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

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

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

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

18 April 2005

Chan Kam Wing, Clement
Practising Certificate number P02038

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

(Expressed in Renminbi thousands)

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

The notes on pages 8 to 29 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004

(Expressed in Renminbi thousands)

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

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2004

(Expressed in Renminbi thousands)

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

The consolidated financial statements were approved and authorised for issue by the board of directors on 18 April 2005.

Director

Director

The notes on pages 8 to 29 form part of these consolidated financial statements.

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

(Expressed in Renminbi thousands)

		Reserves				
	Share capital RMB'000 (Note 17)	**Capital reserve RMB'000**	**Statutory reserve RMB'000** (Note 18)	**Accumulated loss RMB'000**	**Total Reserve RMB'000**	**Total RMB'000**
Balance at 31 December 2002						
- As previously reported	288,149	17,489	40,861	(33,541)	24,809	312,958
- Prior year adjustment (Note 19(i))		-	10,544	(10,544)	-	-
- As restated	288,149	17,489	51,405	(44,085)	24,809	312,958
Net profit for the year	-	-	-	14,345	14,345	14,345
Addition during the year	-	1,402	-	-	1,402	1,402
Income appropriation	-	-	5,635	(5,635)	-	-
Balance at 31 December 2003	288,149	18,891	57,040	(35,375)	40,556	328,705
Balance at 31 December 2003						
- As previously reported	288,149	18,891	40,861	(19,196)	40,556	328,705
- Prior year adjustment (Note 19(i))	-	-	16,179	(16,179)	-	-
- As restated	288,149	18,891	57,040	(35,375)	40,556	328,705
Net profit for the year	-	-	-	19,907	19,907	19,907
Income appropriation	-	-	9,486	(9,486)	-	-
Balance at 31 December 2004	288,149	18,891	66,526	(24,954)	60,463	348,612

The notes on pages 8 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

(Expressed in Renminbi thousands)

	2004	2003 (Restated)
	RMB'000	RMB'000
Operating activities		
Profit before taxation	26,766	19,731
Adjustments for:		
Interest income	(3,928)	(3,429)
Interest expenses	6,524	11,227
Depreciation	26,321	27,775
Gain on disposal of property, plant and equipment	480	(216)
Amortisation of goodwill	3,913	4,391
Goodwill written off	2,155	-
Provision for impairment on revaluation of property, plant and equipment and construction in progress	62	1,850
Share of results of associates	(6,991)	(5,131)
Disposal of subsidiaries	-	2,580
Loss on short term investments	5	-
Provision for impairment in value of other investments	50	-
Cash flow from operations before changes in working capital	55,357	58,778
Decrease/(increase) in inventories	37,343	(33,947)
Decrease/(increase) in accounts receivables and other receivables and amount due from related parties	1,415	(97,703)
(Increase)/decrease in prepayments	(6,171)	2,240
Increase in accounts payable, other payables and accruals receipts in advance and amounts due to related companies	48,032	176,522
Cash generated from operating activities	135,976	105,890
Interest paid	(6,524)	(11,227)
Income taxes paid	(7,418)	(5,602)
Net cash generated from operating activities	**122,034**	**89,061**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2004

(Expressed in Renminbi thousands)

	Notes	2004 RMB'000	2003 (Restated) RMB'000
Investing activities			
Interest received		3,928	3,429
Dividend received		4,168	-
Purchase of property, plant and equipment		(6,008)	(36,602)
Proceeds from disposal of property, plant and equipment		1,542	652
Payment for construction in progress		(10,546)	-
Proceeds on disposal of a subsidiary		-	(4,241)
Proceeds from disposal of associates		-	9,100
Proceeds from disposal of other investments		2	-
Cash outflow on change of status of a consolidated subsidiary to an associate	20	(3,933)	-
Net cash used in investing activities		**(10,847)**	**(27,662)**
Financing activities			
New bank loans raised		119,005	152,337
Repayment of bank loans		(295,000)	(168,152)
Net cash used in financing activities		**(175,995)**	**(15,815)**
Net (decrease)/increase in cash and cash equivalents		**(64,808)**	**45,584**
Cash and cash equivalents, at beginning of year		**145,675**	**100,091**
Cash and cash equivalents, at end of year		**80,867**	**145,675**

The notes on pages 8 to 29 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi thousands)

1. ORGANISATION AND OPERATIONS

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

On 18 February 2004, the Company's former major shareholder, Shenzhen Investment Holding Corporation (? ? ? ? ? ? ? ? ?) and Sinopharm Holdings Co., Ltd. (? ? ? ? ? ? ? ?) (formerly known as Sinopharm Medicine Holding Co., Ltd. (? ? ? ? ? ? ? ? ? ? ? ?)) ("Sinopharm") signed a Share Transfer Agreement whereby the former major shareholder transferred 124,864,740 "A" shares in the Company, representing 43.33% to total registered, issued and paid-up capital of the Company, to Sinopharm. The procedures of share transfer had been completed and Sinopharm became the major shareholder of the Company since December 2004.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation

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

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

(b) Subsidiaries

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

(c) Interests in associates

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

(d) Goodwill

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Other investments

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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

(f) Property, plant and equipment and depreciation

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the consolidated financial statements and any gain or loss resulting from their disposal is included in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

(ii) Depreciation

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

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

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

(g) Construction in progress

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Impairment

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

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded as income.

(i) Inventories

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

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

(j) Trade receivables

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

(k) Cash and cash equivalents

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Operating leases

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

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

(m) Provisions

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

(n) Deferred taxation

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

(o) Financial assets and liabilities

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition

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

(i) In relation to the sale of goods, revenue is recognised upon delivery of goods to customers, and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.

(ii) Interest income is accrued on a time proportion basis on the principal outstanding and at the applicable rate.

(iii) Dividend income is recognised when the right to receive such income by shareholders is confirmed.

(q) Borrowing costs

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

(r) Foreign currency transactions

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Pension obligations

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

(t) Contingencies

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

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

3. SEGMENT INFORMATION

(a) Primary reporting format - business segments

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

(b) Secondary reporting format - geographical segments

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

4. TURNOVER

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

5. OTHER OPERATING REVENUE

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

6. PROFIT FROM OPERATIONS

	2004	2003 (Restated)
	RMB'000	RMB'000
Profit from operations is arrived at after charging/(crediting):-		
Provision for/(write back of) obsolete inventories	3,556	(459)
Amortisation of goodwill	3,913	4,391
Depreciation on property, plant and equipment	26,321	27,775
Gain on disposal of property, plant and equipment	480	(216)
Impairment loss on property, plant and equipment	62	-
Impairment loss on construction in progress	-	1,580
Provision for impairment on other investments	50	-
Provision for bad debts	1,019	1,281
Staff benefit costs	8,829	8,056
Staff costs	117,921	100,701

7. FINANCE COSTS

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

8. TAXATION

(a) Taxation in the consolidated income statement represents:

	2004	2003
		(Restated)
	RMB'000	RMB'000
Income tax		
- the Company and its subsidiaries	6,944	4,984
- associates	585	488
Income tax expense	7,529	5,472

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

(b) Deferred taxation

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

9. EARNINGS PER SHARE

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

10. PROPERTY, PLANT AND EQUIPMENT

	Land use rights and buildings	Machinery and equipment	Motor vehicles	Electronic equipment, office equipment and software	Leasehold improve-ments	2004 Total	2003 Total (Restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January (restated)	120,672	71,425	26,623	41,134	26,471	286,325	257,613
Additions	699	1,313	1,678	1,246	1,072	6,008	37,249
Transfer from construction in progress	-	-	1,178	-	-	1,178	1,175
Disposals	(1,100)	(3,677)	(5,250)	(1,111)	-	(11,138)	(9,712)
Other decrease (Note)	-	-	(654)	(551)	-	(1,205)	-
At 31 December	120,271	69,061	23,575	40,718	27,543	281,168	286,325
Accumulated depreciation and impairment loss:							
At 1 January (restated)	29,129	43,196	14,123	18,942	14,476	119,866	100,093
Charge for the year	6,267	4,017	2,925	6,271	6,841	26,321	27,775
Impairment loss	-	-	-	62	-	62	-
Written back on disposal	-	(3,375)	(3,616)	(1,025)	-	(8,016)	(8,002)
Other decrease (Note)	-	-	(277)	(332)	-	(609)	-
At 31 December	35,396	43,838	13,155	23,918	21,317	137,624	119,866
Net book value:							
At 31 December 2004	84,875	25,223	10,420	16,800	6,226	143,544	
At 31 December 2003 (restated)	91,543	28,229	12,500	22,192	11,995		166,459

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

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

11. CONSTRUCTION IN PROGRESS

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

12. INTEREST IN A SUBSIDARY NOT CONSOLIDATED

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

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

Name of company	Registered capital RMB'000	Percentage of equity interest held by the Company	Principal activity
Shenzhen Medicine Trading Company (? ? ? ? ? ? ? ? ?)	1,880	100%	Ceased operation

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

13. INTERESTS IN ASSOCIATES

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

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

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

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

14. GOODWILL

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

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

15. INVENTORIES

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

16. BANK LOANS

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

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

17. SHARE CAPITAL

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

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

18. RESERVES

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

(a) Statutory surplus fund

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

(b) Statutory public welfare fund

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

(c) Discretionary surplus reserve

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

19. PRIOR YEAR ADJUSTMENTS

(i) In prior years, in the preparation of consolidated financial statements, the Company had not appropriated its annual statutory net profit to statutory reserves in correspondence with its subsidiaries' income appropriation based on its shareholdings. This is not in accordance with relevant regulations of PRC Company Law. The Company had made a prior year adjustment on this aspect, resulting that both accumulated losses and statutory reserves as at 31 December 2002 and 2003 increased by RMB10,544,000 and RMB16,179,000 respectively.

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

20. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

Change of status of a consolidated subsidiary to an associate

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

	RMB'000
Net assets:	
Property, plant and equipment	596
Inventories	10,901
Accounts receivable and other receivables	16,017
Cash and bank balance	3,933
Other loans	(3,505)
Accruals, accounts payable and other payables	(26,950)
Minority interests	(606)
	386
Cash outflow on change of status of a consolidated subsidiary to an associate:	
Cash and bank balance	(3,933)

21. CONTINGENT LIABILIES

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

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

The above guarantees had been released by 28 February 2005.

22. OPERATING LEASE COMMITMENTS

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

	2004 RMB'000	2003 RMB'000
Within one year	18,435	22,610
Over one year but less than 5 years	26,275	43,003
	44,710	65,613

23. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions.

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

Name	**Relationship**
SinoPharm Holdings Co., Ltd. ("SinoPharm") (? ? ? ? ? ? ? ?)	Major shareholder of the Company
Shenzhen Investment Holding Corporation ("SIH") (? ? ? ? ? ? ? ? ? ?)	Former major shareholder of the Company

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

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

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

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

24. FINANCIAL INSTRUMENTS

(a) Interest rate risk

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

(b) Credit risk

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

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

(c) Foreign currency risk

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

(d) Fair value

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

25. SUBSIDIARIES

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

Name of company	Registered capital RMB'000	Effective interest held by the Group	Principal activity
Shenzhen Pharmaceutical Plant (? ? ? ? ? ?)	24,190	100%	Manufacture of raw material for chemical medicine, processing of Chinese patent drugs and medical chemical raw materials
Shenzhen Chinese Medicine General Plant (? ? ? ? ? ? ?)	13,140	100%	Manufacture and trading of oral liquid, tablets and external lotion
Shenzhen Baokang Pharmaceutical Co., Ltd. (? ? ? ? ? ? ? ? ? ? ?)	1,890	100%	Sales of Chinese medical materials, Chinese patent drugs, medical chemical materials, antibiotic preparations
Shenzhen Accord Pharm Materials Company (? ? ? ? ? ? ? ? ?)	4,000	100%	Sales of Chinese patent drugs and western patent drugs
Shenzhen Pharmaceutical Company (? ? ? ? ? ? ?)	1,250	100%	Sales of western medicine, chemical reagent, Chinese medical crop, Chinese patent drug
Shenzhen Accord Pharm Chain Store Co., Ltd. (? ? ? ? ? ? ? ? ? ? ? ? ?)	10,800	100%	Retailing of Chinese patent drugs and western medicine
Shenzhen Medicine Trading Company (? ? ? ? ? ? ? ? ? ?)	500	100%	Wholesale and retailing of Chinese patent drugs and western medicine

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

26. RETIREMENT BENEFIT PLANS

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC Government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefit scheme to make the specified contribution.

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

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

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

Note:

(a) The losses of subsidiaries in excess of the Company's investment costs were directly recorded in shareholders' equity as unrecognised investment losses in A share. In B share, such losses are recognised in the profit and loss account.

(b) At end of 2000 the Company carried out an assets exchange with its former major shareholder in which the Company transferred all of its assets and liabilities to its former major shareholder in exchange for the equity interest in 12 enterprises. The net book value of the assets and liabilities transferred were determined differently by A share and B share due to the adoption of different accounting treatments, resulting in different amounts of goodwill arising on the acquisition of the 12 subsidiaries.

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