事、監事購買股份或債券之權利中取得之利益

本公司、其控股公司及控股公司其他附屬公司概無於本年度內任何時間訂立任何安排，致使本公司之任何董事、監事或其配偶或其未滿十八歲子女通過購入本公司或任何其他公司之股份或債券而獲得利益。

Directors', Supervisors' and Senior Officers' Interests in Shares

The interests or short position in shares of the Directors, the Supervisors and the Senior Officers according to the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules are stated in the above subsection headed **"Directors' and Supervisors' and Senior Officers' Interests in Shares of the Company"** under the section **"DIRECTORS', SUPERVISORS', SENIOR OFFICERS' AND STAFF"**.

Substantial Shareholders' Interests in Shares

Save as disclosed above in "Changes in Share Capital and Shareholder" and so far as the Directors, the Senior Officers and the Supervisors of the Company are aware, as at 31 December 2004, no other person (other than a Director, Senior Officer or Supervisor of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Public Float

The Company has complied with the requirement in respect of the minimum public float during this reporting period and up to the latest practicable date prior to the issue of this report.

Remuneration of Directors and Supervisors

Details of the remuneration of the Company's Directors and Supervisors are set out in note 10 to the Accounts prepared under HKGAPP.

Individuals with the Highest Remuneration

All the five individuals with the highest salaries paid by the Group during the year 2004 were Directors of the Company.

Directors' and Supervisors' Rights to Acquire Shares

At no time during the year was the Company, its holding company or its fellow subsidiaries a party to any arrangements to enable any of the Directors, the Supervisors, or their spouses or children under 18 years of age to take advantage by acquiring shares in, or debentures of, the Company or any other body corporate.

董事、監事之服務合約

所有董事、監事與本公司訂立由二零零二年六月七日開始，為期三年的服務合約。並於同日開始生效。雙方可根據合約條文重訂該服務合約。

現任董事或監事與本公司概無訂立若於一年內作出賠償(法定賠償除外)方可終止之服務合約。

管理合約

本年度內，本公司並無就整體業務或任何重要業務的管理或行政工作簽訂或存有任何合約。

董事與監事之合約中的利益

本公司、其所屬公司、其控股股東或控股公司其他附屬公司之間於本年度年終或年內任何時間，均無就本集團業務簽訂任何董事、監事直接或間接佔有重大利益的合約。

帳目

根據香港普遍採納之會計原則及中國會計準則編製的有關本集團及本公司截至二零零四年十二月三十一日止年度業績和於二零零四年十二月三十一日財務狀況載於「根據香港普遍採納之會計原則編製的賬目」和「按中國會計準則編製之賬目」。

財務摘要

根據香港普遍採納之會計原則編製的本集團於過去五個財政年度及中國會計準則編製的本集團於過去三個財政年度的業績、資產及負債載於「會計數據和業務數據摘要」。

Service Contracts of Directors and Supervisors

Each of the Directors and Supervisors entered into a service contract with the Company for a period of three years which commenced on 7 June 2002. The terms of the service contracts may be renewed by both parties pursuant to the terms thereof.

None of the Directors and the Supervisors have a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' and Supervisors' Interests in Contracts

Neither the Company, its holding company, its controlling shareholder nor fellow subsidiaries have signed any contracts in relation to the Company's business in which any Directors or Supervisors had a material interest, whether directly or indirectly at the end of the year or at any time during the year.

Accounts

The Group's results for the year ended 31 December 2004 and the financial position of the Group and the Company as at 31 December 2004 prepared in accordance with HKGAAP and PRC accounting standards are set out in section headed "**ACCOUNTS PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPALS**" and "**ACCOUNTS PREPARED UNDER PRC ACCOUNTING STANDARDS**".

Financial Summary

A summary of the results, assets and liabilities of the Group prepared in accordance with HKGAAP for the last five financial years and PRC accounting standards for the last three financial years is set out in section headed "**SUMMARY OF FINANCIAL AND OPERATING RESULTS**".

利潤分配

根據中國會計準則編製及香港普遍採納之會計原則編製本集團截至二零零四年十二月三十一日止年度實現虧損分別為人民幣55,608千元、人民幣52,485千元，二零零四年度本集團無利潤分配。董事會建議不派發末期股息。

主要業務及按地區劃分的營業額

本集團本年度按地區分析之營業額載於按香港普遍採納之會計原則編製帳目附註2。

股本變動及股東情況介紹

本公司於本年度內股本變動及股東情況介紹見「股東變動及股東情況」

儲備

本集團及本公司本年度內儲備的變動情況分別載於按香港普遍採納之會計原則編製帳目附註23及按中國會計準則編製帳目附註28及29。

固定資產

本集團及本公司於2004年度固定資產變動情況載於按香港普遍採納之會計原則編製帳目附註12及按中國會計準則編製帳目附註13。

銀行貸款及其他借款

本集團及本公司於二零零四年十二月三十一日的銀行貸款及其他借款情況之詳情載於按香港普遍採納之會計原則編製帳目附註25及中國會計準則編製帳目附註16、24和25。

資本化利息

本年度內本集團無有關在建工程所借貸款的資本化利息。

Profit Appropriation

In accordance with PRC accounting standards and HKGAAP, the Group recorded a loss of RMB55,608,000 and RMB52,485,000 respectively for the year ended 31 December, 2004. The Group has no profit available for distribution. The Board of Directors do not recommend distribution of a final dividend for 2004.

Principal Activities and Geographical Analysis of Operations

The turnover of the Group in various geographical locations is set out in note 2 to the Accounts prepared in accordance with the HKGAAP.

Changes in Share Capital and Shareholders

Changes in share capital and shareholders are set out in the above section headed “CHANGES IN SHARE CAPITAL AND SHAREHOLDERS”

Reserves

Movements in the reserves of the Group and the Company during the year 2004 are set out in note 23 to the Accounts prepared in accordance with the HKGAAP, and notes 28 and 29 to the Accounts prepared in accordance with PRC accounting standards, respectively.

Fixed Assets

Details of the movement in the fixed assets of the Group and the Company during year 2004 are set out in notes 12 to the Accounts prepared in accordance with the HKGAAP, and note 13 to the Accounts prepared in accordance with PRC accounting standards.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2004 are set out in note 25 to the Accounts prepared in accordance with the HKGAAP, and notes 16, 24 and 25 to the Accounts prepared in accordance with the PRC accounting standards.

Interest Capitalised

During the year, no interest was capitalized in respect of loans borrowed by the Group and the Company for financing its construction-in-progress.

職工宿舍

本集團截至二零零四年十二月三十一日止年度內並無出售職工宿舍予本集團員工。但自一九九八年一月一日起，本集團已根據中國政府有關規定，按員工工資5%繳納由山東省淄博市財政局管理的住房公積金，截至二零零四年十二月三十一日止年度本集團共繳納職工住房公積金人民幣3,722千元。

職工基本醫療保險

根據《山東省建立城鎮職工基本醫療保險制度的實施方案》和《淄博市關於建立城鎮職工醫療保險制度的實施方案》等文件要求，本公司已經於2004年12月實行職工基本醫療保險制度。本公司董事認為該制度的實施對本集團的業績及財務狀況不會產生重大影響。

稅收優惠問題

自2004年1月1日起，本公司位於開發區內的經營所得適用稅率為15%，開發區外的經營所得適用稅率為33%，並已在當地稅務部門進行備案。

委託存款問題

截至二零零四年十二月三十一日止年度，本集團沒有於非銀行金融機構的存款及屬於委託性質的存款，也不存在到期不能收回的定期存款。

最佳應用守則

除以下披露外，本公司董事確認本公司於截至二零零四年十二月三十一日止年度已遵守最佳應用守則。最佳應用守則包括當時生效的香港聯交所有限公司「香港聯交所」公佈的證券上市規則（「上市規則」）附錄十四所載的條款。

就2004年12月6日公佈之關聯交易，由於山東天氣惡劣原因，本公司董事會全體人員（包括所有獨立非執行董事）通過傳閱文件的表決方式，通過該關聯交易。

Staff Quarters

The Group did not sell any staff quarters to its employees during the year ended 31 December 2004 but was required to contribute 5% of the basic wages of the Group's staff to the accommodation scheme managed by the Shandong Province Zibo Municipal Finance Bureau in accordance with the relevant regulations implemented by the PRC government authorities since 1 January 1998. For the year ended 31 December 2004, contributions to the accommodation scheme made by the Group in this respect amounted to RMB3,722,000.

Staff Basic Medical Insurance

Pursuant to the Plan for Implementation of Basic Medical Insurance System for Urban Employees promulgated by the Shandong Provincial Government and the Schedule for Establishment of Medical Insurance System for Urban Employees implemented by Zibo Municipal Government, the Company has joined the above-mentioned Medical Insurance System for Urban Employees in December 2004. In the opinion of the Directors, the implementation of such Medical Insurance System for Urban Employees will not have any significant effect on the results and financial position of the Group.

Preferential Tax Treatment

Since 1 January 2004, the operating results of the Company arising from the business conducted in the development zone are subject to PRC enterprise income tax at a rate of 15%, while the business conducted outside the development zone are subject to PRC enterprise income tax at a rate of 33%. The Company has submitted a tax filing to the local tax bureau.

Designated Deposits

For the year ended 31 December 2004, the Group had neither placed any deposits with any non-banking financial institutions, nor had it placed any designated deposits. The Group does not have any overdue time deposits.

Compliance with the Code of Best Practice

Except for the following cases, in the opinion of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") issued by the SEHK during the year ended 31 December 2004.

Due to bad weather in Shandong, all the Directors, including all the independent non-executive directors, resolved to approve the connected transactions as announced on 6 December, 2004 by way of circulation.

審核委員會

根據香港聯交所上市規則，本公司董事會轄下審核委員會於一九九九年七月一日成立，其目前成員包括四名非執行董事（即戴慶駿、肖瑜、莫仲堃及孫華）。

本公司董事會參照香港會計師公會印製的《成立審核委員會指引》，制定了《審核委員會職責範圍》，其中包括審核委員會的職權和責任。

重要事項

2004年度內本公司的重要事項見「**重要事項**」

主要客戶及供應商

本集團五大原料供應商的採購費用及五大客戶的銷售額分別佔本集團於截至二零零四年十二月三十一日止年度總採購額及總銷售額之比重分別為16.18%和12.89%。

購買、出售及贖回本公司之上市股份

截至二零零四年十二月三十一日止年度內本公司並無贖回本公司之上市股份。本公司及其附屬公司於年度內並無購買任何本公司股份。

優先認股權

本公司的公司章程及中國法律並無優先認股權條款。

員工退休金計劃

本集團參加國家管理的社會養老及退休保險基金，並按照當地政府的規定繳納保險費。本集團目前向社會養老及退休保險基金繳納的保險費為所有員工每年工資及獎金總額的23%。當地政府承諾支付所有現在和將來退休員工的退休福利支出。所有向社會養老及退休保險基金繳納的保險費將於損益表內作為開支。於截至二零零四年十二月三十一日止之年度內，本集團繳納的社會養老及退休保險費為人民幣18,678千元。

Audit Committee

Pursuant to the Listing Rules, an audit committee was established on 1 July 1999, and its current members are four non-executive directors, namely Mr. Dai Qingjun, Mr. Xiao Yu, Mr. Stephen Mok and Mr. Sun Hua.

By reference to “A Guide for the Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the Audit committee were prepared and adopted by the Board.

Important Issues

Important issues of the Company for the year 2004 are set out in the section headed “**IMPORTANT ISSUES**”.

Major Customers and Suppliers

The percentages of purchases and sales attributable to the Group's five largest suppliers and five largest customers were 16.18% and 12.89% of the Group's total purchases and total sales, respectively, for the year ended 31 December 2004.

Purchase, Sale and Redemption of the Company's Listed Securities

The Company did not redeem any of its listed shares during the year. Neither the Company nor any of its subsidiaries purchased any of the Company's shares during the year ended 31 December 2004.

Pre-emptive Rights

According to the Company's Articles of Association and the laws of the PRC, there is no provision for pre-emptive rights.

Retirement Scheme Arrangements

The Group participates in the State Social Retirement Scheme (the “Scheme”) and pays the insurance premium in accordance with the particular regulation issued by the local municipal government whereby it is required to make an annual contribution of 23% of the total salaries and bonuses paid to staff. In turn, the local municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. Contributions to the Scheme are charged to the profit and loss account as and when they are incurred. For the year ended 31 December 2004, the total contribution of the Group to the Scheme was RMB18,678,000.

關聯交易

本集團在正常業務範圍內進行之重大有關連人士交易摘要如下：

a.

與最終控股公司的附屬公司

- 銷售製成品及原材料
- 採購原材料
- 租金收入
- 支付勞務及其他服務

With SXP GC's fellow subsidiaries

- Sale of finished goods and raw materials
- Purchase of raw materials
- Rental income
- Payment of labour and other services

二零零四
2004
人民幣千元
RMB'000

二零零三
2003
人民幣千元
RMB'000

28,716	30,769
66,403	62,807
1,506	1,355
2,257	6,900

本公司董事確認上述的交易乃於日常業務過程中進行而上述交易於2003年及2004年度之總額並不超過該有關年度經審核之綜合營業額的12%。本公司獨立非執行董事已經審閱上述關聯交易，並確認該等交易乃本公司在日常業務中按約束該等交易的協議條款訂立而上述交易於2003年及2004年度之總額並不超過該有關年度經審核之綜合營業額的12%。

本公司之審計師已致函本公司董事會列明該等交易已遵守香港聯交所給予有關豁免所規定的條件，有關規定的詳情已載於本公司二零零二年十月十七日刊發之通函中。

- b. 於2004年內，本公司為直接控股公司代墊費用約人民幣21,921,000元（二零零三年：人民幣4,254,000元），而直接控股公司則按本公司的實際成本償付，截至二零零四年十二月三十一日，有關代墊費用的餘額為人民幣13,953,000元（二零零三年：人民幣6,821,000元）。此等款項無抵押、無利息及無指定還款日期。

Connected Transactions

Significant connected transactions, which were carried out in the normal course of the Group's business are as follows:

a.

In the opinion of the Directors, the above transactions were carried out in the ordinary and usual course of the Group's business and the aggregate amount of the above transactions for each of the years 2003 and 2004 did not exceed 12% of the audited consolidated turnover of the Group in the relevant financial year. The independent non-executive directors have reviewed the above connected transactions and are of the opinion that the transactions are in the ordinary course of business of the Group and carried out in accordance with the terms of agreements governing the transactions and that the aggregate amount of the above transactions for each of the years 2003 and 2004 did not exceed 12% of the audited consolidated turnover of the Group in the relevant financial year.

The auditors of the Company have also issued a letter to the Directors in relation to compliance with the conditions prescribed by The Stock Exchange of Hong Kong Limited in granting the waiver to the Company in respect of such transactions which are more particularly set out in the circular issued by the Company on 17 October 2002.

- b. During the year of 2004, the Company paid certain expenses on behalf of its immediate holding company totalling RMB21,921,000 (2003: RMB4,254,000), which were charged back to the immediate holding company on a cost reimbursement basis. As at 31st December 2004, the amount due from the immediate holding company in connection with such transactions amounted to RMB13,953,000 (2003: RMB6,821,000) which is unsecured, interest-free and has no fixed term of repayment.

關聯交易 (續)

- c. 本公司與新華集團於2004年3月26日就向新華集團收購部分土地使用權和物業訂立一項價值人民幣6,210,000元資產轉讓協議。新華集團為本公司的控股股東，持有本公司已發行股份的46.89%，上述土地使用權和物業的收購構成「關聯交易」。

本公司收購的權益包括：

1. 由新華集團擁有的位於淄博市張店區南定張南路面積為4,040.84平方米用作工業生產廠房的物業，價值為人民幣1,851,600元；
2. 由新華集團擁有的位於淄博市張店區南定朝陽路宗地，面積16,254.19平方米，土地使用年限剩餘13.42年，主要是為本公司提供額外的工廠場地。價值為人民幣1,925,100元；及
3. 由新華集團擁有的位於淄博市高新技術開發區東區工業路宗地，面積11,583.6平方米，土地使用年限剩餘26.75年，主要為本公司環保廠房提供場地。價值為人民幣2,434,900元；

該等權益需支付的總價格為人民幣6,210,000元。

本公司董事會及獨立董事認為，上述關聯交易是屬於正常的資產收購，且按照一般商務條款達成的，對於公司的股東而言是公平合理的。

- d. 本公司與山東新華肯孚製藥有限公司（一間由新華集團持有49%權益的中國公司）於2004年12月6日就資產收購簽訂協議。協議涉及的資產包括房屋建築物、機器設備。上述資產已經山東博華有限責任會計師事務所評估，並於2004年12月2日出具博華綜評字[2004]第102號評估報告，評估總價值為人民幣3,301,600元。

Connected Transactions (continued)

- c. The Company entered into a transfer of assets agreement with SXP GC on 26th March 2004 for the acquisition of certain land use rights and property by the Company from SXP GC for a total consideration of RMB6,210,000. As SXP GC is the controlling shareholder of the Company holding approximately 46.89% of the issued share capital of the Company, the acquisition of the aforesaid land use rights and property constitutes a connected transaction for the Company.

The interests acquired by the Company comprise the following:

1. a property of 4,040.48 square metres owned by SXP GC to be used as an industrial production plant, situated at Zhangnan Road, Nanding, Zhangdian District, Zibo City for a consideration of RMB1,851,600;
2. In relation to a piece of land of 16,254.19 square metres in Chaoyang Road, Nanding, Zhangdian District, Zibo City, owned by SXP GC for a remaining term of 13.42 years, which will provide additional factory space to the Company for a consideration of RMB1,925,100; and
3. In relation to a piece of land in Industry Road, Eastern Area of Zibo High-tech Development Zone of 11,583.6 square metres, owned by SXP GC for a remaining term of 26.75 years, which will provide additional space to be used for the building of environmental protection facilities, for a consideration of RMB2,434,900.

The total consideration for the above interests is RMB6,210,000 payable in full.

In the opinion of Directors (including independent directors), the above transaction was carried out in ordinary and usual course of the Group's business and the terms of the transaction was fair and reasonable to the shareholders as a whole.

- d. On 6 December 2004, the Company and Shandong Xinhua Chemferm Pharmaceutical Co., Ltd (a subsidiary in which SXP GC holds 49% of equity interest) entered into an agreement in relation to the acquisition of asset which includes workshop and equipment. The asset was valued at RMB3,301,600 by Shandong Bohua Certified Public Accountant Company Limited on 2 December 2004 in the valuation report numbered Bohua Zong Ping Zi [2004] No 102.

關聯交易 (續)

協議所涉及的資產價格按照評估報告的評估價值確定。

本公司董事會及獨立董事認為，上述關聯交易是屬於日常業務的資產收購，具按照一般商務條款達成的，對於全體的股東而言是公平合理的。

核數師

本公司及本集團本年度按照香港普遍採納之會計原則及中國會計準則編製的帳目已分別由羅兵咸永道會計師事務所(香港執業會計師)和信永中和會計師事務所(中國註冊會計師)審核。

本公司擬於二零零五年召開的本公司二零零四年度周年股東大會上建議續聘羅兵咸永道會計師事務所和信永中和會計師事務所分別為本公司二零零五年度國際和中國核數師。

其他報告事項

- a. 北京信永中和會計師事務所對本公司與關聯方資金往來出具專項說明：

「經審核，截至2004年12月31日，貴公司應收控股股東及其他關聯方資金往來餘額共計人民幣4,378.79萬元，其中，應收控股股東山東新華醫藥集團有限責任公司資金往來餘額為人民幣1,395.27萬元；應收控股股東的子公司資金往來餘額為人民幣2,983.52萬元。」

- b. 獨立董事對本公司累計和當期對外擔保、執行證監發[2003]56號規定情況的專項說明和獨立意見：

Connected Transactions (continued)

The consideration of the asset was agreed by reference to valuation in the valuation report

In the opinion of the Directors (including the independent directors), the above transaction was carried out in the ordinary and usual course of the Group's business and the terms of the transaction was fair and reasonable to the shareholders of the Company as a whole.

Auditors

The accounts of the Company and the Group for the year 2004 prepared in accordance with HKGAAP and PRC accounting standards have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("PricewaterhouseCoopers") and Shine Wing, Certified Public Accountants, PRC ("Shine Wing") respectively.

The Company intends to re-appoint PricewaterhouseCoopers and Shine Wing as international auditors and PRC auditors of the Company for the year ending 31 December 2005, respectively, at the Annual General Meeting for the year 2004.

Other Issues Reported

- a. The special explanation made by the auditors of the Company, Shine Wing (Certified Public Accountants in the PRC), for the cash flow between the Company and other related parties and the Company is as follows:

"As at 31 December 2004, audited accounts receivable from the holding company and other related parties amounted to RMB43,787,900, amongst which the accounts receivable from the holding company, Shandong Xinhua Pharmaceutical Group Company Limited were RMB13,952,700, the accounts receivable from the subsidiaries of such holding company were RMB29,835,200.

- b. The independent directors' special explanation and independent opinions in respect of the security provided by the Company and the execution of the notice Zhengjianfa[2003]No.56 issued by the CSRC are as follows:

董事會報告 (續)

REPORT OF THE BOARD OF DIRECTORS (continued)

其他報告事項 (續)

作為山東新華製藥股份有限公司(「公司」)獨立董事，我們根據《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》的有關規定，在對有關情況進行調查了解，並聽取公司董事會、監事會和經理層有關人員的相關意見的基礎上，就公司累計和當期對外擔保、執行證監發[2003]56號規定情況的專項說明和獨立意見：

1. 公司能夠嚴格遵守相關法律法規的規定，沒有為其他公司、單位或個人提供任何形式擔保。
2. 2004年公司應收控股股東及其他關聯方資金往來餘額共計人民幣43,787.9千元，其中，應收控股股東山東新華醫藥集團有限責任公司資金往來餘額為人民幣13,952.7千元；應收控股股東的子公司資金往來餘額為人民幣29,835.2千元。應收控股公司往來資金餘額將從公司應付國有股現金紅利中抵扣。
3. 公司與其他關聯公司之間發生的資金往來主要為公司在日常經營活動中，向關聯公司銷售副產品、提供動力、勞務及技術服務，以及其他關聯公司向公司提供原材料、勞務等。該等資金往來均按照有關合同條款公平合理地與關聯公司進行結算。
4. 公司不存在將資金直接或間接提供給關聯方使用的情形。

承董事會命
賀端湜
董事長

中國山東淄博
二零零五年三月二十四日

Other Issues Reported (continued)

Being the independent directors of Shandong Xinhua Pharmaceutical Company Limited, we have investigated and reviewed the Company's security and the execution of the notice Zhengjianfa [2003] No.56 issued by the CSRC in accordance with the regulations stipulated in "The Notice on the standardization in respect of Cash Flow between the listed companies and their related parties and guarantee of listed companies" At the same time, we also communicated with the Board of Directors, the Supervisory Committee and the management in respect of the above information. On the basis of the information we have collected, we formulated our opinion as follows:

1. The Company strictly conformed to the relevant laws and regulations and did not provide any security in any forms to any company, entity or individuals.
2. As at 31 December 2004, accounts receivable from the holding company and other related parties amounted to RMB43,787,900, amongst which the accounts receivable from the holding company, Shandong Xinhua Pharmaceutical Group Company Limited were RMB13,952,700, the accounts receivable from the subsidiaries of the holding companies was RMB29,835,200. The amount paid by the Company on behalf of its immediate holding company will be deducted from the dividend payable to the holding company of the Company.
3. The cash flow between the Company and the related parties mainly resulted from the ordinary and usual course of business such as sales of by-products, providing powers, and service in terms of labour and technology by the Company to related parties and the purchase of raw materials and services by the Company from the related parties. Such cash flow between the Company and related parties is settled fairly and reasonably in accordance with the terms and conditions of the relevant agreements.
4. The Company did not provide any direct or indirect means of funds to the related parties.

By order of the Board
He Duanshi
Chairman

Zibo, Shandong, PRC
24 March 2005