Shenzhen Accord Pharmaceutical Co., Ltd.

2005 Annual Report

March 2006

Content

IMPORTANT NOTES

Board of Directors and the Supervisory Committee of Shenzhen Accord Pharmaceutical Co., Ltd. (hereinafter referred to as the Company) and its directors, supervisors and senior executives individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions or errors which would render any statement misleading.

Chairman of the Company Mr. Chen Weigang, General Manager Mr. Shi Jinming and Chief Financial Officer Mr. Wei Pingxiao hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

Independent director Mr. Sui Guangjun did not attend the 11th meeting of the 4th Board for examining Annual Report 2005 but has reviewed materials before the meeting, and entrusted in writing independent director Ms. Chen Shu to present and vote with approval for various proposals.

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

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

CHAPTER I. COMPANY PROFILE

1. Legal Name of the Company
   In Chinese: 深圳一致药业股份有限公司
   In English: Shenzhen Accord Pharmaceutical Co., Ltd.
   Abbr. of English name: Accord Pharm.

2. Legal Representative: Chen Weigang

3. Secretary of the Board of Directors: Chen Changbing
   Contact Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong
   Tel: (86) 755-25875195, 25875410
   Fax: (86) 755-25875410
   E-mail: investor@szaccord.com.cn

4. Registered Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong
   Office Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong
   Post Code: 518029
   Company's Internet Web Site: http://www.szaccord.com.cn
   E-mail: 0028@szaccord.com.cn

5. Newspapers for Disclosing the Information of the Company: Securities Times and Ta Kung Pao
   Internet Web Site for Publishing the Annual Report: http://www.szse.cn
   http://www.cninfo.com.cn
   The Place Where the Interim Report is Prepared and Placed: secretariat of the Board of Directors

6. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock (A-share): Accord Pharm. Stock Code: 000028
   Short Form of the Stock (B-share): Accord Pharm.-B Stock Code: 200028

7. Other Information about the Company

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

(2) Registration date after change: Dec. 24, 2001
   Registration place after changed: Shenzhen, China

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

(4) Registered number of taxation: GS Zi No. 440301192186267
   SDSD Zi No. 440304192186267

(5) Name of the Certified Public Accountants engaged by the Company:
   Domestic: Shanghai Shu Lun Pan Certified Public Accountants & Co., Ltd.
   Address: 5/F, No. 61, Nanjing East Road, Shanghai
   International: Horwath Certified Public Accountants
   Address: Room 2001, Central Plaza, Harbour Road 18, Wan Chai District, Hong Kong

CHAPTER II. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

Section I. Main business data as of the year 2005

1. Major profit indexes

Unit: RMB

Items	**Amount**
Total Profit	41,619,934.83
Net Profit	35,765,331.72
Net profit after deducting non-recurring gains and losses	35,956,065.32
Profit from main operations	370,982,909.93
Other operating profit	23,109,566.19
Operating profit	41,773,874.91
Investment income	－83,885.09
Subsidy income	
Net non-operating income/expenses	-70,054.99
Net cash flow arising from operating activities	148,275,068.00
Net increase in cash and cash equivalents	88,420,748.27

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

Unit: RMB

Items	**Amount**
Gains and losses rising from disposal of long-term equity investment, construction in-progress, fixed assets, intangible assets and other long-term assets	-1,471,198.52
Net non-operating income and cost after deducting withdrawal of depreciation reserve	38,228.04
Switching back withdrawal of various depreciation reserve in previous year	1,244,585.81
Influenced amount by income tax	-2,348.93
Total of non-recurring gains and losses	-190,733.60

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

Unit: RMB’000

	Net profit (2005)	Net assets (Ended as of Dec. 31, 2005)
As reported under Enterprise Accounting System of PRC	35,765	393,721
Adjustment under International Accounting Standards		
Balance of amortization of goodwill rising from purchasing subsidiaries	5,346	-3,627
Unconfirmed investment losses adjustment	-242	
Others	530	-83
As reported under International Accounting Standards	41,399	390,011

[Note] The net profit as of the year 2005 was RMB 41,399,000 as audited by overseas Certified Public Accountants. The main reason for the difference between the results under CAS and IAS is because the different accounting policies were adopted in the treatment of assets replacement over the past years, occurring and amortization of balance of equity investment, and confirmation of investment losses arising from over deficit of subsidiary in the report period.

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

Financial indexes	Unit	2005	2004	Increase /decrease over last year (%)	2003	
					After adjustment	Before adjustment
Income from main operations	RMB	1,635,568,517.10	1,576,085,283.69	3.77	1,729,174,762.27	1,780,873,731.82
Total profit	RMB	41,619,934.83	25,657,456.44	62.21	11,745,225.46	12,233,020.20
Net profit	RMB	35,765,331.72	27,254,148.36	31.23	15,190,725.18	15,190,725.18
Net profit after deducting non-recurring gains and losses	RMB	35,956,065.32	23,700,002.32	51.71	7,969,026.63	7,969,026.63
Total assets	RMB	1,072,448,048.81	846,186,796.73	26.74	984,428,227.33	1,008,326,556.03
Shareholders' equity (excluding minority interests)	RMB	393,721,269.08	358,197,820.37	9.92	338,235,106.36	341,584,149.93
Earnings per share	RMB/share	0.124	0.095	30.53	0.053	0.053
Net assets per share	RMB/share	1.366	1.243	9.9	1.174	1.185
Net assets per share after adjustment	RMB/share	1.342	1.193	12.49	1.092	1.110
Net cash flow per share arising from operating activities	RMB/share	0.515	0.452	13.94	0.236	0.282
Return on equity	%	9.084	7.609	Up 1.475	4.491	4.447
Weighted average return on equity	%	9.510	7.746	Up 1.764	4.456	4.456
Weighted average return on equity after deducting non-recurring gains and losses	%	9.561	6.736	Up 2.825	2.337	2.337

Section III Supplemental statement of profit

Profit in the report period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	94.225	98.645	1.287	1.287
Operating profit	10.610	11.108	0.145	0.145
Net profit	9.084	9.510	0.124	0.124
Net profit after deducting non-recurring gains and losses	9.132	9.561	0.125	0.125

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

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

Items	Share capital	Capital reserve	Surplus public reserve	Statutory public welfare funds	Retained profit	Unrecognized investment losses	Total shareholders' equity
Amount at the period-begin	288,149,400.00	17,741,872.48	57,970,596.76	8,555,270.80	15,553,905.74	-29,773,225.41	358,197,820.37
Increase in the report period			3,932,395.69	1,966,197.84	36,457,061.59	-241,883.01	42,113,772.11
Decrease in the report period			440,749.49	250,980.38	5,898,593.53		6,590,323.40
Amount at the period-end	288,149,400.00	17,741,872.48	61,462,242.96	10,270,488.26	46,112,373.80	-30,015,108.42	393,721,269.08
Reason for change			Note 1	Note 2	Note 3	Note 4	

Note 1& Note 2: Increase in the report period was because the Company and its affiliated company withdrew statuary surplus reserve and statuary welfare reserve according to regulations. Decrease in the report period was because the subsidiary of the Company, Shenzhen Accord Medicines Co., Ltd. reformed as company limited in 2005, and utilized statuary surplus reserve and statuary welfare to distribute profit, so the Company switched out recovering withdrawal of statuary surplus reserve and welfare reserve as of consolidated in previous years into undistributed profit;

Note 3: Increase in the report period was due to the increased net profit of the Company, meanwhile because the subsidiary of the Company, Shenzhen Accord Medicines Co., Ltd. reformed as company limited in 2005, and utilized statuary surplus reserve and statuary welfare to distribute profit, so the Company switched out recovering withdrawal of statuary surplus reserve and welfare reserve as of consolidated in previous years into undistributed profit;

Note 4: Increase in the report period was because Shenzhen Accord Pharmaceutical Franchise Co., Ltd., subsidiary of the Company, has a deficit in 2005.

CHAPTER III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

Section I. Statement of change in share capital (Ended Dec. 31, 2005)

Unit: share

Items	Before the change	Increase/decrease in this time (+, -)						After the change
		Allotment of share	Bonus shares	Capitalization of public reserve	Additional issuance	Others	Sub-total	
I. Unlisted Shares								

1. Sponsors' shares	150,935,400							150,935,400
Including:								
State-owned shares	124,864,740							124,864,740
Domestic legal person's shares	26,070,660							26,070,660
Foreign legal person's shares								
Others								
2. Raised legal person's shares	27,442,800							27,442,800
3. Inner employees' shares								
4. Preference shares or others								
Including:								
Transferred / allotted shares								
Total unlisted shares	178,378,200							178,378,200
II. Listed Shares								
1. RMB ordinary shares	54,885,600							54,885,600
2. Domestically listed foreign shares	54,885,600							54,885,600
3. Overseas listed foreign shares								
4. Others								
Total listed shares	109,771,200							109,771,200
III. Total shares	288,149,400							288,149,400

Section II. Issuance and listing of shares

In 2001, 2002, 2003 and 2004, it occurred no issuance and derived stocks or any changes in total shares and its structure resulted due to allotted share, bonus share, etc. in the Company, nor the Company carried out dividends or bonus shares.

Section III. Particulars about Share Merger Reform

On March 6, 2006, the Company has published the suggestive public notice on Share Merger Reform, and proclaimed scheme on Share Merger Reform on March 13, 2006 and pronounced the adjusted scheme on Share Merger Reform on March 22, 2006. The Company has notified to hold the related shareholders' meeting of A-share market on April 14, 2006.

Section IV. About shareholders

1. Ended Dec. 31, 2005, the Company had totally 31,026 shareholders, including 21,155 shareholders of A-share and 987,1shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders (Ended Dec. 31, 2005)

Shareholders' name	Increase/ Decrease in this	Number of shares held in the year-end	Proportion (%)	Type of share (Circulating/non-circulating)	Number of shares pledged or	Nature of shareholder (State-owned

	year (share)	(share)			frozen (share)	shareholder or foreign shareholder)
SINOPHARM Medicine Holding Co., Ltd.	0	124,864,740	43.33	Non-circulating		State-owned shareholder
Shenzhen Baoan District Shiyan Town Economic and Development Corporation	0	26,070,660	9.05	Non-circulating	16,079,700	Other
Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	0	13,942,800	4.84	Non-circulating	13,846,000	Other
Shenzhen Wangzong Industrial Co., Ltd.	0	5,303,200	1.84	Non-circulating		Other
Nanjing Junyue Investment and Consultation Co., Ltd.	0	5,000,000	1.74	Non-circulating		Other
Wuxi Huaxin Investment Management Co., Ltd.	0	1,396,800	0.48	Non-circulating		Other
Shanghai Shisheng Enterprise Development Co., Ltd.	0	1,000,000	0.35	Non-circulating		Other
Shanghai Huaxia Yifu Investment Co., Ltd.	0	800,000	0.28	Non-circulating		Other
CHEN YONGQUAN	Unknown	509,922	0.17	Circulating		B-share in circulating
FAN HUIQIONG	Unknown	484,900	0.17	Circulating		B-share in circulating
Explanation on associated relationship among the top ten shareholders or consistent actionist		Among the above top ten shareholders, there exists no associated relationship among state-owned shareholder and each shareholders of legal person's share, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies. For other shareholders of circulation share, the Company is unknown their relationship.				

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

16,079,700 shares of the Company held by Shenzhen Bao'an District Shiyan Town Economic and Development Corporation ("Shiyan Company") was frozen because Shiyan Company provided the said shares as mutual guarantee for loan to Shenzhen Bao'an District Investment Holding Corporation in 2000. 13,846,000 shares of the Company held by Shenzhen Bao'an Shangwu Economic and Development Co., Ltd. ("Shangwu Company") was mortgaged and frozen to Industrial and Commercial Bank of China, Longhua Sub-branch; the duration of mortgage from Dec. 21, 2005 to Dec. 20, 2006.

4. The controlling shareholder of the Company

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

Legal representative: Zheng Hong

Date of foundation: Jan. 8, 2003

Registered capital: RMB 1,027,953,725

Nature of economic: state-owned holding company

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

5. Particulars about the actual controller:

Name of the actual controller: China Medicine Group Headquarter

Legal representative: Zheng Hong

Date of foundation: Mar. 1, 1988

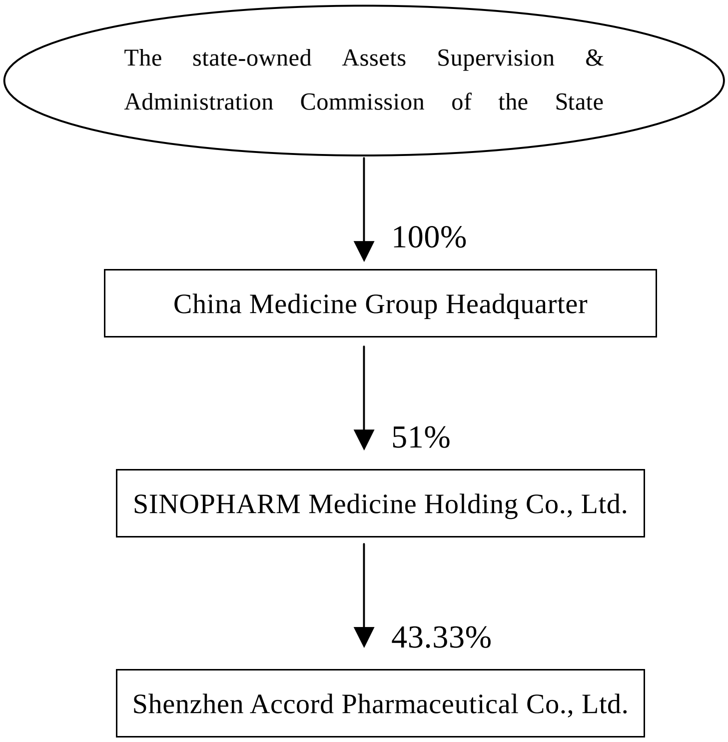
Registered capital: RMB 857,490,000

Nature of economic: state-owned sole company

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

The underling exclusively invested company and controlling subsidiary of China Medicine Group Headquarter includes: China Medicine Industry Co., SINOPHARM Medicine Co., Ltd., China Medicine Foreign Trade Co., China Medical Appliance Co., China Drugs Group, SINOPHARM Medicine Holding Co., Ltd., SINOPHARM Exhibition Co., Ltd., Sichuan Antibiotics Industrial Institute of China Medicine Group Headquarter, Union Engineering Co. of China Medicine Group and SINOPHARM Advertising Co., Ltd..

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



7. In the report period, there existed no change in the controlling shareholder.

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

Shareholders' name (full name)	Number of circulation shares held at the year-end	Type (A-share, B-share, H-share and other)
CHEN YONG QUAN	509,922	B-share
FAN HUI QIONG	484,900	B-share

YAO JIAN PING	341,800	A-share
EVERPOINT INVESTMENTS LIMITED	320,000	B-share
CHEN ZE BING	313,400	B-share
JIANG XIAO MING	309,950	B-share
WU XIN	300,000	A-share
YANG YUAN ZHOU	294,500	B-share
ZHANG YAN DONG	270,000	A-share
NI WEI	210,100	B-share
Explanation on associated relationship among the top ten shareholders of circulation share	Among the top ten shareholders of circulation share, the Company is unknown their relationship.	

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

Section I. Directors, supervisors and senior executives

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

Name	Title	Sex	Age	Office term	Number of shares held at the period-end	Number of shares held at the period-begin
Chen Weigang	Chairman of the Board	Male	47	Jan. 13, 2005 – Sep. 28, 2007	0	0
Wu Ai'ming	Director	Male	36	Jan. 13, 2005 – Sep. 28, 2007	0	0
Zuo Jie	Director	Male	34	Jan. 13, 2005 – Sep. 28, 2007	0	0
Shi Jinming	Director, General Manager	Male	38	Jan. 13, 2005 – Sep. 28, 2007	0	0
Yin Jumin	Director	Male	57	Sep. 28, 2004 – Sep. 28, 2007	0	0
Zou Jun	Director	Male	34	Sep. 28, 2004 – Sep. 28, 2007	0	0
Chen Shu	Independent Director	Female	51	Sep. 28, 2004 – Sep. 28, 2007	0	0
Sui Guangjun	Independent Director	Male	44	Sep. 28, 2004 – Sep. 28, 2007	0	0
Peng Juan	Independent Director	Female	41	Sep. 28, 2004 – Sep. 28, 2007	0	0
Zhu Dixin	Convener of the supervisory Committee	Male	58	Jan. 13, 2005 – Jan. 13, 2008	0	0
Shen Tianfang	Supervisor	Male	56	Jan. 13, 2005 – Jan. 13, 2008	0	0
Zhao Junpeng	Supervisor	Male	37	Jan. 13, 2005 – Jan. 13, 2008	0	0

Ou Jianneng	Deputy General Manager	Male	47	Jan. 13, 2005 – Sep. 28, 2007	0	0
Tian Guoshu	Deputy General Manager	Male	51	Jan. 13, 2005 – Sep. 28, 2007	0	0
Yan Zhigang	Deputy General Manager	Male	46	Jan. 13, 2005 – Sep. 28, 2007	0	0
Lin Xinyang	Deputy General Manager	Male	41	Jan. 13, 2005 – Sep. 28, 2007	0	0
Wei Pingxiao	Financial chief supervisor	Male	42	Dec. 7, 2004 – Sep. 28, 2007	0	0
Chen Changbing	Secretary of the Board of Directors	Male	38	Sep. 28, 2004 – Sep. 28, 2007	0	0

2. Particulars about the position held by directors and supervisors in Shareholding Company

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

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

(1) Member of the Board of Directors

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

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

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

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

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

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

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

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

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

2. Members of supervisors:

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

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

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

3. Senior executives:

Director and General Manager——Mr. Shi Jinming Referring to the aforesaid introduction of members of directors for details.

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

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

Deputy General Manager——Mr. Yan Zhigang, MBA, chief chemist, took the turns of technician, section chief of QC department, deputy GM and manager, etc. of Guizhou Medicine Company from

Jul. 1983; held the position of plant manager of Shenzhen Medicinal Oil Plant, duputy GM of Shenzhen Medicine Company, deputy GM of Shenzhen Accord Pharmacy Franchise Company from Jun. 1996; from Feb. 2000 took the post of plant manager of Shenhzhen Pharmaceutical Factory; took the post of deputy GM of the Company from Jan. 2005.

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

Chief Financial Office——Mr. Wei Xiaoping, MBA, a China accountant, took the turns of Financial department of State-owned Beijing Electronic Tube Plant, Modern Electronic Shenzhen Industrial Company, China Electronic Industrial Headquarter from Aug. 1985; and took the turns of deputy section chief of financial department of China Electronic Information Industry Group, financial director of AMOI, section chief of planning financial department of China Electronic Finance Leasing Company,

Deputy GM of AMOI Beijing branch, financial charger of AMOI and director of its subsidiary from Apr. 1993; and hold the post of financial general supervisor of the Company.

Secretary of the Board——Mr. Chen Changbing, double bachelor degree and master degree, China economist, ever took the post of Zhuhai Guangli Industrial Co., Ltd., took the post of minister of designing department and vice plant manager, etc.; from 1999 took the post of deputy office director of Shenzhen Medicine Produce and Supply Headquarter; the post of secretary of the Board of the Company from Dec. 2000; and took the post of secretary of the 4th Board of the Company from Sep. 2004.

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

Name	**Position/part-time job**	**Relationship with the Company**	**Office duty**
Chen Weigang	China National Pharmaceutical Group Co.	Holding shareholder of SINOPHARM Holding	Deputy GM
	SINOPHARM Medicine Holding Shanghai Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Medicine Holding Guangzhou Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Medicine Holding Shenyang Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Medicine Holding Guoda Pharmacy Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Medicine Holding Liuzhou Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Medicine Holding Hubei Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	SINOPHARM Medicine Holding Shanxi Co., Ltd.	Subsidiary of holding shareholder	Legal representative

	SINOPHARM Group Chemicals Co. Ltd.	Subsidiary of holding shareholder	Legal representative
	Shanghai SINOPHARM Logistics Co. Ltd.	Subsidiary of holding shareholder	Legal representative
	Beijing Huahong of SINOPHARM Co., Ltd.	Subsidiary of holding shareholder	Legal representative
Shi Jinming	SINOPHARM Medicine Holding Guangzhou Co., Ltd.	Subsidiary of holding shareholder	GM
Ou Jianneng	Shenzhen Accord Pharmacy Franchise Co., Ltd.	Subsidiary of the Company	Chairman of the Board
Yan Zhigang	Shenzhen Pharmaceutical Factory	Subsidiary of the Company	Factory manager
Sui Guangjun	Guangdong Foreign Trade & Language University	No relation	Vice president
Chen Shu	Guangdong Lawyers' Association	No relation	Chief secretary
Peng Juan	Management Institute of Shanghai Jiaotong University	No relation	Deputy dean of department

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

Order	Name	Remunerations (RMB'0000)
1	CHEN WEI GANG	Drawing no remuneration from the Company
2	WU AI MING	Drawing no remuneration from the Company
3	ZUO JIE	Drawing no remuneration from the Company
4	SHI JIN MING	40
5	YIN JU MIN	Drawing no remuneration from the Company
6	ZOU JUN	Drawing no remuneration from the Company
7	CHEN SHU	Drawing allowance for independent director amounting to RMB 60,000
8	SUI GUANG JUN	Drawing allowance for independent director amounting to RMB 60,000
9	PENG JUAN	Drawing allowance for independent director amounting to RMB 60,000
10	ZHU DI XIN	24
11	SHEN TIAN FANG	21
12	ZHAO JUN PENG	Drawing no remuneration from the Company
13	OU JIAN NENG	30
14	TAN JIAN SHU	30
15	YAN ZHI GANG	30

16	LIN YANG XIN	30
17	WEI XIAO PING	30
Total		253

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

(1) On Jan.13, 2005, the 1st 2005 Extraordinary Shareholders' General Meeting of the Company additionally elected Mr. Chen Weigang, Mr. Wu Ai'min and Mr. Zuojie directors of the 4th Board of Directors, the resolution of the Meeting has been published on Securities Times and Ta Kung Pao dated Jan. 14, 2005.

(2) On Jan. 13, 2005, the 1st 2005 Extraordinary Shareholders' General Meeting of the Company carried out election at a expiration of office term for the Supervisory Committee, and elected Mr. Zhu Dixin, Mr. Zhao Junpeng and Mr. Shen Tianfang supervisors of the 4th Supervisory Committee, the resolution of the meeting has been published on Securities Times and Ta Kung Pao dated Jan.14, 2005.

(3) On Jan. 13, 2005, the 5th meeting of the 4th Board of Directors elected Mr. Chen Weigang Chairman of the Board of the Company. The 1st Meeting of the 4th Board elected Mr. Zhu Dixin Convener of the Supervisory Committee. The resolution of the meeting has been published on Securities Times and Ta Kung Pao dated Jan. 14, 2005.

Section II. Number of employees and professional quality

At end of the year 2005, the Company had totally 2,636 on-the-job employees.

Profession/occupation composition		
Profession	Number	Proportion (%)
Production personnel	463	17.56
Salespersons	1490	56.53
Technicians	102	3.87
Financial personnel	92	3.49
Administrative personnel and others	489	18.55
Total	2636	100

Education Background		
Education	Number	Proportion (%)
Master degree or above	29	1.10
Bachelor degree	339	12.86
3-years regular college graduate	621	23.56
Polytechnic school graduate	948	35.96
Senior high school graduate or below	699	26.52
Total	2636	100

At the end of the report period, the Company had totally 237 retirees, whose pensions were born by Shenzhen Municipal Social Insurance Bureau. The Company took on the expenses of 103 employees who retired early.

CHAPTER V ADMINISTRATIVE STRUCTURE

Section I. Company Administration

According to the requirements of the laws and regulations including Company Law, Administration

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

1. Shareholders and Shareholders’ General Meeting: The Company operated in a standardized way, safeguards rights and interests of all shareholders especially those medium and small shareholders, and ensured they all fully implement their own rights; The Company established the Rules of Procedures of the Shareholders’ General Meeting, called and held shareholders’ general meeting strictly according to the rules for shareholders’ general meeting.

2. Relationship between the controlling shareholder and the listed Company: The controlling shareholder performed their duties in a standardized way and never overstepped the Shareholders’ General Meeting to interfere in the Company’s decision-making and operation directly and indirectly; The Company pursued the “five separations” in personnel, assets, finance, organization and business from its controlling shareholder, and its Board of Directors, Supervisory Committee and internal organs operated independently.

3. Directors and the Board of Directors: The election and engaging procedures of director was regulated in the Articles of Association of the Company, and adopted the accumulative voting system. The Company elected directors strictly according to the election and engaging procedures stipulated in the Articles of Association; All directors attended the Board meeting and the shareholders’ general meeting diligently and responsibly and strictly implemented duties of directors of listed companies. The Company established Rules of Procedures of Board of Directors; routine meeting of the Board of Directors and decision-making work

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

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

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

7. Information Disclosure: The Company authorized the secretary of the Board to take charge of information disclosing, receiving visits and inquiries of the shareholders. The Company could strictly disclose the relevant information in a real, accurate, complete and timely way according to the law, regulations and the Articles of Association, and Management System of Information

Disclosure in order to ensure all the shareholders have equal opportunity to obtain the information; in the report period, the Company established Office Procedure on Investor Investment Relationship so as to enhance benign interaction between senior executives and investors of the Company.

Section II. Performance of the Independent Directors

The Company has engaged 3 independent directors, taking up one third of the total members of directors in accordance with the regulation of Guideline on Establishing Independent Director System in Listed Companies. During the report period, they could attended the Board Meeting and the Shareholders' general meeting according to requirement, independent directors guided the daily operating, legal affairs and financing management of the Company; actively make their suggestion and opinion under the full understanding situation on the significant related transactions, current related transactions, engagement of CPAs and Share Merger Reform, etc; performed their relevant duties.

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

1. In respect of business: The Company is completely independent from the controlling shareholder in business, the Company has independent and integrated business system, and autonomous operation capacity; The Company owned independent purchase and sales system. The purchasing center, subsidiaries and production enterprises are responsible for purchasing all medicine, appliance and raw resources used in production and distributing products. Production, supply and distribution departments and R&D are separate from each other. The Company was independent legal person facing the market.

2. In respect of personnel:

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

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

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

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

4. In term of finance:

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

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

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

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

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

According to requirements of establishing modern enterprise system, the Company has established a fair and transparent procedure and system of engaging for senior executives so as confirm the rights and obligations of senior executive. The Company implemented the performance checking system by the month from the year 2005, and carried out the level checking system for the senior executives, whose results were directly related to their benefit wages. According to the Articles of Association, Rules of Procedures of Board of Directors and Rules of Procedures of Supervisory Committee, the Board and Supervisory Committee carried through the process supervision on the routine performance for senior executives; the Company is establishing the relevant encouragement and binding mechanism gradually in order to further exert the enthusiasm and creativity of senior executives, urge the senior executives to perform the obligations of being honest and diligent.

CHAPTER VI PARTICULARS ABOUT THE SHAREHOLDER'S GENERAL MEETING

In the report period, the Company held three Shareholders' General Meetings:

I. The first Extraordinary Shareholder's General Meeting of 2005

The first Extraordinary Shareholder's General Meeting was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on Jan. 13, 2005. The relevant notice was published on Securities Times and Ta Kung Pao dated Jan.14, 2005.

II. The 2004 Annual Shareholders' General Meeting

The 2004 Annual Shareholders' General Meeting was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on May 27, 2005. The relevant notice was published on Securities Times and Ta Kung Pao dated May 28, 2005.

I. The 2nd Extraordinary Shareholder's General Meeting of 2005

The 2nd Extraordinary Shareholder's General Meeting was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on Dec.20, 2005. The relevant notice was published on Securities Times and Ta Kung Pao dated Dec.21, 2005.

CHAPTER VII REPORT OF THE BOARD OF DIRECTORS

Section I. General operation of the Company in the report period

In 2005, it is the first year of substantive operation for State-controlling into the Company. Taking around the ideas of "Taking care of the life, protecting the health" and the policies of "Persisting in the quality management, striving for one famous enterprise"; building integrated operation platform with conformity of the administrative structure and property reorganization of the Company; optimizing unceasingly the business flow and interior controlling system; strengthening the control in the expenses; transforming the management ideas; and promoting the operation quality of the Company. Under the environment of drop of profit-gaining in medicine, three businesses of the Company still kept fast development and completed the management target the Company preplanned.

In the aspect of pharmaceuticals wholesaling, the Company integrated the internal resources, adjusted the organization structure, strengthened credit administration to realize effective sales, optimized the supply chain system of "Purchase-Flow-Sale", realized advantageous supplements in type and sales network of large shareholder Sinopharm Medicine Holding Co., Ltd with new structures and business operation of the Company; and stabilized Medicine top one in the Shenzhen Market.

In the aspect of manufacturing pharmaceuticals industry, with the influence of policy dropping in the price of antibiotic drugs, the Company adjusted timely the marketing strategies, promoted unceasingly the sales scale and market shares; meanwhile, emphasized the development and sales scales of antibiotic products, expanded positively the marketing network, and the management achievements were upgraded.

In the aspect of pharmaceuticals retailing, Accord Chain was in ultra-saturated retail sales terminal market and keen competition environment. On the one hand, the Company adjusted the type structures; on the other hand, continued to develop the medicine chain networks in Pearl Delta; enhanced the market coverage; took actively the measures like promotion activities, enhancement of service level, taking in special counter products; researching for new growth of profits and obtained obvious economic results and market effects.

Section II. Operation Result and main business of the Company

I. The scope of main operations was R&D and production of pharmaceuticals, wholesales and chain retails of Chinese and western patent medicine, Chinese traditional medicine, biological products, bio-chemical medicine, health care products and medical apparatus and instruments, of which wholesale and retailing of pharmaceuticals mainly were selling pharmaceuticals produced in factories home and aboard. The sale types reached over 10,000 and sales market mainly were Shenzhen municipality and adjacent areas.

II. Formation of income from main operations

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

Unit: RMB’0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Medical industry	50,787.09	24,886.55	51.00	11.32	19.55%	-3.37
Medical wholesale	169,199.65	162,430.54	4.00	2.06	2.53%	-0.44
Medical retail	22,126.98	17,524.66	20.80	-4.06	-2.81%	-1.02
Less: Counteracting between internal industries	78,556.86	78,599.42	-	-	-	-
Total	163,556.85	126,242.33	22.81	3.77	4.95	-0.87
Including: related transactions	11,278.08	5,455.84	51.62	223.48	211.49	1.86
Note: 1. The price of related transactions were on the basis of market price. 2. Combining the Jan. to Oct. sales of Chinese and Western Medicine Industry in 2004, excluding 2005; influence the sales income of decreasing of RMB67, 943,000; combining the Jan. to Dec. sales of Chinese and Western Medicine Industry in 2004, combining the Jan. to July sales of Chinese Medicine Factory in 2005, influence the sales income of decreasing RMB21,991,120; if excluding the reason of consolidating sheet and calculated on calibration, 2004 actual income of the Company amounted to RMB1,486,151,100 .RMB149,417,400 increased in the report period compared to the last period, and the ratio of increasing was 10.05%.						
Main operations classified according to products						

Isedyl cough syrup	24,299.84	4,632.63	80.94	49.74	38.10	1.61%
Cef- series products	22,865.11	18,509.95	19.05	-3.34	26.38	-19.03%
Jian Er Qing Jie Ye	1,795.87	623.09	65.30	-35.75	-49.16	9.15%
Including the related transaction (Isedyl contained)	7,350.14	1,637.97	77.72	118.70	97.97	2.34%
Pricing principle	Market price adopted					
Necessity and durative of related transactions	1. Related transactions of the Company, with making profit as objective, transacted fairly based on market price, accorded with market economy principles. 2. Related transactions took small part of the total sales amount, which didn't impact the Company severely. 3. To enlarge market share and decrease costs, relevant related transactions of the Company would be necessary and durative.					

Note: In the report period, the amount in the related transaction for the Company to sell the products and provide labor forces to the controlling shareholders and its subsidiaries amounted to RMB 112,780,800.

2. Income from main operations classified according to areas

Unit: RMB'0000

Item	Income from main operations	Cost of main operations
Domestic sales	163,195.80	4.61%
Oversea sales	361.06	-77.48%

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

3. Major suppliers and customers

Unit: RMB'0000

Total amount of purchase of the top five suppliers	20,339.74	Proportion in the total amount of purchase	13.24%
Total amount of sales of the top five sales customers	23,108.29	Proportion in the total amount of sales	14.13%

III. Constitution of the assets for the Company in the report period (Unit'0000)

Item	Dec.31, 2005		Dec.31, 2004		Increasing ratio in the total assets
	Amount	Proportion in the total assets (%)	Amount	Proportion in the total assets (%)	
Total assets	107,245	100	84,619	100	
Monetary fund	16,929	15.79	8,087	9.56	6.23
Accounts receivable	34,337	32.02	31,262	36.94	-4.93
Inventories	20,969	19.55	16,248	19.20	0.35
Long-term equity investments	7,625	7.11	5,713	6.75	0.36
Net fixed assets	11,686	10.9	13,668	16.15	-5.26

Construction in progress	8,125	7.58	4,096	4.84	2.74
Other long-term assets	206	0.19	705	0.83	-0.64
Short-term loans	1,000	0.93	1,050	1.24	-0.31
Notes payable	4,185	3.90	1,243	1.47	2.43
Accounts payable	33,434	31.17	26,855	31.74	-0.56
Advance receivable	2,580	2.41	1,941	2.29	0.11
Taxation payable	590	0.55	635	0.75	-0.20
Other payables	19,667	18.34	14,570	17.22	1.12

Reasons for changing compared to last year:

1. Accounts receivable: the main reason was adding of the sales scale comparing to last period and the non-expired loans.
2. Inventories: the reason was that the outputs and sales of Pharmaceutical Manufacturing of the Company increased fast, and the raw material and finished products correspondingly increase, even adding the inventories in January influenced by the spring.
3. Long-term equity investments: the main reason was the increasing in the investment incomes of the shares and associated enterprises in the report period.
4. Notes payable: the reason was promotion of the use of bank notes and settling in notes with part of agreement suppliers.
5. Accounts payable: the reason was the increasing of production sales and enlarging of Spring Festival preparation of goods in the year-end, and causing the increasing of the amount of buying on tally.

IV. Changes on operating expenses, Administrative expenses, financial expenses and income tax

Unit: RMB’0000

Item	2005	2004	Increase/decrease ratio(%)	Reason for changing
Operating expenses	24,832	29,461	-15.71	Classified calibration in the report period changed due to the adjustment of administrative structure of the Company; thus, the operation and administrative expenses changed a lot. However, the two expenses decreased RMB10, 500,000 compared to last period. RMB24,940,000 decreased in the expenses of AD exhibition due to the reducing in advertisements and sales promotion; RMB3,660,000 decreased in expenses of commodity wastage due to the strengthening of the management of inventories ; RMB3,100,000 decreased in the expenses of operating due to the controlling in expenses;RMB8,230,000 increased in labor cost due to increasing of personnel, RMB5,450,000increased in the R&D of Pharmaceutical products.
Administrative expenses	10,563	6,985	51.22	
Financial expenses	-164	324	-150.62	No interest expenses of the bank loans in the report period

Investment incomes	-8	-23	65.22	Increasing of the investment income of participating and associated enterprises, and decreasing of the amortization of the share investment balance
Non-operating incomes	33	91	-63.87	Mainly influenced by the decreasing of clearing net incomes of fixed assets and penalty earnings in the report period compared to last period.
Non-operating expenses	40	182	-78.02	Mainly influenced by the decreasing of clearing loss of fixed assets and penalty expenses in the report period compared to last period.
Income tax	610	694	-12.10	Mainly influenced by decreasing half of 2005 income tax of the Pharmaceutical Manufactures

V. Changes on the financial data for the cash flow of the Company in the report period

Unit: RMB

Item and reasons for changes compared to last period	2005	2004	Increase/decrease (%)
Cash flow arising from the operating activities			
Subtotal of cash inflow	1,883,720,276.60	1,913,863,820.07	-1.58
Subtotal of cash outflow	1,735,445,208.60	1,783,568,813.92	-2.70
Net cash flow arising from operating activities	148,275,068.00	130,295,006.15	13.80
Cash flow arising from investing activities			
Subtotal of cash inflow	5,099,094.23	5,991,027.68	-14.89
Subtotal of cash outflow	88,448,075.60	18,114,944.28	388.26
Net cash flow arising from investing activities	-83,348,981.37	-12,123,916.60	587.48
Cash flow arising from financing activities			
Subtotal of cash inflow	36,302,800	119,004,500.00	-69.49
Subtotal of cash outflow	12,808,138.36	301,983,250.39	-95.76
Net cash flow arising from financing activities	23,494,661.64	-182,978,750.39	-112.84

Explanations:

1. The reason for the decreasing of operating cash flow was that the cash receiving from the sales of commodities increased RMB 30, 264,500 compared to same period; the cash receiving from other operating activities decreased RMB 52,798,900; the return of tax received decreased RMB 7, 609,100.

2. The reason for the decreasing of operation cash flow was that the cash for purchasing of commodities increased RMB 64, 308,300; the cash for other operating activities decreased RMB 100, 972,200.

3. The reason for the decreasing of cash inflow arising from investing activities was that cash receiving from the withdrawal of investment from the disposal of shares of Shenzhen Jian’an increased RMB 2,233,200; the cash from obtaining from investing income decreased RMB

1,498,800; cash from the disposal of fixed assets decreased RMB 1,626,300.
4. The reason for the increasing of cash outflow arising from investing activities was that the investment on fixed assts increased RMB 36, 438,300; January to July cash flow sheet of Shenzhen Traditional Chinese Pharmaceutical Factory was brought into the scope of consolidation, and the balance of cash and cash equivalents at the end July of the report period amounting to RMB 38, 482,700 was listed in the expenses arising from other investing activities.
5. The reason for the decreasing of cash inflow arising from financing activities was that the bank loans received decreased RMB 1, 090,045,00;the cash receiving from the withdrawal of investment due to the transforming of Shenzhen Traditional Chinese Pharmaceutical Factory of the Company.
6. The reason for the decreasing of the cash flow arising from the financing activities was that the cash of expenses for returning the bank loan decreased RMB 282, 607,000; and the cash of expenses for repaying the interests decreased RMB 6,568,200.
In the report period, net profits of the Company amounted to RMB 35, 765,300; net cash flow arising from the operating activities decreased RMB 148, 275,100. There existed great differences between the net profits and net cash flow arising from the operation activities, and the reasons were as follows:
(1) In the report period, the expenses for amortizations which were reckoned in losses and gains but not concerning the cash flow (Preparation for asset devaluation, Depreciation of fixed assets, and Amortization of long-term expenses to be apportioned, Amortization of intangible assets) made the differences amounted to RMB 29,980,000 between them.
(2) In the report period, the amounts of changing on the operation receivable concerning the cash flow but not-reckoned in losses and gains, items receivable, increase and decrease of inventory made the differences amounted to RMB 81,070,000 between them.
VI. Operation and business analysis to the main holding companies and participating companies of the Company
1. Shenzhen Pharmaceutical Plant: wholly-owned subsidiary of the Company. Its registered capital was amounting to RMB 24.19 million, and it deals with the manufacturing of the original chemical medicine, processing with the traditional medicine, the R&D and management of chemical raw material of medicine. It mainly produced respiratory medicines; and has main products such as isedyl cough syrup and Cefuroxime Sodium, etc. ended Dec.31, 2005, the total assets of the Company realized amounted to RMB 442.87 million, income from main operation in 2005 amounted to RMB 487.49 million, profit from main operation amounted to RMB 241.29 million and net profit amounted to RMB 660.9 million.
2. Shenzhen Accord Pharm Chain Store Co., Ltd.: wholly-owned subsidiary of the Company. Its registered capital was amounting to RMB 10.8 million, and it deals with the retailed sales of the traditional medicine, western medicine and medical equipments. ended Dec.31,2005, the total assets of the Company realized amounted to RMB 52.3 million, income from main operation in 2005 amounted to RMB 221.27 million, profit from main operation amounted to RMB 45.76 million and net profit amounted to RMB -240,000. The losses of the company reduced gradually due to adjust positively the type structure and strengthen to controlling the expenses according to the demand of market.
3. Sinopharm Medicine Holding Shenzhen Traditional Medicine Co., Ltd.: Its registered capital was amounting to RMB 50million, 47.39% shares were held by the Company. It deals with the production and sales of pieces, lotion, troche, capsule, the oral and compound, and the hygienic products (antibacterial lotion).
ended Dec.31,2005, the total assets of the Company realized amounted to RMB67.59 million,

income from main operation in 2005 amounted to RMB 55.78 million, profit from main operation amounted to RMB 29.87 million and net profit amounted to RMB980,000.

4. Shenzhen Main Luck Pharmaceutical Inc.: Its registered capital was amounting to USD 5million, 35.19% shares were held by the Company. It deals with the development, research, production and management of anti-cancer drugs, Famotidine Injection and anti-viral injection. ended Dec.31,2005, the total assets of the Company realized amounted to RMB 148.85 million, income from main operation in 2005 amounted to RMB 214.86 million, profit from main operation amounted to RMB 140.25 million and net profit amounted to RMB 20.69 million.

Section III. The Prospect for the future of the Company

Looking at the overall development tendency in the medicine industry of the Company, in 2006 the Company will continue to face high speed of development of medical economy but more keen competition. It will cause the medicine market to concentrate, the polarization of medicine further appear, meanwhile, it will be helpful to the fast development of region economy and clarified of top one in regional medicine. Although the market price of drug kept slowly, the policy-based dropping of price continued and influenced the profit-gaining level; it also provided new chances for enterprises with scale superiority, the management superiority and the cost superiority.

Along with the undertaking of 2005 significant property reorganization, under the great support of the major stockholder Sinopharm Medicine Holding Co., Ltd., and the Company double expanded the scales of assets and sales; the Company developed into one trans-regional comprehensive medicine manufacturer from one regional enterprise. All these promoted the status of the Company in medicine over the Guangdong Province and even the entire south China, comprehensively enhanced the core competitive forces and brand competitive advantages in south China and realized new development.

Faced with the unprecedented opportunity and the challenge, the company will comprehensively integrate the high quality and resources of the companies, optimize the organization structure and management pattern, share the effective resources, promote management quality, reduce the operation cost, gain scale benefit, develop the Company into one large-scale medicine enterprise with medicine manufacturing, drugs distribution and retail chain, promote the market share and controlling, improve the status in the medicine industry and regional core competition, form the south China network with the leading position of Shenzhen Accord, and exert to realize the goal of “The first medicine brand of South China”

Section IV. Market operation environment and macro policy, influences of the Company caused by laws and regulations

1. The national policy-based dropping of price influenced the medicine industry. The implementation of Purchasing System of Drug Bidding proposed higher requests for the purchasing of drugs and allocated services and influenced the gross ration of the sales of the Company.

2. The market structure of medicine changed a lot; the traditional advantages of the Company were stricken by many new comers and the management pressure gradually increased. The retail stores in Shenzhen turned to be in saturated condition and the retail market of drugs became intense.

3. Along with the continuously good condition of national economy, the per capital medicine-using level improved; the transform in national medicine system made the price of medicine dropped continually and further stimulate the growth of consumption market of drugs. China carried on the System of “New countryside” to bring in new chances for the Company’s development into the suburbs and countryside which provided good environment for the business of the Company.

Section V. Investment and application of raised proceeds

1. Investment

(1) In August 2005, Share Merger Reform was conducted in former wholly-owned subsidiary of the Company, Shenzhen Traditional Factory, of which 47.39% shares were held by Shenzhen Accord and 52.61% shares were held by Sino Pharm Medicine Holding Co., Ltd. The registered capital was amounting to RMB 50 million.

(2) Project of Medicine R& D Base established through self-financed by the Company costing for this project amounted to RMB 40,267,700 in the report period and totaled 49,267,700 and accounting for 21% ended the report period, the said project has not been accomplished yet ended the report period.

2. Application of raised proceeds

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

Section VI. Routine work of the Board of Directors

In the year 2005, the Board of the Company held the Meetings and made the resolutions with details as follows:

(1) On Jan. 13, 2005, the 5th meeting of the 4th Board of Directors of the Company was held. The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Jan. 14, 2005.

(2) On April 18, 2005, the 6th meeting of the 4th Board of Directors of the Company was held. The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Apr. 20, 2005.

(3) On April 25, 2005, 7th meeting of the 4th Board of Directors of the Company was held by means of communications. The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Apr. 20, 2005.

(4) On June 21, 2005, 8th meeting of the 4th Board of Directors of the Company was held. The resolution of the meeting was published on Securities Times and Ta Kung Pao dated June 23, 2005.

(5) On Aug. 3, 2005, 9th meeting of the 4th Board of Directors of the Company was held by means of communications. The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Aug. 5, 2005.

(6) On Oct. 26, 2005, 10h meeting of the 4th Board of Directors of the Company was held by means of communications. The resolution of the meeting was published on Securities Times and Ta Kung Pao dated Oct. 28, 2005.

Section VII. 2005 Profit Distribution Plan and Converting Capital Reserve into Share Capital

According to the provisions in Letter on How to Confirm Profit Distribution Standard for Enterprises Issuing B Shares During Dividends Distribution released by China Securities Regulatory Commission with ZJHZ [1994] No. 1 document, the principle of taking the lower amount of the two was adopted in the profit distribution. In 2005, the net profits the Company realized amounted to RMB35, 765,331.72, and the actual distributive profits after offsetting the accumulative losses of Share was amounted to RMB 17,134,827.17.

According to the related laws and the Articles of Association, the profit distribution plan for 2005 was as follows: after 10% net profit appropriating as statutory reserve amounted to RMB

3,932,395.69 confirmed by CAS and 5% net profit appropriating as statutory reserve amounted to RMB 1,966,197.84confirmed by CAS, in the report period, the profit for distribution of the shareholders were amounting to RMB 11236233.64. Calculated on the released shares of 288,149,400, cash dividends for every 10 share was RMB 0.38(including tax), and the total amount for cash dividend was amounting to RMB 10,949,677.20; the surplus of profits for distribution amounted to RMB 286,556.44 and were transferred to annual distribution.
The Company did not convert capital reserve into share capital.
The said distribution plan should be submitted to the 2005 Annual Shareholders' General Meeting for consideration.

Chapter VIII. Report of the Supervisory Committee

I. In the report year, the Supervisory Committee, in accordance with regulations of Company Law and Articles of Association, strictly implemented various functions of inspection and supervision prescribed in its duties, attended the meeting of the management team and the Board of Directors as non-voting delegates, and participated in the Company's decision-making of significant issues. The details of the meetings were as follows:
1. All supervisors had attended each meeting of the Board of Directors as non-voting delegates and supervised over the content of the meetings of the Board and operation decision-making procedure.
2. The 2nd meeting of the 4th Supervisory Committee held on Apr. 18, 2005 examined and approved 2004 Annual Report and its Summary, 2004 Work Report of the Supervisory Committee, 2004 Profit Distribution Preplan, Proposal on the Related Transaction between the Company and Related Parties, and Proposal on Modification of Articles of Associations. The resolutions of the meeting were published on Securities Times and Ta Kung Pao dated Apr. 20, 2005.
3. Part of the supervisors of the Company had attended the meetings of the management team as non-voting delegates and put forward opinions and suggestions for significant events of management and operation for the management team.
II. The Supervisory Committee had strictly supervised over the Company's operation and decision-making in 2005, and expressed independent opinions concerning relevant issues as follows:
1. In the report year, the Supervisory Committee supervised over the Company's various work in terms of the procedures of holding the Shareholders' General Meeting and the Board of Directors, resolutions, implementation of the resolutions of the Shareholders' General Meeting by the Board of Directors, the Company's production and operation and management of decision-making according to the law, regulations and Articles of Association, and believed the Company had abided by the Company Law and the Articles of Association in terms of management and operation and ensured its operation according to law.
2. The Supervisory Committee supervised over the duties performed by the directors and senior executives and believed that in daily operation and administration, they were patient and responsible, made decisions in scientific and reasonable way and the procedure of decision-making was normative and legal. They had neither violated the laws, regulations, Articles of Association and resolutions of the Shareholders' General Meeting, nor had they abused their posts and rights or done harm to the interests of shareholders, the Company or employees.
3. The Supervisory Committee believed the Financial Report of 2005 had objectively and truly reflected the Company's financial status and operation achievements, and agreed with the standard unqualified Auditors' Reports issued by Shu Lun Pan Certified Public Accountants Co., Ltd. and

Horwath Certified Public Accountants.
4.In the report period, the significant related transaction on the purchasing of significant assets between the Company and the larger shareholder did not do harm to the interest of the Company and its shareholders. The prices of other related transactions had been set based on the market principle and been fair. No actions that would do harm to the interest of the Company had been discovered.

Chapter IX. Significant Events

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

II. Purchases and sales of assets
1. On June 21, 2005, the Company signed the Agreement on Share Transfer which was about purchasing 90% equity of Sinopharm Medicine Holding Guangzhou Co., Ltd between the larger shareholder Sinopharm Medicine Holding Co., Ltd. The purchase was on the basis of auditing the corresponding shareholder’s equity of transferring with taking the base day (April 30, 2005) provided by Shu Lun Pan Certified Public Accountants Co., Ltd with the premium price of 16%, and the price for transaction was RMB 10,673.11. The relevant notice was published on Securities Times and Hong Kong Ta Kung Pao dated June 23, 2005. The Company has been paid RMB 60 million for the share rights on Jau. 12, 2006, the remained amount will be paid in March of 2006. On Jan. 17, 2005, Sinopharm Medicine Holding Guangzhou Co., Ltd has changed the procedures of industry and commerce.
2. On Oct. 20. 2005, the Company signed the Agreement on Share Transfer which was about sales of 21% equity of Shenzhen Jian An Medicine Co., Ltd between Shantou Xinyuan Trading Co., Ltd. The sales were on the basis of net profits after appraisal and confirmation on files with taking the base day May 31, 2005 of the transferring of Jian An Medicine Co., Ltd. The price for sales was RMB 2,251,200.

III. Important related transactions

(I) Related transactions of purchases of goods
1. Purchases of goods from related parties:

Full name	In the report period	In last report period
	Amount (RMB)	Amount (RMB)
Sinopharm Medicine Holding Guangzhou Co., Ltd.	45,802,196.75	26,809,298.49
Guangdong Yuexing Medicine Co., Ltd.	27,902,070.66	
China National Medicines Corporation Ltd.	4,849,009.20	
Sinopharm Medicine Holding Xinlong (Guangdong) Co., Ltd.	4,130,343.50	
Guangdong Nanfang Medicine Corporation	969,310.68	315,429.09

Sinopharm Medicine Holding Shenzhen TCM	432,651.28	
China Medicine Group Company	369,426.28	
Sinopharm Medicine Guoda Pharmacy Co., Ltd.	282,291.75	
Sinopharm Medicine Holding Shanghai Co., Ltd.	132,845.16	203,903.02
Shenzhen Chinese and Western Pharmaceutical Company	5,347,688.37	2,131,799.16
Guangzhou Xinte Pharmacy Corporation		382,674.11
Shenzhen Main Luck Pharmaceutical Inc.	856,477.72	311,311.10
Total	**91,074,311.35**	**30,154,414.97**

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

2. Sales of goods to related parties:

Full name	The report period	last report period
	Amount (RMB)	Amount (RMB)
Sinopharm Medicine Holding Shanghai Co., Ltd.	26,829,117.38	23,331,739.49
Sinopharm Medicine Holding Shenyang Co., Ltd.	17,480,537.77	2,960,555.56
Sinopharm Medicine Holding Guangzhou Co., Ltd.	17,098,461.55	34,611.45
Sinopharm Medicine Holding Tianjin Co., Ltd.	17,141,707.87	1,421,420.45
Sinopharm Medicine Guoda Pharmacy Co., Ltd.	9,949,589.74	78,888.89
Guangdong Guoda Pharmacy Franchise Co., Ltd.	5,880,557.30	1,362,643.33
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd.	5,124,676.04	1,653,567.95
Sinopharm Medicine Holding Xinlong (Guangdong) Co., Ltd.	3,503,232.26	
Shenzhen Chinese and Western Pharmaceutical Company	6,979,381.43	1,448,502.50
China National Pharmaceutical Group Southwest Medicine Co., Ltd.	699,688.89	762,943.59
Sinopharm Medicine Holding Shanxi Co., Ltd.	474,358.97	577,692.31
China National Pharmaceutical Group Northwest Medicine Co., Ltd.	384,615.38	
China National Pharmaceutical Group	139,655.56	

Guangzhou Company		
Sinopharm Medicine Holding Nanning Co., Ltd	95,785.85	
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	262,415.38	538,685.47
Shanxi Kaiyue Sinnopharm Co., Ltd.		360,897.44
Sinopharm Medicine Holding Shanxi Co., Ltd.		127,362.39
Guangdong Nanfang Medicine Corporation	560,472.48	114,771.01
Shanghai Guoda Pharmacy Franchise Co., Ltd.	41,410.26	51,282.05
China National Pharmaceutical Group Hangzhou Xinya Co., Ltd.		37,179.49
Shanxi Guoda Pharmacy Franchise Co., Ltd.	2,595.73	2,538.38
Shanghai Donghong Medicine Co., Ltd.	132,512.82	
Total	**112,780,772.66**	**34,865,281.75**

Notes:

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

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

(II) Other related transactions

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

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

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

IV Important contracts and implementation

1. Entrustment, contracting and leasing

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

2. Important guarantees

By Dec. 31, 2005, contingent liabilities that had occurred due to the debt guarantees provided by the Company for other units were as follows:

3. Entrustment of cash assets management

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

4. Other important contracts

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

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

1. Commitment of assets reorganization

On Feb.18, 2004 Purchase and Sales Agreement was signed between the original principal shareholder Shenzhen Investment& Management Corporation and Sinopharm Medicine Holding Co., Ltd, of which Sinopharm Medicine Holding Co., Ltd committed that the assets and business of its Guangzhou Branch were merged into the Company and carry out resource integration. Since June, 2005, the reorganization between the related parties began, and at the end of 2005 it was completely finished.

2. Commitment of Share Merger Reform

On Nov.14, 2005, the principal shareholder Sinopharm Medicine Holding Co., Ltd issued Commitment on Share Merger Reform of Shenzhen Accord Pharmaceutical Co.,Ltd, in which after the approval of the proposal of significant assets reorganization on purchasing 90% equity of Sinopharm Medicine Holding Guangzhou Co., Ltd. In the Shareholder meeting of the Company, the relevant Share Merger Reform would begin, and the relevant plans would be submitted to State-owned Assets Supervision and Administration Commission of the State Council for approval within three months after the publishing of Notice of shareholders' meeting.

On March 6, 2005, the Company released the notice on Share Merger Reform, issued the plans on Share Merger Reform on March 13, 2006 and adjustment plan on Share Merger Reform on March 22, 2006. The Company informed that it would hold the shareholders' meeting of A-shares on Apr. 14, 2006.

VI. Engagement of Certified Public Accountants

1. Engagement of Certified Public Accountants

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

2. Remuneration paid to Certified Public Accountants

The auditing fees the Company paid to the Certified Public Accountants for the Annual Report 2005 totaled RMB 600,000 (A-share, B-share), and the fees for the business trips the Certified Public Accountants took for the Company's auditing affairs had been paid by the Company.

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

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

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

VII. Explanation on change of consolidated scope compared with the latest annual report

1. From Jan. to Oct. of 2004, 26% equity of another shareholder of Shenzhen Chinese and Western Pharmaceutical Company entrusted the Company to vote and the entrusting period will last to the date of changing legal representative. On Nov.11, 2004, the legal representative of the Company changed, thus the Company actually operated the Shenzhen Chinese and Western Pharmaceutical

Company from Jan. to Oct. of 2004 and consolidated its profit distribution and cash flow statement of Jan. to Oct. of 2004, and in the report period, it did not consolidate the statements.

2. The wholly-owned subsidiary of the Company, Shenzhen Traditional Medicine Plant were changed into Shenzhen Traditional Medicine Co., Ltd, the registered capital was changed to RMB 50,000,000 of which 47.39% equity was held by the Company and 52.61% was held by Sinopharm Medicine Holding Co., Ltd. Thus, in the report period, it just consolidated profit distribution and cash flow statements of Jan. to June of 2005, in 2004 it consolidated Year-end balance sheet and Annual profit distribution and cash flow statements.

3. In Sep., 2005, the Company established Shenzhen Accord Logistics Co., Ltd, of which 90% equity was held by the Company and 10% equity was held by Shenzhen Pharmaceutical Plant. In the report period, it did not bring into the scope of consolidation.

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 33 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 2005 and of its results and cash flows for the year then ended.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

28 March 2006

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 2005

(Expressed in Renminbi thousands)

	Notes	2005 RMB'000	2004 RMB'000
Turnover	5	**1,635,569**	**1,576,085**
Cost of sales		**(1,264,585)**	**(1,205,295)**
Gross profit		**370,984**	**370,790**
Other operating revenue	6	**25,403**	**29,275**
Selling and distribution costs		**(248,325)**	**(294,613)**
Administrative expenses		**(105,648)**	**(76,668)**
Other operating expenses		**(552)**	**(1,817)**
Profit from operations	7	**41,862**	**26,967**
Finance costs	8	**(401)**	**(7,192)**
Share of results of associates		**6,707**	**6,406**
Loss on disposal of an associate		**(673)**	**-**
Profit before taxation		**47,495**	**26,181**
Taxation	9(a)	**(6,096)**	**(6,944)**
Profit for the year		**41,399**	**19,237**
Attributable to:			
Equity holders of the parent		**41,399**	**19,907**
Minority interests		**-**	**(670)**
Profit attributable to shareholders		**41,399**	**19,237**
Earnings per share	10	**RMB0.144**	**RMB0.069**

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

(Expressed in Renminbi thousands)

	Notes	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	11	118,840	143,544
Construction in progress	12	76,568	40,963
Interests in associates	13	53,373	24,069
Goodwill	14	19,348	23,476
Other investments		284	284
		268,413	**232,336**
Current assets			
Inventories	15	209,692	162,484
Accounts receivable and other receivables		370,772	338,410
Amounts due from related companies	22(b)	16,729	8,529
Prepayments		28,216	11,521
Cash and bank balances		169,288	80,867
		794,697	**601,811**
Current liabilities			
Bank loans - due within one year	16	10,000	12,500
Accounts payable, other payables and accruals		616,947	444,053
Receipts in advance		25,804	19,413
Amounts due to related companies	22(b)	19,760	7,184
Tax payable		588	2,385
		673,099	**485,535**
Net current assets		**121,598**	**116,276**
Net assets		**390,011**	**348,612**
Representing:			
Share capital	17	**288,149**	**288,149**
Reserves		**101,862**	**60,463**
Total equity		**390,011**	**348,612**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

(Expressed in Renminbi thousands)

	Share capital RMB'000 (Note 17)	Capital reserve RMB'000	Statutory and discretionary surplus reserve fund RMB'000 (Note 18)	Retained earnings RMB'000	Attributable to equity holders of the parent RMB'000	Minority interest RMB'000	Total Equity RMB'000
At 1 January 2004	288,149	18,891	57,040	(35,375)	328,705	1,276	329,981
Profit for the year	-	-	-	19,907	19,907	(670)	19,237
Change of status from a subsidiary to an associate	-	-	-	-	-	(606)	(606)
Profit appropriations	-	-	9,486	(9,486)	-	-	-
At 31 December 2004	288,149	18,891	66,526	(24,954)	348,612	-	348,612
Profit for the year	-	-	-	41,399	41,399	-	41,399
Transfer on reorganisation of a subsidiary	-	-	(692)	692	-	-	-
Profit appropriations	-	-	5,898	(5,898)	-	-	-
At 31 December 2005	288,149	18,891	71,732	11,239	390,011	-	390,011

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005

(Expressed in Renminbi thousands)

	2005 RMB'000	2004 RMB'000
Operating activities		
Profit before taxation	47,495	26,181
Adjustments for:		
Interest income	(2,041)	(3,948)
Interest expenses	308	6,524
Depreciation	23,389	26,321
Loss on disposal of property, plant and equipment	34	480
Amortisation of goodwill	-	3,913
Goodwill written off	718	2,155
Provision for impairment on revaluation of property, plant and equipment and construction in progress	228	62
Share of results of associates	(6,707)	(6,406)
Gain on disposal of an associate	(45)	-
Loss on short term investments	-	5
Provision for impairment in value of other investments	-	50
Cash flow from operations before changes in working capital	63,379	55,337
(Increase)/decrease in inventories	(52,658)	37,343
(Increase)/decrease in accounts receivables, other receivables and amounts due from related parties	(51,065)	1,415
Increase in prepayments	(17,345)	(6,171)
Increase in accounts payable, other payables and accruals receipts in advance and amounts due to related companies	231,246	48,032
Cash generated from operating activities	173,557	135,956
Interest paid	(308)	(6,524)
Income taxes paid	(6,958)	(7,418)
Net cash generated from operating activities	**166,291**	**122,014**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

(Expressed in Renminbi thousands)

	Notes	2005 RMB'000	2004 RMB'000
Investing activities			
Interest received		2,041	3,948
Dividend received		2,669	4,168
Purchase of property, plant and equipment		(9,073)	(6,008)
Proceeds from disposal of property, plant and equipment		206	1,542
Payment for construction in progress		(35,638)	(10,546)
Proceeds from disposal of an associate		2,251	-
Proceeds from disposal of other investments		-	2
Cash outflow on change of status of a consolidated subsidiary to an associate	19	(37,826)	(3,933)
Net cash used in investing activities		**(75,370)**	**(10,827)**
Financing activities			
New bank loans raised		10,000	119,005
Repayment of bank loans		(12,500)	(295,000)
Net cash used in financing activities		**(2,500)**	**(175,995)**
Net increase/(decrease) in cash and cash equivalents		**88,421**	**(64,808)**
Cash and cash equivalents, at beginning of year		**80,867**	**145,675**
Cash and cash equivalents, at end of year		**169,288**	**80,867**

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.

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

The registered office of the Company is located at Accord Pharmaceutical Building, No.15 Ba Gua Si Road, Futian District, Shenzhen, Guangdong, the People's Republic of China (the "PRC"). The Group principally operates in the PRC.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

IFRS 3, Business Combinations

<u>Goodwill</u>

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 Impairment of Assets (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortisation and accumulated impairment losses. Amortisation was charged over the estimated useful life of goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 20 years.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after 31 March 2004, i.e. 1 January 2005, to goodwill acquired in business combinations for which the agreement date was before 31 March 2004. Therefore, from 1 January 2005, the Group has discontinued amortising such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At 1 January 2005, the carrying amount of amortisation accumulated before that date of RMB15,651,000 has been eliminated, with a corresponding decrease in the cost of goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods. No amortisation has been charged in 2005. The charge in 2004 was RMB3,913,000.

<u>Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)</u>

IFRS 3 requires that, after reassessment, any excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of the business combination should be recognised immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22 (superceded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from 1 January 2005. Therefore, the change has had no impact on amounts reported for 2004 or prior periods.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7	Financial instrument: Disclosure
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 8	Scope of IFRS 2

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

3. 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 PRC. A reconciliation of the Group's results and shareholders' equity under IFRS and PRC accounting regulations is presented in Note 26. The principal accounting policies adopted by the Group are as follows:

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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IRFS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is intitially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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 2005 are set out in Note 24 to the consolidated financial statements.

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.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred obligations or made payments on behalf of the associate.

(d) Interests in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(e) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Interests in associates" above.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. 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.

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.

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

(g) Construction in progress

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

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

(h) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduce to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(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) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) 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.

(ii) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debts securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Financial instruments (continued)

(ii) Investments (continued)

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulate gain or loss previously recognised in equity is included in the profit or loss for the period. For investment in an equity instrument that does not have a quoted market price in active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable, the instrument would be measured at cost, subject to review of impairment. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) 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.

(iv) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

(v) Trade payables

Trade payables initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(k) Operating leases

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

Lease payments under operating leases are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight line basis.

(l) Provisions

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

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

(m) Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(n) 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) Service income is recognised when services are rendered

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

(o) 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.

(p) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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.

(q) 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.

(r) 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.

(s) Use of estimate

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

4. SEGMENT INFORMATION

(a) Primary reporting format - business segments

In 2005, the major products of the Group are Chinese medical materials, Chinese patent drugs and western patent drugs.

(b) Secondary reporting format - geographical segments

In 2005, the revenue of the Group mainly arises from the operations in the PRC and the related operating assets are located in the PRC.

5. TURNOVER

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

6. OTHER OPERATING REVENUE

	2005 RMB'000	2004 RMB'000
Commission income	18,043	9,604
Rental income	2,793	6,215
Others	2,475	3,980
Interest income	2,041	3,948
Sale of sundry materials	51	219
Financial subsidies	-	5,141
Network service income	-	168
	25,403	29,275

7. PROFIT FROM OPERATIONS

	2005 RMB'000	2004 RMB'000
Profit from operations is arrived at after charging:-		
Provision for obsolete inventories	3,232	3,556
Amortisation of goodwill	-	3,913
Depreciation on property, plant and equipment	23,389	26,321
Loss on disposal of property, plant and equipment	34	480
Impairment loss on property, plant and equipment	228	62
Provision for impairment on other investments	-	50

Provision for bad debts	929	1,019
Staff costs	123,253	117,921
Staff benefit costs	9,792	8,829

8. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest expenses	308	6,524
Bank charges	541	606
Exchange (gain)/loss, net	(448)	62
	401	7,192

9. TAXATION

(a) Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Current year taxation	6,096	6,944

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%. Certain subsidiaries of the Company are entitled to certain tax exemption and tax reduction benefits granted by the local tax bureau which led to a lower effective tax. The income tax rate applicable to subsidiary companies range from 7.5% to 15% (2004: 15%).

(b) The reconciliation between taxation charge and the accounting profit as shown in these financial statements multiplied by the tax rate of 15% is follows

	2005 RMB'000	2004 RMB'000
Profit before taxation	47,495	26,181
Income tax calculated at the tax rate of 15%	7,124	3,927

Tax effect of share of results of associates	(1,006)	(961)
Effect of different tax rates or tax exemption for certain subsidiaries and joint ventures	(5,249)	-
Tax effect of expenses that are not deductible in determining taxable profit	89	466
Tax effect of income that are not taxable in determining taxable profit	-	(471)
Under-provision in prior year	8	631
Effect of unrecognised tax losses and temporary differences	5,130	3,352
Tax expense for the year	6,096	6,944

(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 is uncertain.

10. EARNINGS PER SHARE

The calculation of the basic profit per share is based on the profit for the year of RMB41,399,000 (2004: RMB19,907,000) and the number of shares outstanding during the year of 288,149,400 (2004: 288,149,400).

11. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	**Machinery and equipment**	**Motor vehicles**	**Electronic equipment, office equipment and software**	**Leasehold improve-ments**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Cost:						
At 1 January 2004	120,672	71,425	26,623	41,134	26,471	286,325
Additions	699	1,313	1,678	1,246	1,072	6,008
Transfer from construction in progress	-	-	1,178	-	-	1,178

Disposals	(1,100)	(3,677)	(5,250)	(1,111)	-	(11,138)
Other decrease	-	-	(654)	(551)	-	(1,205)
At 31 December 2004	120,271	69,061	23,575	40,718	27,543	281,168
Additions	1,421	1,053	2,656	3,148	795	9,073
Disposals	-	(1,179)	(408)	(607)	-	(2,194)
Other decrease (Note)	(9,760)	(9,142)	(1,417)	(1,587)	(3,110)	(25,016)
Reclassification	-	(113)	(107)	220	-	-
At 31 December 2005	111,932	59,680	24,299	41,892	25,228	263,031
Accumulated depreciation and impairment loss:						
At 1 January 2004	29,129	43,196	14,123	18,942	14,476	119,866
Charge for the year	6,267	4,017	2,925	6,271	6,841	26,321
Impairment loss	-	-	-	62	-	62
Written back on disposal	-	(3,375)	(3,616)	(1,025)	-	(8,016)
Other decrease	-	-	(277)	(332)	-	(609)
At 31 December 2004	35,396	43,838	13,155	23,918	21,317	137,624
Charge for the year	6,569	3,586	2,355	6,247	4,632	23,389
Written back on disposal	-	(1,036)	(330)	(588)	-	(1,954)
Impairment loss	-	228	-	-	-	228
Other decrease (Note)	(3,363)	(6,724)	(893)	(1,155)	(2,961)	(15,096)
Reclassification	(350)	(51)	350	51	-	-
At 31 December 2005	38,252	39,841	14,637	28,473	22,988	144,191
Net book value:						
At 31 December 2005	73,680	19,839	9,662	13,419	2,240	118,840
At 31 December 2004	84,875	25,223	10,420	16,800	6,226	143,544

Note: Other decrease represented the elimination of the assets of a former subsidiary which became an associate on 1 August 2005.

12. CONSTRUCTION IN PROGRESS

	2005 RMB'000	2004 RMB'000
At 1 January	40,963	31,595
Additions	35,638	10,546
Transferred to property, plant and equipment	-	(1,178)
Other decrease (note)	(33)	-
At 31 December	76,568	40,963

Note: Other decrease represented the elimination of the assets of a former subsidiary which became an associate on 1 August 2005.

13. INTERESTS IN ASSOCIATES

	2005 RMB'000	2004 RMB'000
Cost of investment in associates	42,838	25,208
Share of post-acquisition profits/(losses), net of dividend received	10,157	(1,354)
	52,995	23,854
Amounts due from associates	1,239	373
Amounts due to associates	(861)	(158)
	53,373	24,069

Details of the associates, all of which were incorporated and operated in the PRC, at 31 December 2005 are as follows:

Name of associate	Registered capital	Percentage of equity interest held by the Group	Principal activity

Shenzhen Wanle Pharmaceutical Co., Ltd. (深圳萬樂藥業有限公司)	USD5, 000,000	35.19%	Research and development, Manufacture of anticancer Drugs, antivirus injection and α interferon powder

13. INTERESTS IN ASSOCIATES (CONTINUED)

Name of associate	Registered capital	Percentage of equity interest held by the Group	Principal activity
Shenzhen Chinese and WesternPharmaceutical Company (深圳市中西藥業有限公司)	RMB3, 000,000	30%	Trading of Chinese patent drugs including capsule, granule or powder preparations
Dongyuan & Accord Pharm Chain Store Co., Ltd. (東源一致醫藥連鎖有限公司)	RMB5, 000,000	45%	Retailing of Chinese patent drugs and western drugs
SinoPharm Holdings Shenzhen Chinese Medicine Co., Ltd. (國藥控股深圳中藥有限公司) (Formerly known as Shenzhen Chinese Medicine General Plan) (Note)	RMB50, 000,000	47.39%	Manufacture and trading of oral liquid, tablets and external lotion

Note: The Company's subsidiary, SinoPharm Holdings Shenzhen Chinese Medicine Co., Ltd. was reorganised in August 2005. After reorganisation, the equity interest in the company held by the Group decreased from 100% to 47.39%. Accordingly, the company was accounted for as an associate of the Group.

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

Summarised financial information in respect of the Group's associates is set out below:

	2005 RMB'000	2004 RMB'000
Total assets	255,131	391,410
Total liabilities	(135,283)	(320,925)
Net assets	119,848	70,485
Group's share of associates' net assets	52,995	23,854
Revenue	979,488	1,031,728
Profit for the year	21,617	21,687
Group's share of associates' profit for the year	6,707	6,406

14. GOODWILL

		RMB'000
Cost:		
At 1 January 2004		42,718
Written off		(3,591)
At 31 December 2004		39,127
Elimination of amortisation accumulated prior to the adoption of IFRS 3 (Note 2)		(15,651)
Written off		(718)
Other decrease (note)		(3,410)
At 31 December 2005		19,348
Accumulated amortisation:		
At 1 January 2004		13,174
Amortisation for the year		3,913
Written off	s	(1,436)
At 31 December 2004		15,651
Elimination of amortisation accumulated prior to the adoption of IFRS 3 (Note 2)		(15,651)
At 31 December 2005		-
Net book value:		
At 31 December 2005		19,348
At 31 December 2004		23,476

Note: Other decrease represented the exclusion of the assets of a former subsidiary which became an associate on 1 August 2005.

15. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	28,840	18,208
Work in progress	-	1,143
Finished goods	180,852	143,133
	209,692	162,484

16. BANK LOANS

As at 31 December 2005, the bank loans are unsecured, interest bearing of annual rate at 5.58% (2004: 4.49% to 5.84%) and repayable within a year.

17. SHARE CAPITAL

As of 31 December 2005, 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.

	2005		2004	
	Number	RMB'000	Number	RMB'000
Issued and fully paid shares of RMB1 each:				
State owned shares	124,864,740	124,865	124,864,740	124,865
Legal person shares	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 the 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 resolution passed at the directors' meeting. The discretionary reserve can be used to make good previous years' losses, if any, and may be utilised for the issuance of bonus shares.

19. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

Change of status of a consolidated subsidiary to an associate

During the year, Shenzhen Chinese Medicine General Plant (深圳市中藥總廠), a wholly-owned subsidiary of the Company, was reorganised into a limited liability company in August 2005 and renamed as SinoPharm Holdings Shenzhen Chinese Medicine Co., Ltd. (國藥控股深圳中藥有限公司) ("SHSCM"). SHSCM's registered capital was increased to RMB50,000,000. At the same time, the Company's holding company injected capital of RMB26,302,800 into SHSCM in cash, resulting a decrease in equity interest in SHSCM held by the Company to 47.39%. As a result, the status of SHSCM was changed from a subsidiary to an associate. As at 31 July 2005 the assets and liabilities of SHSCM were as follows:

	RMB'000
Net assets:	
Property, plant and equipment	9,920
Construction in progress	33
Inventories	5,450

Accounts receivable and other receivables	10,534
Prepayment	650
Cash and bank balance	37,826
Accruals, accounts payable and other payables	(39,594)
Receipts in advance	(403)
	24,416

Cash outflow on change of status of a consolidated subsidiary to an associate:	
Cash and bank balance	(37,826)

20. OPERATING LEASE COMMITMENTS

At 31 December 2005, the Group had minimum rental payments under irrevocable operation leases as follows:

	2005 RMB'000	**2004 RMB'000**
Within one year	13,948	18,435
Over one year but less than 5 years	11,941	26,275
	25,889	44,710

21. CAPITAL COMMITMENTS

At 31 December 2005, capital expenditure commitments, which were not provided in financial statements, but for which contracts had been signed, were as follows:

	2005 RMB'000	**2004 RMB'000**
Property, plant and equipment	54,146	-

22. RELATED PARTY TRANSACTIONS

The ultimate holding company of the Group is SinoPharm Holdings Co., Ltd.

("SinoPharm") (國藥控股有限公司) which was incorporated in the PRC.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Trading transactions

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:

	2005 **RMB'000**	**2004** **RMB'000**
Sales to associated companies	6,979	1,449
Sales to related companies under common control	105,801	33,417
Purchases from associated companies	6,637	2,443
Purchases from related companies under common control	84,437	27,989

(b) Balances with related parties

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

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 **RMB'000**	**2004** **RMB'000**
Remuneration	8,153	8,581
Pension funds	387	352
Medical insurance and others	370	319
	8,910	9,252

23. 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.

24. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2005, all of which were incorporated and are operated in the PRC, as follows:-

Name of company	**Registered capital** RMB'000	**Effective interest held by the Group**	**Principal activity**
Shenzhen Pharmaceutical Plant (深圳市制藥廠)	24,190	100%	Manufacture of raw material for chemical medicine, processing of Chinese patent drugs and medical chemical raw materials

Shenzhen Baokang Pharmaceutical Co., Ltd. (深圳市保康醫藥有限公司)	1,890	100%	Sale of Chinese medical materials, Chinese patent drugs, medical chemical materials, antibiotic preparations
Shenzhen Accord Pharm Materials Co., Ltd. (深圳市一致藥材有限公司) (Formerly known as Shenzhen Accord Pharm Materials Ltd.)	6,000	100%	Sale of Chinese patent drugs and western patent drugs
Shenzhen Pharmaceutical Company (深圳市醫藥公司)	1,250	100%	Sale of western medicine, chemical reagent, Chinese medical crop, Chinese patent drug
Shenzhen Accord Pharm Chain Store Co., Ltd. (深圳市一致醫藥連鎖有限公司)	10,800	100%	Retailing of Chinese patent drugs and western medicine
Shenzhen Accord Pharm Co., Ltd. (深圳市一致醫藥有限公司)	500	100%	Wholesale and retailing of Chinese patent drugs and western medicine
Shenzhen Accord Pharmaceutical Logistic Co., Ltd. (深圳一致藥業物流有限公司)	1,000	100%	Provision of logistic and storage services

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

25. RETIREMENT BENEFIT PLANS

As a statutory requirement, the Group has to contribute 25.5% of total salaries as retirement benefits for employees to a government agency. Upon retirement of the employees, the government agency will be responsible for the retirement benefits to the employees. During the year, total expenses charged to the consolidated income statement for the retirement benefits of the employees were as follows:

	2005 RMB'000	**2004 RMB'000**
Pension funds	8,985	8,479
Medical expenses	4,899	3,178
	13,884	11,657

26. IMPACT OF IFRS ADJUSTMENTS ON PROFIT FOR THE YEAR AND EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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 for the year ended 31 December 2005 and equity at that date attributable to equity holders of the parent are summarised as follows:

	Profit after taxation and minority interests RMB'000	**Shareholders' funds RMB'000**
As determined pursuant to PRC accounting regulations	35,765	393,721
Recognition of losses of subsidiaries in excess of the Company's investment costs in profit and loss account	(242)	-
Goodwill on acquisition of subsidiaries and amortisation	5,346	(3,627)
Others	530	(83)
As determined pursuant to IFRS	41,399	390,011

27. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the directors propose to pay a dividend of RMB0.38 per 10 shares held. The payment of this dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The estimated dividend to be paid is RMB10,950,000.

(b) In January 2006, the Group acquired a 90% equity interest of SinoPharm Holdings Guangzhou Co., Ltd., a subsidiary of SinoPharm Holdings Co., Ltd. for a total consideration of RMB106,731,000.

(c) On 13 March 2006, the Company announced a Share Restructure Proposal under which all holders of the non-publicly trading shares of the Company will transfer the their shares to holders of A shares at the rate of 2.5 shares for every 10 A shares held free of charge in exchange for the public trading rights of the non-publicly trading shares. The proposal will be put to holders of A shares at a meeting to be held on 14 April 2006.

Chapter XI Documents for Reference

1. Accounting Statement carrying the signatures and seals of the legal representative, financial chief and person in charge of accounting.
2. Original of Auditors' Report carrying the seals of Certified Public Accountants, and signatures and seals of the CPAs.
3. Originals of all the documents and notifications of the Company ever disclosed in the report period in Securities Times and Ta Kung Pao designated by CSRC.
4. Original of the Annual Report carrying the signature of the Chairman of the Board.

Place the documents stored: Office of the Secretary of the Board, Accord Pharm Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen.

Chairman of the Board: Chen Weigang
Board of Directors of Shenzhen Accord Pharmaceutical Co., Ltd.
March 28, 2006