SHENZHEN ACCORD PHARMACEUTICAL CO., LTD.
(Incorporated in the People's Republic of China)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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FOR THE YEAR ENDED 31 DECEMBER 2005

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**

The notes on pages 7 to 33 form part of these consolidated financial statements.

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**

The financial statements were approved and authorised for issue by the board of directors on 28 March 2006.

Director　　　　Director

The notes on pages 7 to 33 form part of these consolidated financial statements.

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

The notes on pages 7 to 33 form part of these consolidated financial statements.

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**

The notes on pages 7 to 33 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi thousands)

1. ORGANISATION AND OPERATIONS

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

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

Goodwill

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.

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)

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:

(a) Basis of consolidation

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

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

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)

(b) 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.

(c) 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.

(d) 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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%).

9. TAXATION (CONTINUED)

(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 RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Electronic equipment, office equipment and software RMB'000	Leasehold improve-ments RMB'000	Total 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.

18. RESERVES (CONTINUED)

(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.