Joint Stock Company "Grindeks"

Consolidated financial statements,
for the year ended 31 December 2005
prepared in accordance with International
Financial Reporting Standards,
and Independent Auditor's Report

CONTENTS

ANCILLARY INFORMATION

Name	GRINDEKS
Legal status	Joint Stock Company since 25 August 1997
Number, place and date of registration	40003034935, Riga, Republic of Latvia 11 October 1991
Business activities	Production of pharmaceutical, medical and phytochemical medicine
Legal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC “Tallinn Pharmaceutical Plant” Registration No. 10093221 Address: 33 Tondi Tallinn 11316 Estonia JSC “Kalceks” Registration No. 40003059981 Address: 53 Krustpils Street Riga, LV – 1057 Latvia
Reporting year	1 January 2005 – 31 December 2005
Previous reporting year	1 January 2004 – 31 December 2004
Names and addresses of the auditors	Deloitte Audits Latvia SIA License No. 43 Doma square 1 (legal address) Biskapa gate 2 (mailing address) Riga, LV-1050 Latvia Maris Bergmanis Sworn Auditor Certificate No. 67

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

Since 23 December 2003 to the date of issuing the financial statements:

Name	*Position*
Valdis Jakobsons	Chairman of the Board
Vitalijs Skrivelis	Board member
Janis Romanovskis	Board member

Supervisory Council of the Company

From 23 December 2003 till 6 December 2005:

Name	*Position*
Kirovs Lipmans	Chairman of the Supervisory Council
Vitalijs Gavrilovs	Vice-Chairman of the Supervisory Council
Uldis Osis	Member of the Supervisory Council
Janis Naglis	Member of the Supervisory Council
Juris Cilinskis	Member of the Supervisory Council

From 20 January 2006 to the date of issuing the financial statements:

Name	*Position*
Kirovs Lipmans	Chairman of the Supervisory Council
Vitalijs Gavrilovs	Vice-Chairman of the Supervisory Council
Uldis Osis	Member of the Supervisory Council
Janis Naglis	Member of the Supervisory Council
Ivars Kalvins	Member of the Supervisory Council

Chairman of the Board Valdis Jakobsons	Chairman of the Supervisory Council Kirovs Lipmans

5 June 2006

MANAGEMENT REPORT

In 2005, Joint Stock company "Grindeks" and its subsidiaries JSC "Tallinn Pharmaceutical Plant" (further TPP) and JSC "Kalceks" (hereinafter referred to as "the Group") continued to implement a long-term development strategy, aiming to increase the profitability and the value of the Group.

The Group's consolidated turnover in the 2005 reached LVL 32.22 million, that is LVL 7.5 million or 30.3% more than in 2004. Net profit after the minority interest was LVL 4.58 million, showing an increase of LVL 2.32 million. It is worth mentioning that these are the highest annual growth of turnover and profit in the history of the Group.

Due to a considerable increase of the Group's gross profit, its gross profit margin in 2005 was 49.9%. Net profit margin reached 14.2% compared to 9.2% in 2004.

During 2005, further consolidation of the Group companies continued. By exploring new markets and developing trade representation network abroad, along with its own production JSC "Grindeks" continued to sell and promote the production of the related companies, based on the agreement signed with JSC "Tallinn Pharmaceutical Plant" (TPP) and JSC "Kalceks".

JSC "Grindeks" exported its production to 37 countries worldwide. The total amount of exports in 2005 reached LVL 29.87 million, which is by LVL 7.36 million more than in 2004.

The total sales of final dosage form medicines in 2005 reached LVL 28.85 million, showing an increase of 52.5% over the previous year. Similar to last year, excellent results in sales were achieved in Russia. In the Commonwealth of Independent States (CIS), alongside with Ukraine and Byelorussia, Kazakhstan proved to be rapidly expanding market.

JSC "Grindeks" actively continued its efforts on expanding its activities in the member states of the European Union as well, especially paying attention to the pharmaceutical markets of Poland, Czech and Hungary. The commencement of registration of many products in Finland and Bulgaria was an important step taken in 2005.

Sales of JSC "Grindeks" originator product Mildronate have seen considerable growth. There were many awards obtained, measuring the Company's achievements - the award for Innovations (together with the Latvian Institute of Organic Synthesis) received from Latvian Employer's Confederation, the award for the fastest export growth received from the Ministry of Economics and finally the award as the most exportable product of Latvia in its rank received from Latvia Chamber of Commerce. In Ukraine Mildronate was recognized as the best selling prescription product in 2005.

In 2005 TPP offered 8 different types of ointments and the total production reached approximately 8.5 million units, successfully meeting the growing demand. Due to the successful promotional program of Kapsikam and Viprosal, revenues from TPP's manufactured ointments increased considerably, reaching a turnover of LVL 3.63 million, that is 16.2% more compared to 2004. Manufacturing of these most demanded ointments made the major part of total production of ointments ie. - production of Kapsikam 31.4% and Viprosal - 52.9%. Work continues on the preparation of new ointments and introducing them into production, done in active cooperation with JSC "Grindeks" by exploiting its extensive experience in this filed.

In 2005 JSC "Grindeks" strengthened the partnership with the pharmaceutical manufacturer JSC "Kalceks" by continued sale of its production. The development and future of JSC "Kalceks" is associated with broader specialization and deeper integration within the Grindeks Group.

In 2005 JSC "Grindeks", the leading company of the Group, continued cooperation with other pharmaceutical manufacturers. The same way as in previous years, the production of injection forms was commissioned to the Lithuanian pharmaceutical manufacturer "Sanitas" and the Polish pharmaceutical plant "Jelfa". In the future it is planned to organize manufacturing of the Company's production in Russia.

Exports of active pharmaceutical ingredients in 2005 made up LVL 3.37 million, continuing to strengthen the presence of substances manufactured at JSC "Grindeks" in more developed markets of Western countries. The active ingredient Zopiclone received CEP certificate (Certificate of Suitability of the

Monograph of the European Pharmacopoeia) in 2005. This opens an opportunity, together with a previously certified substance Oxytocine, for selling it in the markets of the EU.

In June 2005, the Group increased its share capital, issuing 1,850,000 shares with a nominal value of LVL 1 per share. Shares were issued with a premium of LVL 5.9 per share, comprising LVL 10.915 million as the total premium of shares, being reduced by share issue expenditure of LVL 403.65 thousand.

The funds raised from the share issue are invested in the modernization of the technology process and increase of production capacities. The total amount of the Group's investment in 2005 reached LVL 3.67 million.

Development of a new final dosage forms plant has been started. It would allow to double the production capacities and to manufacture at least 2 billion of tablets and pellets per year. Construction is planned to be completed in 2007.

In 2005, with the co - finance of European Structural Funds (LVL 1.5 million), a new active pharmaceutical ingredients analytic scaling laboratory has been started, intended to be finished in 2006. This project would allow speeding up the introduction of new active ingredients into production, thus increasing competitiveness in European markets and in USA. The total costs of the projects are planned to reach LVL 3.26 million.

In 2005, traditionally great contribution was made and money resources were invested to ensure high quality of products, environmental protection, human health protection and safety of labour conditions, thus strengthening the Group's contribution to achievement of goals in the UN Global Compact Movement and the Responsible Care Program of the world's chemical industry. The compliance of plants and production with international standards has been approved by seven clients' audits with a positive assessment and repeatedly received Good Manufacturing practice certificate.

Starting from January 2, 2006, JSC "Grindeks" shares are quoted in the Official List of Riga Stock Exchange.

In 2005 the Group's profit per share (EPS coefficient) was LVL 0.53, by 82.8% exceeding prior year EPS.

In 2006 the Group's turnover is planned to reach approximately LVL 40 million and according to the Group's long-term strategy the turnover will reach LVL 70 million in 2009.

In order to ensure substantial manufacturing and marketing growth, JSC "Grindeks" continues its way to the expansion of the structure of the pharmaceutical Group. The strategy of the competitiveness strengthening is mainly related to new originator products development and increase of their specific weight in turnover, increase of production effectiveness and development of new marketing structures in new regions.

There have been no events subsequent to 31 December 2005 which would have a significant effect on the financial position of the Group as at 31 December 2005.

On behalf of the Management of the Group:

Chairman of the Board Valdis Jakobsons	Chairman of the Supervisory Council Kirovs Lipmans

5 June 2006

Translation from Latvian

INDEPENDENT AUDITOR'S REPORT

To the shareholders of JSC "Grindeks":

We have audited the accompanying consolidated financial statements (page 8 to 28) of the joint stock company "Grindeks" ("the Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2005 and the related consolidated statements of profit and loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of the Group as of 31 December 2005, and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

We have read the management report as shown on pages 5-6 of the consolidated financial statements and we have not identified any material discrepancies between the historical financial information presented in the management report and the consolidated financial statements for the year ended 31 December 2005.

Deloitte Audits Latvia SIA
License No. 43

Janis Zelmenis
Authorized Representative

Maris Bergmanis
Sworn Auditor
Certificate No. 67

Riga, Latvia
5 June 2006

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2005

	Notes	31.12.2005 LVL	31.12.2004 LVL
ASSETS			
Non-current assets			
Intangible assets			
Patents, licenses, trademarks and other rights	2	338,102	229,542
Goodwill	3	411,145	411,145
Advance payments for intangible assets	2	124,456	2,632
Total intangible assets		**873,703**	**643,319**
Tangible fixed assets			
Land, buildings and constructions		4,060,976	3,821,065
Equipment and machinery		2,934,312	1,887,784
Other fixed assets		473,017	351,254
Construction in progress		195,000	231,524
Advance payments for fixed assets		1,220,563	203,024
Total tangible fixed assets	4	**8,883,868**	**6,494,651**
Investment property	5	**3,469,796**	**3,240,000**
Long-term financial investments			
Other loans		-	4,695
Total long-term financial investments		**-**	**4,695**
Total non-current assets		**13,227,367**	**10,382,665**
Current assets			
Inventories			
Raw materials		1,316,604	1,213,683
Unfinished goods		837,839	609,177
Finished goods and goods for resale	6	2,165,693	1,975,725
Advance payments for goods		176	-
Total inventories		**4,320,312**	**3,798,585**
Debtors			
Trade receivables		7,314,230	4,940,761
Other debtors	7	912,734	548,754
Deferred expenses		90,159	129,337
Total debtors		**8,317,123**	**5,618,852**
Other investments	8	**5,050,284**	**-**
Cash and cash equivalents	9	**5,979,356**	**332,079**
Assets classified as held for sale		**-**	**155,651**
Total current assets		**23,667,075**	**9,905,167**
TOTAL ASSETS		**36,894,442**	**20,287,832**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.
The consolidated financial statements were signed on 5 June 2006 by:

Chairman of the Board Valdis Jakobsons	Chairman of the Supervisory Council Kirovs Lipmans

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2005

	Notes	31.12.2005 LVL	31.12.2004 LVL
LIABILITIES AND SHAREHOLDERS’ EQUITY			
SHAREHOLDERS’ EQUITY			
Share capital	10	9,585,000	7,735,000
Share premium		15,687,750	5,176,400
Other reserves		464,905	464,905
Foreign currency translation reserve		-	(983)
Accumulated loss:			
a) accumulated loss		(5,302,687)	(7,564,460)
b) net profit for the year		4,579,956	2,262,756
Total shareholders’ equity		**25,014,924**	**8,073,618**
MINORITY INTEREST		**196,290**	**199,099**
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	11	3,654,400	2,695,072
Finance lease liabilities		1,411	87,260
Other long-term liabilities	3	-	502,000
Deferred tax liabilities	18(c)	769,650	682,990
Total non-current liabilities		**4,425,461**	**3,967,322**
Current liabilities			
Loans from credit institutions	11	1,795,551	2,285,049
Finance lease liabilities		85,832	109,122
Advances from customers		17,343	14,270
Trade accounts payable		3,205,561	3,270,195
Taxes and social security liabilities	12(b)	472,954	252,208
Other current liabilities	3	1,347,507	1,730,997
Dividends payable		-	20,061
Other liabilities		317,479	311,111
Deferred income		-	31,963
Accrued liabilities		15,540	22,817
Total current liabilities		**7,257,767**	**8,047,793**
Total liabilities		**11,683,228**	**12,015,115**
TOTAL LIABILITIES & SHAREHOLDERS’ EQUITY		**36,894,442**	**20,287,832**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 5 June 2006 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LVL	2004 LVL
Net sales	13;14	32,221,202	24,724,742
Cost of goods sold	15	(16,143,072)	(14,939,020)
Gross profit		**16,078,130**	**9,785,722**
Selling and distribution costs	16	(5,702,063)	(3,605,300)
Administrative expenses	17	(4,453,708)	(3,250,632)
Other operating income		196,587	344,730
Other operating expenses		(454,449)	(278,855)
Interest income and similar income		134,499	84,157
Interest expense and similar expense		(223,977)	(186,238)
Profit before taxation and minority interest		**5,575,019**	**2,893,584**
Corporate income tax for the year	18(b)	(944,853)	(485,904)
Real estate tax		(49,425)	(35,048)
Net profit before minority interest		**4,580,741**	**2,372,632**
Minority interest		**(785)**	**(109,876)**
NET PROFIT FOR THE YEAR		**4,579,956**	**2,262,756**
Earnings per share attributable to the shareholders of the Group (LVL per share)	19		
– Basic earnings per share		0.53	0.29
– Diluted earnings per share		0.53	0.29

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 5 June 2006 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

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

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Accumulated loss	Total
	LVL	LVL	LVL	LVL	LVL	LVL
As at 31 December 2003	**7,735,000**	**5,176,400**	**464,905**	**20,051**	**(7,564,460)**	**5,831,896**
Foreign currency revaluation	-	-	-	(21,034)	-	**(21,034)**
Profit for the year	-	-	-	-	2,262,756	**2,262,756**
As at 31 December 2004	**7,735,000**	**5,176,400**	**464,905**	**(983)**	**(5,301,704)**	**8,073,618**
Foreign currency revaluation	-	-	-	983	(983)	**-**
Issue of shares	1,850,000	10,511,350	-	-	-	**12,361,350**
Profit for the year	-	-	-	-	4,579,956	**4,579,956**
As at 31 December 2005	**9,585,000**	**15,687,750**	**464,905**	**-**	**(722,731)**	**25,014,924**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

In June 2005, JSC "Grindeks" increased the share capital by issuing 1,850,000 new shares at a nominal value of LVL 1 each. The shares were issued with a premium of LVL 5.9 each, resulting in a total share premium of LVL 10,915,000 less emission costs of LVL 403,650.

The consolidated financial statements were signed on 5 June 2006 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

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

	Notes	2005 LVL	2004 LVL
OPERATING ACTIVITIES			
Net profit before taxation and minority interest		5,575,019	2,893,584
Adjustments to reconcile net profit to net cash provided by operating activities:			
Foreign exchange rate difference		(57,908)	(125,953)
Depreciation and amortization		965,161	807,430
Loss / (gain) on disposal of fixed assets and intangible assets		5,333	(83,451)
Income from purchase of shares		-	(83,103)
Interest income		(112,229)	(84,157)
Interest expense		220,547	186,238
Changes in operating assets and liabilities:			
Inventory		(521,727)	(323,270)
Trade receivables		(2,698,271)	(1,532,346)
Trade payables		(165,579)	834,554
Gross cash provided by operating activities		**3,213,046**	**2,489,526**
Corporate income tax and real estate tax paid		(584,641)	(537,143)
Net cash provided by operating activities		**2,628,405**	**1,952,383**
INVESTING ACTIVITIES			
Purchase of fixed assets and intangible assets		(2,771,776)	(1,196,771)
Sale of fixed assets		651	84,652
Interest received		47,471	84,157
Acquisition of long term financial investments		(921,750)	(1,482,127)
Purchase of short term financial investments		(5,000,000)	-
Other loans		6,078	14,096
Net cash used in investing activities		**(8,639,326)**	**(2,495,993)**
FINANCIAL ACTIVITIES			
Share issue		12,361,350	-
Received loans from credit institutions		1,842,383	1,817,902
Repaid loans to credit institutions		(2,300,478)	(908,386)
Finance lease payments		(34,462)	(39,300)
Interest paid		(210,595)	(150,736)
Net cash provided by financial activities		**11,658,198**	**719,480**
Net increase in cash		**5,647,277**	**175,870**
Cash and cash equivalents at the beginning of the year	9	**332,079**	**156,209**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	9	**5,979,356**	**332,079**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 5 June 2006 by:

Chairman of the Board Valdis Jakobsons	Chairman of the Supervisory Council Kirovs Lipmans

1. GENERAL INFORMATION

Joint stock company “Grindeks” (“the Company”) was incorporated in the Republic of Latvia on 11 October 1991, and as a public joint stock company on 25 August 1997. The Company’s main activity is production of pharmaceutical, medical and phytochemical medicine.

The accompanying consolidated financial statements of the Company and its Subsidiaries (together the Group) are presented in the national currency of Latvia, the lats (“LVL”).

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS), and are prepared on the historical cost basis of accounting.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the “EU”), Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. IFRS as adopted by the EU do not currently differ from IFRS as issued by IASB, except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been approved by the EU at the balance sheet date.

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning 1 January 2005. The adoption of the new and revised Standards and Interpretations have had no material impact on the financial statements of the Group.

Reclassification

Certain amounts in the previous year’s financial statements have been reclassified to conform to the current year presentation.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of JSC “Grindeks”, JSC “Tallinn Pharmaceutical Plant” (TPP) and JSC “Kalceks” (the “Group”). Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognized.

All significant inter-company transactions and balances between Group enterprises are eliminated on consolidation. On consolidation, the assets and liabilities of the Group’s foreign operations are translated at the exchange rates of Bank of Latvia prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates for the period.

Foreign currencies

Transactions denominated in foreign currency are translated into LVL at the official exchange rate of the Bank of Latvia at the date of transaction. Monetary assets and liabilities are translated at the Bank of Latvia rate of exchange at the balance sheet date. The applicable rate used for the principal currencies as of 31 December were as follows:

	2005	2004
USD	0.5930	0.5160
EUR	0.7028	0.7030
EEK	0.0449	0.0449

Gains and losses on translation are credited or charged to the profit and loss account at the Bank of Latvia official exchange rate as of the balance sheet date.

Intangible assets

Intangible assets are initially recognized at historical cost and amortized on a straight-line basis over a five-year period.

Goodwill

Goodwill arising on consolidation represents the excess of acquisition cost over the Group’s interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognized as an asset. The Group makes an annual assessment of impairment.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. The cost of an item comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to working condition for intended use. The cost of self-constructed assets is determined using the same principles as for an acquired asset. If the recoverable value of a fixed asset is lower than its carrying amount, due to circumstances not considered to be temporary, the fixed asset is written down to its recoverable amount.

Depreciation is provided on all fixed assets based on historical cost. Depreciation of tangible assets is computed using the straight-line method over the estimated average useful lives:

Buildings and constructions	5 – 50	years
Machinery and equipment	3 – 8	years
Other fixed assets	3 – 10	years

Repair and maintenance costs are expensed when incurred. Capital expenditures such as refurbishment of buildings and improvements to structural elements are recognized as an asset if the expenditures improve the condition of the asset beyond its original estimated life.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. In case the fair value can not be reliably determined, the investment property is valued at cost.

Inventory

Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The cost of materials is allocated using the weighted average method. Work in progress is valued at the direct cost of materials used. The cost of finished goods is valued at manufacturing costs and includes direct manufacturing costs - cost of materials and direct labour costs, other manufacturing costs - energy, ancillary materials, equipment and maintenance costs, depreciation and general manufacturing costs – service costs related to manufacturing.

Trade receivables

Trade receivables represent the gross balance due from customers less provision for bad debts, which is estimated by an individual review of each debtor. The provision for bad debts represents the estimated amounts of losses at the balance sheet date.

Cash and cash equivalents

Cash includes cash on hand and demand deposits within credit institutions.

The cash flow statement is prepared using the indirect method by adjusting operating profit to reconcile it with cash flow from operating activities.

Impairment

At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indications 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 cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of sale 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 (cash-generating unit) is reduced 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 (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 (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.

Trade payables

Trade payables are stated at their nominal value and represent current liabilities for capital expenditure and operating costs.

Finance lease
Finance leases are recorded at the fair value of the asset at the moment of acquisition. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Provisions for vacations

Provisions for vacations are calculated by multiplying the average employee salary by the number of unused vacation days at the end of the year.

Revenue and expense recognition

Revenues and expenses are recognized on an accrual basis. Sales of goods are recognized when goods are delivered and ownership is passed to customers. Sales of goods are shown net of discounts and sale related taxes allowed.

Expenses are recognized when incurred.

Finance expenses

Finance expenses related to borrowings are expensed in the period to which they are attributable. Amounts are disclosed in the profit and loss statement as interest and similar expense.

Corporate income tax

Corporate income tax is assessed based on the taxable income for the period in accordance with Latvian tax legislation applying the rate of 15%.

According to the Estonian Income Tax Act the earned profit of a resident legal entity is not subject to tax, instead the tax is due on dividend distribution.

Deferred income tax

Deferred tax is provided in accordance with the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some proportion or all deferred tax assets will not be realized.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and off balance sheet items, as well as reported revenues and expenses. Actual results could differ from those estimates.

Segment information

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity.

Fair value

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm’s length basis. Where in the opinion of the management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are accounted for and disclosed in the notes to the financial statements.

2. INTANGIBLE ASSETS

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
Historical cost				
As at 31 December 2004	**207,254**	**737,976**	**2,632**	**947,862**
Additions	126,606	74,702	124,456	**325,764**
Disposals	-	(23,386)	(2,632)	**(26,018)**
As at 31 December 2005	**333,860**	**789,292**	**124,456**	**1,247,608**
Accumulated amortization				
As at 31 December 2004	**131,142**	**584,546**	**-**	**715,688**
Current year amortization	37,686	55,062	-	**92,748**
Disposals	-	(23,386)	-	**(23,386)**
As at 31 December 2005	**168,828**	**616,222**	**-**	**785,050**
Carrying value				
As at 31 December 2004	**76,112**	**153,430**	**2,632**	**232,174**
As at 31 December 2005	**165,032**	**173,070**	**124,456**	**462,558**

3. GOODWILL

During 2004, the Company entered into a pre-sales and purchase agreement for the acquisition of JSC “Kalceks”. At the end of 2004, the Company took over full control of JSC “Kalceks” activities and made an initial settlement of LVL 1,192,493 in respect of the purchase. By the end of the year the Company had not finalized the acquisition of 97.4% of JSC “Kalceks” for a total consideration of LVL 3,425,490. As of 31 December 2004 the remaining balance due of LVL 2,232,997 is shown in liabilities (short term: LVL 1,730,997; long term: LVL 502,000). The outstanding short term liabilities balance as of 31 December 2005 was LVL 1,347,507.

Details of net assets acquired and goodwill is as follows:

	LVL
Purchase consideration	3,425,490
Fair value of assets acquired	(3,014,345)
Goodwill	**411,145**

4. TANGIBLE FIXED ASSETS

	Land, buildings and construc-tions	Equipment and machinery	Other fixed assets	Construc-tion in progress	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Historical cost						
As at 31 December 2004	**5,158,800**	**6,525,302**	**1,246,946**	**231,524**	**203,024**	**13,365,596**
Additions	231,617	1,629,311	213,906	36,995	1,233,056	**3,344,885**
Transfers	239,548	-	-	(36,524)	(203,024)	-
Reclassification	45,737	1,973	1,778	(36,995)	(12,493)	-
Reclassification to investment property (see Note 5)	(416,818)	-	-	-	-	**(416,818)**
Reclassification from assets held for sale	211,403	-	-	-	-	**211,403**
Disposals	-	(4,949)	(15,290)	-	-	**(20,239)**
As at 31 December 2005	**5,470,287**	**8,151,637**	**1,447,340**	**195,000**	**1,220,563**	**16,484,827**
Accumulated depreciation						
As at 31 December 2004	**1,337,735**	**4,637,518**	**895,692**	**-**	**-**	**6,870,945**
Depreciation for the year	197,088	583,310	92,015	-	-	**872,413**
Reclassification to investment property (see Note 5)	(182,998)	-	-	-	-	**(182,998)**
Reclassification from assets held for sale	57,486	-	-	-	-	**57,486**
Disposals	-	(3,503)	(13,384)	-	-	**(16,887)**
As at 31 December 2005	**1,409,311**	**5,217,325**	**974,323**	**-**	**-**	**7,600,959**
Carrying value						
As at 31 December 2004	**3,821,065**	**1,887,784**	**351,254**	**231,524**	**203,024**	**6,494,651**
As at 31 December 2005	**4,060,976**	**2,934,312**	**473,017**	**195,000**	**1,220,563**	**8,883,868**

The Group has pledged a part of its real estate with the book value as of 31 December 2005 of LVL 3,005,567 as security for the loans (Note 11).

5. INVESTMENT PROPERTY

Land in Riga, Zala Street 6/8 and Zala Street 9 owned by JSC “Kalceks” is reported as investment property. As at 31 December 2005 the fair value of the land is LVL 3,240,000. This investment property has been pledged to comply with the requirements of JSC “Parex banka” loan contract Nr. KK 102/2002.

The building owned by JSC “Tallinn Pharmaceutical Plant” with the carrying value of LVL 229,796 as at December 31, 2005, which stayed idle as a result of the reorganisation of the production, was leased out in the last quarter of 2005. Consequently, the tangible assets leased under operating lease were classified to investment property. In 2005 earned rental income from that investment property was LVL 12,821.

Since the fair value of this property can not be reliably determined this building is recorded at cost.

The statement of investment property is as follows:

	LVL
Historical cost	
As at 31 December 2004	**3,240,000**
Reclassification from tangible assets	416,818
As at 31 December 2005	**3,656,818**
Accumulated depreciation	
As at 31 December 2004	-
Depreciation charge	4,024
Reclassification from tangible assets	182,998
As at 31 December 2005	**187,022**
Carrying value	
As at 31 December 2004	**3,240,000**
As at 31 December 2005	**3,469,796**

6. FINISHED GOODS AND GOODS FOR RESALE

	31.12.2005 LVL	31.12.2004 LVL
Goods for sale	1,320,085	1,188,534
Self-manufactured and co-manufactured production	789,706	687,335
Finished goods, Tallinn Pharmaceutical Plant	55,902	99,856
Total	**2,165,693**	**1,975,725**

7. OTHER DEBTORS

	31.12.2005 LVL	31.12.2004 LVL
Overpaid taxes (see Note 12(a))	304,319	108,523
Other	608,415	440,231
Total	**912,734**	**548,754**

8. OTHER INVESTMENTS

Other investments represent an investment in the Mutual fund “Lat Reserve Fund”. The Group owns 4,509,826 shares of the fund with a market price as at 31 December 2005 of LVL 1.11984 each.

9. CASH AND CASH EQUIVALENTS

	31.12.2005 LVL	31.12.2004 LVL
Cash in bank	5,968,189	325,435
Cash on hand	11,167	6,644
Total	**5,979,356**	**332,079**

10. SHARE CAPITAL

As of 31 December 2004 the issued share capital of the Group consisted of 7,735,000 ordinary shares with a nominal value of LVL 1 each.

In 2005 the Group issued additional shares with the nominal value of LVL 1,850,000. Shares where sold with a share premium of LVL 10,511,350 share premium. (See description on page 11)

11. LOANS FROM CREDIT INSTITUTIONS

	31.12.2005 LVL	31.12.2004 LVL
Credit line from HVB Bank, Latvia (LVL 850 thousand)	849,999	-
Ministry of Finance (LVL 1.4 million World Bank loan)	380,000	380,000
HVB Bank, Latvia (EUR 1.2 million loan)	191,163	191,216
Parex bank, Latvia (EUR 1.4 million loan)	177,550	177,600
Hansabank, Latvia (EUR 1.1 million loan)	167,189	197,806
Hansabank, Latvia (USD 1.8 million loan)	29,650	167,235
Credit line from Hansabank, Latvia (EUR 2.4 million)	-	1,171,192
Current loans from credit institutions	**1,795,551**	**2,285,049**
Hansabank, Latvia (EUR 4.6 million loan)	992,384	-
Parex bank, Latvia (LVL 5.6 million loan)	909,093	-
Ministry of Finance (LVL 1.4 million World Bank loan)	684,769	1,064,769
HVB Bank, Latvia (EUR 1.2 million loan)	477,907	669,256
Parex bank, Latvia (EUR 1.4 million loan)	325,509	503,200
Hansabank, Latvia (EUR 1.1 million loan)	264,738	432,047
Hansabank, Latvia (USD 1.8 million loan)	-	25,800
Non-current loans from credit institutions	**3,654,400**	**2,695,072**
Total	**5,449,951**	**4,980,121**

The borrowings are repayable as follows:	31.12.2005 LVL	31.12.2004 LVL
Within one year	1,795,551	2,285,049
Second year	1,338,741	941,851
Third to fifth year inclusive	2,315,659	1,753,221
Total	**5,449,951**	**4,980,121**
Amount due for settlement within 12 months (shown under current liabilities)	(1,795,551)	(2,285,049)
Non-current loans from credit institutions	**3,654,400**	**2,695,072**

	31.12.2005 LVL	31.12.2004 LVL
In 1994, JSC "Grindeks" received a rehabilitation loan from the Ministry of Finance in the total amount of USD 6,322,957 (later linked to a currency basket consisting of USD 1, JPY 125, and DEM 2) with an annual interest rate of 7.6%. On 22 November 2004 the loan agreement was rescheduled and the remaining liabilities was determined to be LVL 1,444,769. Interest rate equals annual interest rate for Latvian Treasury bills + 0.5%. The loan matures on 5 September 2007. The loan is secured by all the property of the Group.	1,064,769	1,444,769
On 29 August 2005 JSC "Grindeks" signed a loan agreement with Hansabank in total amount of EUR 4,642,830 for purchase of new equipment and creation of a laboratory. The maturity date is 29 August 2012. Interest rate is calculated as total of 6 month EURIBOR + 1.75%. The loan is secured by a commercial pledge.	992,384	-
On 5 May 2005 JSC "Grindeks" signed a credit line agreement with HVB Bank, Latvia in amount of LVL 850,000. The maturity date is 28 April 2006.Total interest amount is calculated as a total of 3 month RIGIBOR + 1.55 %. The credit line is secured by a commercial pledge.	849,999	-
On 29 June 2004 JSC "Grindeks" has received a long - term loan from HVB Bank, Latvia in the amount of EUR 1,200,000 for refinancing acquisition of fixed assets. The maturity of the loan is 30 June 2009. Annual interest rate is 3 month EURIBOR + 1.6 %. The loan is secured by a commercial pledge.	669,070	860,472
On 10 March 2004 JSC "Grindeks" received a long term loan from Parex Bank in the amount of EUR 1,360,000 for financing working capital. The maturity of the loan is 10 October 2008. Annual interest rate is 3 month EURIBOR + 1.65 %. The loan is secured by a commercial pledge.	503,059	680,800
On 30 July 2003, JSC "Grindeks" received a long term loan from Hansabank in the amount of EUR 1,130,000 with the maturity in 2008. The loan was taken for the purpose of settling the liabilities of TPP to Sampopank in Estonia. The annual interest rate is 6 month EUR LIBOR + 2 %. The loan is secured by a commercial pledge.	431,927	599,282
On 9 September 1999 JSC "Grindeks" received a loan from Hansabank in the amount of USD 1,000,000. On 20 March 2000 the amount of the loan was increased to USD 1,800,000 with the maturity on 20 March 2003. On 24 February 2003 the maturity date was extended till 20 February 2006. The annual interest rate is 3 month USD LIBOR + 2 %. The loan is secured by a commercial pledge.	29,650	223,606
On 30 October 2002 JSC "Kalceks" has signed loan contract No. KK 102/2002 with JSC "Parex banka". According to this contract, loan in amount of LVL 5,600,000 is granted to JSC "Kalceks" till 30 October 2017. JSC "Kalceks" terms are in LVL (6 months RIGIBOR + 0.89%), EUR (6 month LIBOR + 1.1%) and USD (6 months LIBOR + 1.1%) per year. The loan can be used only for establishment the drug production unit. The loan is served over Group's real estate in Riga, Zala street 6/8 and Zala street 9. The loan is served with the guarantee of Republic of Latvia.	909,093	-

	31.12.2005 LVL	31.12.2004 LVL
On 20 March 1998, JSC “Grindeks” received a credit line from Hansabank. According to the amendments dated 20 January 2003 the limit of the credit line was increased to USD 2,200,000, the credit line was repayable on 20 January 2004. The annual interest rate is 3 month USD LIBOR + 2% starting from May 2003. On 20 January 2004 the agreement term was extended to 20 January 2005. On 20 January 2005 the limit of credit line was increased to EUR 2,400,000 and interest rate is 6 months EURIBOR + 1.8%, maturity is extended to 27 January 2006. The loan is secured by a commercial pledge.	-	1,171,192
Total	**5,449,951**	**4,980,121**

12. TAXES AND SOCIAL SECURITY LIABILITIES

12 (a) Overpaid taxes (see Note 7)

	31.12.2005 LVL	31.12.2004 LVL
Value added tax	297,364	69,013
Personal income tax	4,589	-
Real estate tax	2,179	4,854
Natural resource tax	187	487
Social security payments	-	18,256
Other	-	15,913
Total	**304,319**	**108,523**

12 (b) Tax liabilities

	31.12.2005 LVL	31.12.2004 LVL
Corporate income tax	442,961	201,611
Social security payments	18,584	4,952
Personal income tax	7,862	45,167
Real estate tax	1,600	-
Other	1,947	478
Total	**472,954**	**252,208**

13. BUSINESS AND GEOGRAPHICAL SEGMENTS

Based on the type of its products the Group may be divided into two main divisions - final dosage forms and active pharmaceutical ingredients business structure. Those divisions serve as the basis to report the primary segments of the Group – business segments.

Note 14 provides information on Group's turnover based on geographical markets without considering the origin of products.

2005 **LVL**	**Final dosage forms**	**Active pharmaceutical ingredients**	**Eliminations**	**Total**
Revenue				
External sales	28,848,456	3,372,746	**-**	**32,221,202**
Inter-segment sales	2,557,501	**-**	(2,557,501)	**-**
Total revenue	**31,405,957**	**3,372,746**	**(2,557,501)**	**32,221,202**
Result				
Segment result	9,712,470	1,537,500	-	**11,249,970**
Unallocated expenses				(5,585,473)
Operating profit				**5,664,497**
Interest expenses				(223,977)
Interest income				134,499
Profit before tax				**5,575,019**
Income tax expense				(944,853)
Real estate tax expense				(49,425)
Profit for the year before minority interest				**4,580,741**
Minority interest				(785)
Profit for the year				**4,579,956**

Other information

2005 **LVL**	**Final dosage forms**	**Active pharmaceutical ingredients**	**Other**	**Total**
Additions of tangible assets	1,137,976	1,400,634	806,275	**3,344,885**
Depreciation	279,611	301,256	291,546	**872,413**

Balance Sheet **2005** **LVL**	**Final dosage forms**	**Active pharmaceutical ingredients**	**Total**
Assets			
Segment assets	12,495,160	5,026,476	**17,521,636**
Unallocated assets			19,372,806
Total consolidated assets			**36,894,442**
Liabilities			
Segment liabilities	2,037,627	1,147,944	**3,185,571**
Unallocated liabilities			33,708,871
Total consolidated liabilities			**36,894,442**

2004 LVL	**Final dosage forms**	**Active pharmaceutical ingredients**	**Eliminations**	**Total**
Revenue				
External sales	18,914,697	5,810,045	**-**	**24,724,742**
Inter-segment sales	2,828,942	**-**	(2,828,942)	**-**
Total revenue	**21,743,639**	**5,810,045**	**(2,828,942)**	**24,724,742**
Result				
Segment result	2,757,378	4,224,195	(66,144)	**6,915,429**
Unallocated expenses				(3,919,764)
Operating profit				**2,995,665**
Interest expenses				(186,238)
Interest income				84,157
Profit before tax				**2,893,584**
Income tax expense				(485,904)
Real estate tax expense				(35,048)
Profit for the year before minority interest				**2,372,632**
Minority interest				(109,876)
Profit for the year				**2,262,756**

Other information

2004 LVL	**Final dosage forms**	**Active pharmaceutical ingredients**	**Other**	**Total**
Additions of tangible assets	392,263	275,568	575,451	**1,243,282**
Depreciation and amortization	(294,723)	(246,030)	(179,654)	**(720,407)**

Balance Sheet

2004 LVL	**Final dosage forms**	**Active pharmaceutical ingredients**	**Total**
Assets			
Segment assets	7,734,307	2,980,728	**10,715,035**
Unallocated assets			9,572,797
Total consolidated assets			**20,287,832**
Liabilities			
Segment liabilities	2,369,048	185,670	**2,554,718**
Unallocated liabilities			17,733,114
Total consolidated liabilities			**20,287,832**

14. NET SALES

	2005 LVL	2004 LVL
Russia	16,250,417	9,003,150
Commonwealth of Independent States, except for Russia	10,109,169	6,929,953
Latvia	2,504,310	2,429,904
Lithuania	2,289,922	4,166,541
Estonia	1,051,233	1,124,042
Other countries	2,939,322	3,522,810
Services	28,492	155,449
Gross sales	**35,172,865**	**27,331,849**
Less discounts		
Russia	(1,490,477)	(1,259,996)
Commonwealth of Independent States	(1,085,921)	(859,699)
Latvia	(158,801)	(223,566)
Lithuania	(75,490)	(118,453)
Estonia	(76,625)	(88,626)
Other countries	(64,349)	(56,767)
Discounts total	**(2,951,663)**	**(2,607,107)**
Total	**32,221,202**	**24,724,742**

15. COST OF GOODS SOLD

	2005 LVL	2004 LVL
Raw materials and packaging	4,020,484	4,126,156
Goods purchased for resale	5,841,528	6,247,741
Direct labour and social security payments	2,569,966	2,031,391
Research services costs	1,222,381	468,164
Depreciation of fixed assets and amortization of intangible assets	667,179	571,521
Machinery, buildings and equipment repairs	468,935	325,691
Electricity resource expenses	419,377	361,638
Household expenses	125,676	106,868
Waste disposal	89,390	81,389
Transport	63,740	60,115
Rent of work clothing	56,912	53,923
Other	597,504	504,423
Total	**16,143,072**	**14,939,020**

16. SELLING AND DISTRIBUTION COSTS

	2005 LVL	2004 LVL
Advertising	2,651,673	1,463,178
Expenses for representative offices	928,982	575,592
Salaries and social security payments	536,075	495,610
Protection of patents	403,761	212,636
Distribution expenses for goods	299,217	259,885
Registration costs for medicine	165,933	137,634
Commissions	146,981	81,959
Freight insurance	55,336	54,135
Depreciation of fixed assets and amortization of intangible assets	50,798	40,881
Other	463,307	283,790
Total	**5,702,063**	**3,605,300**

17. ADMINISTRATIVE EXPENSES

	2005 LVL	2004 LVL
Administrative salaries and social security payments	1,689,454	1,157,773
Professional services	255,728	119,188
Depreciation of fixed assets and amortization of intangible assets	247,184	184,257
Personnel training and hiring expenses	169,419	69,764
Security costs	144,321	136,322
Employee life insurance	136,442	117,854
Transport	132,137	138,330
Electricity	78,413	70,634
Development and implementation of documents management system	72,994	4,500
Business trips	70,794	64,654
Bank charges	68,562	49,471
Communication expense	57,175	47,020
Computers maintenance	32,262	26,471
Property and responsibility insurance	19,132	13,518
Other	1,279,691	1,050,876
Total	**4,453,708**	**3,250,632**

The average number of the Group’s employees during 2005 and 2004 was 614 and 662, respectively.

18. CORPORATE INCOME TAX FOR THE YEAR

18 (a) Corporate income tax for the year

	2005 LVL	2004 LVL
Corporate income tax for the year	858,193	442,464
Deferred tax charge for the year	86,660	43,440
Total	**944,853**	**485,904**

18 (b) Reconciliation of accounting profit to tax charge:

	2005 LVL	2004 LVL
Profit before tax	5,575,019	2,893,584
Expected tax charge, applying current tax rate of 15%	836,252	434,038
Tax effect of non-deductible items	108,601	51,866
Corporate income tax charge	**944,853**	**485,904**

18 (c) Deferred tax liabilities

Temporary differences and deferred tax assets and liabilities are as follows:

	2005 LVL	2004 LVL
Temporary difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	5,800,273	5,141,418
Tax losses carried forward	(653,730)	(565,333)
Provisions for unused vacations	(15,540)	(22,817)
Total temporary differences	**5,131,003**	**4,553,268**
Deferred tax liabilities (rate 15%)	**769,650**	**682,990**

Deferred tax liability as of 31 December 2004	**682,990**
Increase in deferred tax liabilities charged to profit and loss statement	86,660
Deferred tax liability as of 31 December 2005	**769,650**

19. EARNINGS PER SHARE

	2005 LVL	2004 LVL
Basic earnings per share		
Average number of shares outstanding	8,660,000	7,735,000
Current year profit	4,579,956	2,262,756
Basic earnings per share	**0.53**	**0.29**

20. COMMITMENTS AND CONTINGENCIES

20. (1) The Group has pledged its real estate with the book value as of 31 December 2005 of LVL 6,245,567 as a security for loans (refer to Note 11).

20. (2) With the co-finance of EU Structural funds (LVL 1.5 million) the development of the new active pharmaceutical ingredients analytic scaling laboratory has been started. The total costs of the project are planned to be LVL 3.26 million. The project is planned to be finished in 2006.

20. (3) The potential tax liability of TPP in the amount of LVL 475,085 that may occur if all distributable retained earnings should be paid out as dividends is not recognised in the balance sheet as at 31 December 2005.

21. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

The Group deals with foreign customers and suppliers. Since significant amount of transactions are carried out in EUR, this arrangement does not expose the Group to foreign currency exchange risk.

Credit risk

The Group has no significant concentrations of credit risk.

Interest rate risk

The Group has long-term loans with variable interest rate from credit institutions; therefore it is exposed to any changes in interest rate.

Liquidity risk

The Group maintains sufficient cash funds in bank. If necessary the Group uses credit facilities to meet short-term obligations.

Fair values

In management's opinion there are no material difference between fair value and carrying value of the financial assets and liabilities.

****