深圳一致药业股份有限公司

Shenzhen Accord Pharmaceutical Co., Ltd.

2006 Annual Report

March, 2007

Content

IMPORTANT NOTES

Board of Directors and the Supervisory Committee of Shenzhen Accord Pharmaceutical Co., Ltd. (hereinafter referred to as the Company) and its directors, supervisors and senior executives hereby confirm that there are no any fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

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

All the directors but Independent Director Mr. Sui Guangjun attended the 15th meeting of the 4th Board. Mr. Sui Guangjun brought forward the application of resigning the position of independent director; thus, he did not attended the meeting, b but he has reviewed conference documents before the meeting, and entrusted in writing Independent Director Ms. Chen Shu to present and vote with approval for various proposals. Director Mr. Zuo Jie entrusted in writing Director Mr. Wu Aimin to present and vote with approval for various proposals due to business.

Domestic ShuLun Pan Certificated Public Accountants and overseas Horwath Certificated Public Accountants audited the Company’s Financial Report and both issued standard unqualified Auditors’ Report for the Company.

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

CHAPTER I. COMPANY PROFILE

1. Legal Name of the Company

In Chinese: 深圳一致药业股份有限公司

In English: Shenzhen Accord Pharmaceutical Co., Ltd.

Abbr. of English name: Accord Pharm.

2. Legal Representative: Chen Weigang

3. Secretary of the Board of Directors: Chen Changbing

Contact Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong

Tel: (86) 755-25875195, 25875222

Fax: (86) 755-25875147

E-mail: 0028@szaccord.com.cn

4. Registered Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong

Office Address: Accord Pharm. Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen Guangdong

Post Code: 518029

Company's Internet Web Site: http://www.szaccord.com.cn

E-mail: investor@szaccord.com.cn

5. Newspapers for Disclosing the Information of the Company: Securities Times and Hong Kong Wen Wei Po

Internet Web Site for Publishing the Annual Report: http://www.szse.cn
http://www.cninfo.com.cn

The Place Where the Annual Report is Prepared and Placed: Secretariat of the Board of Directors

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock (A-share): Accord Pharm. / Accord B

Stock Code:

Short Form of the Stock (B-share): 000028/ 200028

7. Other Information about the Company

Initial registration date: Aug. 2, 1986

Initial registration place: Shenzhen, China

Registration date after change: Dec. 24, 2001

Registration place after changed: Shenzhen, China

Registered number for business license of corporation: 4403011001677

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

Name of the Certified Public Accountants engaged by the Company:

Domestic: ShuLun Pan Certified Public Accountants & Co., Ltd.

Address: 5/F, No. 61, Nanjing East Road, Shanghai

International: Horwath Certified Public Accountants

Address: Room 2001, Central Plaza, Harbour Road 18, Wan Chai District, Hong Kong

CHAPTER II. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

Section I. Main business data as of the year 2006

1. Major profit indexes

Unit: RMB

No.	Items	Amount
1	Total Profit	104,676,664.78
2	Net Profit	72,555,229.24
3	Net profit after deducting non-recurring gains and losses	63,962,326.55
4	Profit from main operations	573,412,011.59
5	Other operating profit	33,992,236.29
6	Operating profit	103,478,062.65
7	Investment income	-2,055,612.17
8	Subsidy income	6,600
9	Net non-operating income/expenses	3,247,614.3
10	Net cash flow arising from operating activities	181,729,861.8
11	Net increase in cash and cash equivalents	36,053,789.86

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

Unit: RMB

Items	Amount
Gains and losses rising from disposal of long-term equity investment, construction in-progress, fixed assets, intangible assets and other long-term assets	326,125.73
All types of government subsidies	6,600.00
Net non-operating income and cost after deducting withdrawal of depreciation reserve	-1,884,403.33
Switching back withdrawal of various depreciation reserve in previous year	10,124,763.00
Impact on income tax	19,817.29
Total of non-recurring gains and losses	8,592,902.69

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

Unit: RMB'000

	Net profit (2006)	Net assets (Ended as of Dec. 31, 2006)
As reported under Enterprise Accounting System of PRC	72,555	447,732
Adjustment under International Accounting Standards:		
Balance of amortization of goodwill rising from purchasing subsidiaries	-35,044	-32,460

Unconfirmed investment losses adjustment	-2,985	
Compensation for retired employee	-4,878	-4,878
Adjustment of deferred tax	7,411	7,411
Others	1,606	-71
As reported under International Accounting Standards	38,665	417,734

Explanations for the differences: The net profit as of the year 2006 was RMB 38,665,000 as audited by overseas Certified Public Accountants. The main reason for the difference between the results under CAS and IAS is because the different accounting policies were adopted in the treatment of assets replacement over the past years, amortization of balance of equity investment occurred from the purchase of affiliated subsidiaries in the report period, adjustment of unconfirmed investment losses arising from over deficit of subsidiary in the report period, and the compensation for retired employee and adjustment of deferred tax.

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

Financial indexes	Unit	2006	2005	Increase /decrease over last year (%)	2004
Income from main operations	RMB	5,667,611,804.68	1,635,568,517.10	246.52	1,576,085,283.69
Total profit	RMB	104,676,664.78	41,619,934.83	151.51	25,657,456.44
Net profit	RMB	72,555,229.24	35,765,331.72	102.86	27,254,148.36
Net profit after deducting non-recurring gains and losses	RMB	63,962,326.55	35,956,065.32	77.89	23,700,002.32
Total assets	RMB	2,679,240,445.07	1,072,448,048.81	149.82	846,186,796.73
Shareholders' equity (excluding minority interests)	RMB	447,731,956.74	393,721,269.08	13.72	358,197,820.37
Earnings per share	RMB/ Share	0.252	0.124	103.23	0.095
Net assets per share	RMB/ Share	1.554	1.366	13.76	1.243
Net assets per share after adjustment	RMB/ Share	1.524	1.342	13.56	1.193
Net cash flow per share arising from operating activities	RMB/ Share	0.631	0.515	22.52	0.452
Return on equity	%	16.205	9.084	Up 7.121 percentage	7.609
Weighted average return on equity	%	17.091	9.510	Up 7.581 percentage	7.746

Weighted average return on equity after deducting non-recurring gains and losses	%	15.067	9.561	Up 5.506percentage	6.736

Section III. Supplemental statement of profit

Profit in the report period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to common shareholders	16.205	17.091	0.252	0.252
Net profit attributable to common shareholders after deducting the non-recurring losses and gains	14.286	15.067	0.222	0.222

Note: The data of profit listed in supplemental statement of profit are calculated according to the requirements of No. 9---- Return on Equity and Earnings per Share (Revision in 2007) of Regulations on the Information Disclosure of Companies Publicly Issuing Shares released by CSRC.

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

Items	Share capital	Capital reserve	Statutory public reserve	Discretionary earnings surplus	Retained profit	Unrecognized investment losses	Total shareholders' equity
Amount at the period-begin	288,149,400.00	17,741,872.48	51,997,282.84	19,735,448.38	46,112,373.80	-30,015,108.42	393,721,269.08
Increase in the report period		302,202.06	11,686,871.67		72,555,229.24	-7,905,781.03	76,638,521.94
Decrease in the report period					22,627,834.28		22,627,834.28
Amount at the period-end	288,149,400.00	18,044,074.54	63,684,154.51	19,735,448.38	96,039,768.76	-37,920,889.45	447,731,956.74
Reason for change		Note 1	Note 2		Note 3	Note 4	

Note 1: Increase on capital reserve in the report period was because of the increase on capital reserve of the subordinates;

Note 2: Amount of statutory surplus reserve at the period-begin switching from the statutory welfare fund amounted to RMB 10,270,488.26. The increase of statutory surplus reserve in the report period was because the withdrawal in accordance with the regulations by the Company and its subordinates;

Note 3: Increase in the report period was due to the net profit of the Company realized; the decrease in the report period was due to the allotted dividend and withdrawal of statutory surplus reserve of the Company;

Note 4: Increase in the report period was because the over deficit and unconfirmed investment losses of the newly-increased consolidation scope including the subsidiaries of Sinopharm Medicine Holding Guangzhou Co., Ltd.: Shenzhen Accord Pharm Chain Store Co., Ltd., Guangzhou Southern Medical Equipment Co., Ltd and Guangzhou Xinte Pharmacy Corporation.

CHAPTER III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

Section I. Statement of change in share capital (Ended Dec. 31, 2006, Unit: share)

	Before the change		Increase/ Decrease as of the period（+，-）					After the change	
	Amount	Proportion (%)	New shares offering	Bonus share	Capitalization of Public reserve	Other	Subtotal	Amount	Proportion (%)
I. Restricted shares	178,378,200	61.90%		-16,465,680			-16,465,680	161,912,520	56.19%
1. State-owned shares									
2. State-owned legal person's shares	124,864,740	43.33%		-12,078,354			-12,078,354	112,786,386	39.14%
3. Other domestic shares	53,513,460	18.57%		-4,387,326			-4,387,326	49,126,134	17.05%
Including: Domestic legal person's shares	53,513,460	18.57%		-4,387,326			-4,387,326	49,126,134	17.05%
Domestic natural person's shares									
4. Foreign shares									
Including: Foreign legal person's shares									
Foreign natural person's shares									
II. Unrestricted shares	109,771,200	38.10%						126,236,880	43.81%
1. RMB Ordinary shares	54,885,600	19.05%		16,465,680			16,465,680	71,351,280	24.76%
2.Domestically listed foreign shares	54,885,600	19.05%						54,885,600	19.05%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	288,149,400	100.00%						288,149,400	100.00%

Shares held by the top ten restricted shareholders and restricted conditions

Unit: share

No.	Name of the restricted shareholders	Amount of the restricted shares held	Date to be listed	Amount of the additional listed shares	Restricted condition
1	SINOPHARM Medicine Holding Co., Ltd.	112,786,386	April 29, 2008	28,814,940	Note 1
			April 29, 2009	83,971,446	
2	Shenzhen Baoan District Shiyan Town Economic and Development Corporation	23,556,516	April 29, 2007	14,407,470	Note 2
			April 29, 2008	9,149,046	
3	Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	12,655,772	April 29, 2007	12,655,772	Note 3
4	Shenzhen Wangzong Industrial Co., Ltd.	5,058,437	April 29, 2007	5,058,437	Note 3
5	Nanjing Junyue Investment and Consultation Co., Ltd.	4,769,231	April 29, 2007	4,769,231	Note 3
6	Wuxi Huaxin Investment Management Co., Ltd.	1,332,332	April 29, 2007	1,332,332	Note 3
7	Shanghai Shisheng Enterprise Development Co., Ltd.	953,846	April 29, 2007	953,846	Note 3
8	Shanghai Huaxia Yifu Investment Management Co., Ltd.	800,000	April 29, 2007	800,000	Note 4

Note 1: (1) Not selling original non-tradable equities through stock exchange in 24 months from the day they become tradable. (2) Original non-tradable equities sold after the 24 months through stock exchange take up no more than 10% of the Company's total shares in the following 12 months, and the price is no lower than 110% of the stock weighted average price of the 30 trading days before Accord Pharmaceutical's Board of Directors publish the reform plan (from the day of implementing Non-tradable Shares Reform to the day when Sinopharm Medicine Holding sells equities, Ex Warrant/Ex Dividend on the price will be implemented if dividend, allotment or transferring of public capital to equity and so on happens).

Note 2. Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out; on basis of the aforementioned time limited, original non-tradable equities sold through stock exchange take up no more than 5% of the Company's total shares in the following 12 months; no mare than 10% within 24 months.

Note 3. Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out.

Note 4. Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out. If the shares held by Shanghai Huaxia Yifu Investment Management Co., Ltd could be sold for listed transaction, the company should pay back the shares and relevant account Sinopharm Medicine Holding Co., Ltd paid for on its behalf in the Share Merger Reform, and also get the written agreement from Sinopharm Medicine Holding Co., Ltd.

Section II. Issuance and listing of shares

1. From year 2001 to 2006, the Company did not issue any shares or derived securities.

2. In 2006, the stock structure of the Company changed due to the implementation of Share Merger

Reform, but the total shares did not change. On April 14, 2006, the Share Merger Reform Plan of the Company was approved and took April 27, 2006 as the registration date of stock changed, and carried out the Price Computation plan of allotting 3 shares each ten shares to tradable A shareholders on April 28, 2006, and the shares with price computation were listed for transaction in that day; and since that day the total shares of the Company all changed to tradable shares, of which, the tradable shares with restricted conditions totaled up 161,912,520 taking 56.19% in the total shares of the Company and tradable shares with unrestricted conditions totaled up 126,236,880 taking 43.81% in the total shares of the Company.

Section III. About shareholders

1. Ended Dec. 31, 2006, the Company had totally 22,753 shareholders, including 14,978 shareholders of A-share and 7,775 shareholder of B-share.

2. Particulars about the shares held by the top ten shareholders (Ended Dec. 31, 2006)

Full Name of shareholder	Nature of shareholders	Proportion of shares held	Total amount of shares held	Amount of restricted shares held	Amount of shares pledged or frozen
SINOPHARM MEDICINE HOLDING CO., LTD.	State-funded shareholder	39.14%	112,786,386	112,786,386	
SHENZHEN BAOAN DISTRICT SHIYAN TOWN ECONOMIC AND DEVELOPMENT CORPORATION	Other	8.18%	23,556,516	23,556,516	
SHENZHEN BAOAN SHANGWU ECONOMIC AND DEVELOPMENT CORPORATION CO., LTD.	Other	4.39%	12,655,772	12,655,772	11,646,000
SHENZHEN WANGZONG INDUSTRIAL CO., LTD.	Other	1.76%	5,058,437	5,058,437	
NANJING JUNYUE INVESTMENT AND CONSULTATION CO., LTD.	Other	1.66%	4,769,231	4,769,231	
CHINA INDUSTRIAL AND COMMERCIAL BANK－BOSCH SELECTIVE STOCK SECURITIES INVESTMENT FUND	Other	1.06%	3,049,634		
PINPOINT CHINA FUND	Other	0.95%	2,725,849		
FORTS BANQUE LUXEMBOURG S.A.	Other	0.85%	2,438,283		
YUE YUEN INVESTMENT FUND	Other	0.76%	2,200,000		
JINGFU SECURITIES INVESTMENT FUND	Other	0.74%	2,144,678		

3. Shares held by the top ten shareholders with unrestricted conditions (Ended Dec. 31, 2006)

Full Name of shareholder	Amount of unrestricted shares	Type of shares

	held(Share)	
CHINA INDUSTRIAL AND COMMERCIAL BANK－BOSCH SELECTIVE STOCK SECURITIES INVESTMENT FUND	3,049,634	RMB common share
PINPOINT CHINA FUND	2,725,849	Domestically listed foreign share
FORTS BANQUE LUXEMBOURG S.A.	2,438,283	Domestically listed foreign share
YUE YUEN INVESTMENT FUND	2,200,000	RMB common share
JINGFU SECURITIES INVESTMENT FUND	2,144,678	RMB common share
CHINA CONSTRUCTION BANK-BOSERA THEME INDUSTRY STOCK SECURITIES INVESTMENT FUND	2,099,921	RMB common share
SHANGHAI PUDONG DEVELOPMENT BANK-GUANGFA XIAOPAN GROWTH STOCK SECURITEIS INVESTMENT FUND	1,998,718	RMB common share
ANK OF COMMUNICATIONS-KERUI SECURITIES INVESTMENT FUND	1,489,650	RMB common share
AJIA-LIGHTHORSE CHINA GROWTH MASTER FUND LIMITED	1,289,923	Domestically listed foreign share
NATIONAL SOCIAL SECURITY FUND-ZERO AND NINE COMBINATION	1,196,131	RMB common share
Explanation on associated relationship among the top ten shareholders or consistent actionist	CHINA INDUSTRIAL AND COMMERCIAL BANK－BOSCH SELECTIVE STOCK SECURITIES INVESTMENT FUND and CHINA CONSTRUCTION BANK-BOSERA THEME INDUSTRY STOCK SECURITIES INVESTMENT FUND belong to Bosera Assets Management Co., Ltd, it is unknown that there exists no associated relationship or belongs to the consistent actionist among the other tradable shareholders regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Companies.	

4. The controlling shareholder of the Company

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

Legal representative: Zheng Hong

Date of foundation: Jan. 8, 2003

Registered capital: RMB 1,637,037,451

Nature of economic: state-owned holding company

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

5. Particulars about the actual controller:

Name of the actual controller: China Medicine Group Headquarter

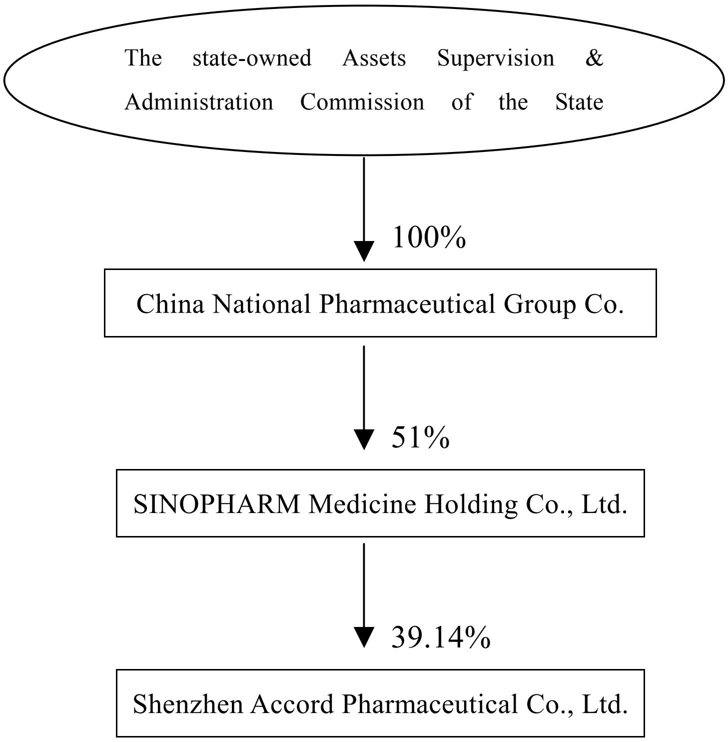
Legal representative: Zheng Hong

Date of foundation: Mar. 1, 1988

Registered capital: RMB 857,490,000

Nature of economic: state-owned sole company
Business scope: entrusted management and assets reorganization of pharmaceutical enterprises, consultant service of medicine industry investment project, holding exhibition and fair of surgical appliance, the wholesale of Chinese medicine, Chinese patent medicines, Chinese medicine herb in pieces, chemical material medicine, a chemical agent, antibiotics, biochemical, biological.
The underling exclusively invested company and controlling subsidiary of China Medicine Group Headquarter includes: China Medicine Industry Co., SINOPHARM Medicine Co., Ltd., China Medicine Foreign Trade Co., China Medical Appliance Co., China Drugs Group, SINOPHARM Medicine Holding Co., Ltd., SINOPHARM Exhibition Co., Ltd., Sichuan Antibiotics Industrial Institute of China Medicine Group Headquarter, Union Engineering Co. of China Medicine Group and SINOPHARM Advertising Co., Ltd..

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



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

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

Section I. Directors, supervisors and senior executives
1. Name list of directors, supervisors and senior executives a

Names	Titles	Sex	Age	Beginning date of office term	Terminating date of office term	Shares held at the	Shares held at the year-end	Reason of change	Total remuneration drew from the	Draw the remuneration from other

						year-begin			Company in the report period (RMB'0000)	shareholder units or associates or not
Chen Weigang	Chairman of the Board	Male	48	Jan. 13, 2005	Sep. 28, 2007	0	0			Yes
Wu Ai'ming	Director	Male	37	Jan. 13, 2005	Sep. 28, 2007	0	0			Yes
Zuo Jie	Director	Male	35	Jan. 13, 2005	Sep. 28, 2007	0	0			Yes
Shi Jinming	Director, General Manager	Male	39	Jan. 13, 2005	Sep. 28, 2007	0	0		51.85	No
Yin Jumin	Director	Male	58	Sep. 28, 2004	Sep. 28, 2007	0	0			Yes
Zou Jun	Director	Male	35	Sep. 28, 2004	Sep. 28, 2007	0	0			Yes
Chen Shu	Independent Director	Female	52	Sep. 28, 2004	Sep. 28, 2007	0	0		6.00	No
Sui Guangjun	Independent Director	Male	45	Sep. 28, 2004	Sep. 28, 2007	0	0		6.00	No
Peng Juan	Independent Director	Female	42	Sep. 28, 2004	Sep. 28, 2007	0	0		6.00	No
Zhu Dixin	Convener of the Supervisory Committee	Male	59	Jan. 13, 2005	2008-01-13	0	0		26.98	No
Shen Tianfang	Supervisor	Male	57	Jan. 13, 2005	2008-01-13	0	0		24.12	No
Zhao Junpeng	Supervisor	Male	38	Jan. 13, 2005	2008-01-13	0	0			Yes
Ou Jianneng	Deputy General Manager	Male	48	Jan. 13, 2005	Sep. 28, 2007	0	0		40.36	No
Tan Guoshu	Deputy General Manager	Male	52	Jan. 13, 2005	Sep. 28, 2007	0	0		42.43	No
Yan Zhigang	Deputy General Manager	Male	47	Jan. 13, 2005	Sep. 28, 2007	0	0		43.63	No
Lin Xinyang	Deputy General Manager	Male	42	Jan. 13, 2005	Sep. 28, 2007	0	0		41.18	No
Wei Pingxiao	Financial Chief Officer	Male	43	Dec. 7, 2004	Sep. 28, 2007	0	0		41.22	No
Chen Changbing	Secretary of the Board of Directors	Male	39	Sep. 28, 2004	Sep. 28, 2007	0	0		20.12	No
Total	-	-	-	-	-	0	0	-	349.89	-

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

Name	Shareholding company	Position	Office term
Wu Ai'min	SINOPHARM Medicine Holding Co., Ltd.	Financial Chief Supervisor, Deputy General Manager	From Jul., 2003 From Nov., 2006
Zuo Jie	SINOPHARM Medicine Holding Co., Ltd.	Section chief	From May, 2003
Yin Junmin	Shenzhen Shiyan Town Investment Management Co., Ltd.	Financial Chief Supervisor	From Jan., 1996
Zou Jun	Shenzhen Wangzong Industrial Co., Ltd.	Executive Director	From May, 2001
Zhao Junpeng	Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	Chairman Of the Board	From Jan., 2000

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

(1) Member of the Board of Directors

Chairman of the Board——Mr. Chen Weigang, MBA and senior economist, worked at China Medicine Group (Shanghai) Company from Apr. 1976, took the turns of officer of enterprise management office, commissar of League Commission, associate dean or dean of GMO, manager of business department, manager associate and deputy manager, etc.; he takes the position of secretary of CPC and GM of China Medicine Group (Shanghai) Company from Dec. 1998 to Jan., 2003; and secretary of CPC and GM of SINOPHARM Medicine Holding Co., Ltd. from Jan. 2003; from Feb., 2006, takes the post of deputy general manager of China Medicine Group Headquarter; and takes the post of chairman of the Board of the Company from Jan. 2005.

Director——Mr. Wu Ai'min, an accountant with bachelor degree, took the turns of senior manager of Jiangsu Property Assessment Firm, copartner of Jiangsu Renhe Property Assessment Company, financial chief supervisor and manager of investment center of Xuzhou Huaihai Food Town, and so on from Aug. 1992; takes the position of financial chief supervisor of SINOPHARM Medicine Holding Co., Ltd. from Jul. 2003; and takes the post of director of the 4th Board of Directors of the Company from Jan. 2005.

Director——Mr. Zuo Jie, MBA and China economist, worked at the 1st department store Co., Ltd., Shanghai, he took the turns of securities representative of the Board of Directors, deputy MB of finance securities department and of the 1st department store Co., MB of Investment Company and MB associate of the 1st department store east building, and so on from Jul. 1993; from May 2003 takes the post of deputy minister and minister of investment planning department SINOPHARM Medicine Holding Co., Ltd. till now; and takes the post of director of the 4th Board of Directors of the Company from Jan. 2005.

Director & General Manger——Mr. Shi Jinming, bachelor degree, took the turns of manager of China Medicine (Group) Guangzhou Yuexing Company, manager of medicine department of SINOPHARM Medicine Co., Ltd., deputy GM of China Medicine (Group) Guangzhou Yuexing Company and concurrently manager of Yuexing Company from Mar. 1995; he successively takes the post of GM and chairman of SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. from Apr. 2003 ; GM of the Company from Feb. 2004, and he takes the post of director of the 4th Board of Directors of the Company from Sep., 2004.

Director——Mr. Yin Jumin, an accountant, from 1994 to 1996 took the post of project manager of Baoyong CPAs, Bao'an District, Shenzhen; from 1996 takes the post of general accountant and financial chief supervisor of Shiyan Town Investment Management Co., Ltd. Bao;an District, Shenzhen; and he takes the post of director of the 4th Board of Directors of the Company from Sep., 2004.

Director——Mr. Zou Jun, bachelor degree, from Oct. 1997 to May 2001 worked as deputy GM at Shenzhen Taoxian Industrial Co., Ltd.; takes the post of executive director of Shenzhen Wangzong Industrial Co., Ltd. from May 2001 till now; and he takes the post of director of the 4th Board of Directors of the Company from Sep., 2004.

Independent director——Ms. Chen Shu, bachelor, ever worked as cadre, secretary of court, judger and vice president, etc. at People's Court of Huangling County, Shanxi province, from Oct. 1985 took the post of section chief of Law Firm of Liwan District, Guangzhou City, vice administrator of administration of justice till now; copartner and section chief of Guangzhou Law Firm from Jan. 1995; copartner and section chief of Guangzhou Jinpeng Law Firm from Feb. 1996; chief secretary of Guangzhou Lawyer Association and concurrently vice president of China National Lawyer Association and vice president of Guangdong province Lawyer Association, as well as NPC deputy of the 10th session from Mar. 2002 till now; and she takes the post of director of the 4th Board of Directors of the Company from Sep., 2004.

Independent director——Mr. Sui Guangjun, professor with doctor degree and instructor for doctorate, ever took the post of superintendent of special zone and pearl river delta economic institute of Jinan University, dean of marketing department, standing vice president and president of management institute of Jinan University, section chief of Oriental Thought Marketing Institute of Jinan University, dean of MBA Education Center and stationmaster of postdoctoral circling station; now he is in charge of vice president of Guangdong Foreign Trade & Language University; and he takes the post of director of the 4th Board of Directors of the Company from Sep., 2004.

Independent director——Ms. Peng Juan, associate professor, mayor research direction is finance strategy and management, marketing auditing and financing marketing. From 1997 taught at financing and accounting department of management institute of Shanghai Jiaotong University till now, now is in charge of deputy dean and concurrently secretary of CPC; and she takes the post of director of the 4th Board of Directors of the Company from Sep., 2004.

(2) Members of supervisors:
Convener of the Supervisory Committee——Mr. Zhu Dixin, senior politic engineer graduated from secondary technology school, from Oct. 1985 took the post of section chief of Shenzhen Discipline Supervision office, deputy director of Shenzhen Fighting Economic Crime Office, dean of supervision office of supervision administration bureau of Shenzhen, secretary of discipline supervision commission of Shenhua Industrial Trade Headquarter of Shenzhen, supervision office dean, secretary of discipline supervision commission and secretary of CPC of Shenzhen Medicine Produce and Supply Headquarter, chairman of the supervisory Committee, and so on; and he takes the post of supervisor of the 4th Supervisory Committee of the Company from Jan., 2005.

Supervisor——Mr. Zhao Junpeng, three-year college degree, is now in charge of director of Villager Commission of Shangwu Village of Bao'an, Shenzhen and chairman of the Board of Shangwu Economic and Development Co., Ltd.; took the turns of supervisor of the Company; and he takes the post of supervisor of the 4th Supervisory Committee of the Company from Jan., 2005.

Employee supervisor——Mr. Shen Tianfang, three-year college degree, from Nov. 1985 took the turns of sole duty DS cadre, deputy minister and minister of personnel ministry, chairman of Labor Union and commissar of CPC, etc. of Shenzhen Medicine Produce and Supply Headquarter; from 2001 took the post of chairman of LU, commissar of CPC and supervisor, etc. of the 3rd Supervisory Committee of Shenzhen Accord Pharmaceutical Co., Ltd.; and he takes the post of supervisor of the 4th Supervisory Committee of the Company from Jan., 2005.

(3) Senior executives:
Director and General Manager——Mr. Shi Jinming Referring to the aforesaid introduction of members of directors for details.

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

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

Deputy General Manager——Mr. Yan Zhigang, MBA, chief chemist, took the turns of technician, section chief of QC department, deputy GM and manager, etc. of Guizhou Medicine Company from Jul. 1983; held the position of plant manager of Shenzhen Medicinal Oil Plant, deputy GM of Shenzhen Medicine Company, deputy GM of Shenzhen Accord Pharmacy Franchise Company from Jun. 1996; from Feb. 2000 took the post of plant manager of Shenhzhen Pharmaceutical Factory, general manager of Shenzhen Zhijun Pharmaceutical Co., Ltd.; and took the post of deputy GM of the Company from Jan. 2005.

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

Chief Financial Officer——Mr. Wei Pingxiao, MBA, a China accountant, took the turns of Financial department of State-owned Beijing Electronic Tube Plant, Modern Electronic Shenzhen Industrial Company, China Electronic Industrial Headquarter from Aug. 1985; and took the turns of deputy section chief of financial department of China Electronic Information Industry Group, financial director of AMOI, section chief of planning financial department of China Electronic Finance Leasing Company,
Deputy GM of AMOI Beijing branch, financial charger of AMOI and director of its subsidiary from Apr. 1993; and hold the post of financial general supervisor of the Company.

Secretary of the Board——Mr. Chen Changbing, master degree, ever took the post of Zhuhai Guangli Industrial Co., Ltd., from 1999 took the post of deputy office director of Shenzhen Medicine Produce and Supply Headquarter; the post of secretary of the Board of the Company from Dec. 2000; and took the post of secretary of the 4th Board of the Company from Sep. 2004, concurrently took the post of manger in Investment Management Department of the Company.

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

Name	Position/part-time job	Relationship with the Company	Office duty
Chen Weigang	China Medicine Group Headquarter	Controlling shareholder of SINOPHARM Holding	Deputy GM
	SINOPHARM Medicine Holding Guoda Pharmacy Co., Ltd.	Subsidiary of holding shareholder	Legal representative
	Shanghai SINOPHARM Logistics Co. Ltd.	Subsidiary of holding shareholder	Legal representative
	Beijing Huahong of SINOPHARM Co., Ltd.	Subsidiary of holding shareholder	Legal representative
Shi Jinming	SINOPHARM Medicine Holding Guangzhou Co., Ltd.	Subsidiary of holding shareholder	Chairman of the Board
Ou Jianneng	Shenzhen Accord Pharmacy Franchise Co., Ltd.	Subsidiary of the Company	GM
Yan Zhigang	Shenzhen Zhijun Pharmaceutical Co., Ltd.	Subsidiary of the Company	General Manager
Sui Guangjun	Guangdong Foreign Trade & Language University	No relation	Vice President
Chen Shu	Guangdong Lawyers' Association	No relation	Chief Secretary
Peng Juan	Management Institute of Shanghai Jiaotong University	No relation	Deputy Dean of Department

5. Particulars about elections of directors, supervisors and engaging of senior executives in the

report period
In year 2006, there were no changes on directors, supervisors and senior executives in the Company.

Section II. Number of employees and professional quality
At end of the year 2006, the Company (including the subsidiaries) had totally 3,757 on-the-job employees.

Profession/occupation composition			Education Background		
Profession	Number	Proportion (%)	Education	Number	Proportion (%)
Production personnel	657	17.49	Master degree or above	77	2.05
Salespersons	1925	51.24	Bachelor degree	705	18.7
Technicians	125	3.33	3-years regular college graduate	913	24.3
Financial personnel	184	4.90	Polytechnic school graduate	1151	30.64
Administrative personnel and others	866	23.05	Senior high school graduate or below	911	24.25
Total	3757	100	Total	3757	100

At the end of the report period, the Company had totally 327 retirees, whose pensions were taken by Local Social Insurance Bureau. The Company took on the expenses of 165 employees who retired early.

CHAPTER V. ADMINISTRATIVE STRUCTURE

Section I. Company Administration
According to the requirements of the laws and regulations including Company Law, Administration Rules for listed Companies, Guideline on Establishing Independent Director System in Listed Companies, Stock Listed Rules of Shenzhen Stock Exchange, etc., in the report period, the Company further enacted and perfected Articles of the Associations of the Company, Rules and Procedure of the Board of Directors and the other management regulations, continually perfected administration structure in accordance with the requirement of modern enterprise system, based on setting down rules of procedure of “three meetings and one team” (namely shareholders’ general meeting, board of directors, supervisory committee and management team) and work detailed rules; according to the actual requirement of enterprise development, established the specific commission of the Board of Directors, gradually formed the scientific decision-making mechanism, implement mechanism and supervision mechanism, step by step, were able to protect the reasonable right interests of shareholders, creditor and the Company, the material situations are as following:
1. Shareholders and Shareholders’ General Meeting: The Company operated in a standardized way, safeguards rights and interests of all shareholders especially those medium and small shareholders, and ensured they all fully implement their own rights; The Company established the Rules of Procedures of the Shareholders’ General Meeting, called and held shareholders’ general meeting strictly according to the rules for shareholders’ general meeting.
2. Relationship between the controlling shareholder and the listed Company: The controlling

shareholder performed their duties in a standardized way and never overstepped the Shareholders' General Meeting to interfere in the Company's decision-making and operation directly and indirectly; The Company pursued the "five separations" in personnel, assets, finance, organization and business from its controlling shareholder, and its Board of Directors, Supervisory Committee and internal organs operated independently. As the state-owned controlled listed company, the Company carried out the relevant regulations on State-owned Asset Administration of controlling shareholders and actual controllers. The details are as follows:

No.	Parties of information reported to	Relationship between parties of information reported to and listed companies	Sort of information	Basis of the reported information	Date or period of reporting
1	SINOPHARM Medicine Holding Co., Ltd.	The 1st large shareholder	Financial statement	Demand of consolidated statement of the 1st large shareholder	Scheduled
2	China Medicine Group Headquarter	Actual shareholder	Report of asset evaluation, etc.	Management methods on State-owned equity transfer and equity investment of China Medicine Group Headquarter	Temporary

3. Directors and the Board of Directors: The election and engaging procedures of director was regulated in the Articles of Association of the Company, and adopted the accumulative voting system. The Company elected directors strictly according to the election and engaging procedures stipulated in the Articles of Association; All directors attended the Board meeting and the shareholders' general meeting diligently and responsibly and strictly implemented duties of directors of listed companies. The Company established Rules of Procedures of Board of Directors; routine meeting of the Board of Directors and decision-making work
4. Supervisors and the Supervisory Committee: The number of supervisors and their formation are in compliance with requirements of laws, regulations and the Articles of Association. The Company established the Rules of Procedures of Supervisory Committee. The members of Supervisory Committee performed seriously their duties, taken responsible attitude to all the shareholders, supervised the financial affairs, the duties performed by the Company's directors, managers and other senior executives.
5. Performance Evaluation, Encouragement and Binding Mechanism: The Company made the annual operation plan The Company currently applies annual benefit bonus system for senior executives, and is gradually establishing fair and transparent performance evaluation criteria and encouragement and binding mechanism for directors, supervisors and senior executives.
6. Relations with the Relevant Beneficiaries: The Company could fully respect and safeguard the

legal rights and interests of the banks, other creditors, employees, consumers and other parties of related interests, and jointly promoted sustainable and healthy development with these parties.
7. Information Disclosure: The Company authorized the secretary of the Board to take charge of information disclosing, receiving visits and inquiries of the shareholders. The Company established Management System of Information Disclosure Office Procedure on Investor Investment Relationship, and relevant person could strictly disclose the relevant information in a real, accurate, complete and timely way according to the law, regulations and the Articles of Association in order to ensure all the shareholders have equal opportunity to obtain the information.

Section II. Performance of the Independent Directors
The Company has engaged 3 independent directors, taking up one third of the total members of directors in accordance with the regulation of Guideline on Establishing Independent Director System in Listed Companies. During the report period, they could attended the Board Meeting and the Shareholders' general meeting; with holding the spirit of being responsible for the middle and small shareholders, strictly performed the obligations of fairness and diligence; made their useful suggestion and opinion on the operation decision-making, lawsuits and financial management; did not have objections for the proposals examined by board of directors and other events; examined earnestly the significant events issued by independent directors and made independent judge and independent opinion in writing form on Share Merger Reform, significant related transactions, engagement of CPAs and, etc; performed their relevant duties on protecting the legal interests of middle and small shareholders.
In year 2006, the Company held 6 meetings of board (Including the meetings by communications), and the presences to the meetings of board by independent directors were as follows:

Name of independent directors	Times are supposed to be attendance	Presence in person	Entrusted presence	Absence	Remarks
Chen Shu	6	5	1	0	Entrusted Sui Guangju in writing to attend and vote
Sui Guangjun	6	5	1	0	Entrusted Chen Shu in writing to attend and vote
Peng Juan	6	6	0	0	

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

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

(1) The Company is absolutely independent in the management of labor, personnel and salaries. Office address, organization and production sites are different from the controlling shareholder. There existed no such situation of operating and working together with controlling shareholder.
(2) Senior executives of the Company are full time employees in the Company without taking concurrent position in Shareholding Company, and receive salary from the Company.
(3) The controlling shareholder recommends directors according to legal procedures. The appointment and removing of personnel made in Board meetings and shareholders' general meetings can be effectively implemented.
3. In term of assets: The Company is completed independent from its controlling shareholder in term of assets and independently operates. The Company not only possesses independent production system, auxiliary production system and complementary facilities, but also enjoys such intangible assets as industrial property right, trademark, non-patent technology, etc.
4. In term of finance:
(1) The Company has established independent financial department, independent and complete accounting system and financial management system.
(2) The Company cam make the financial decision independently without interfere of its controlling shareholder.
(3) The Company has independent bank account without depositing fund into accounts of the controlling shareholder, finance company or settlement center controlled by related parties
4) The Company pays the tax in compliance with laws.

Section IV. Performance Valuation, Encouragement and Binding Mechanism for Senior Executives
According to requirements of establishing modern enterprise system, the Company has established a fair and transparent procedure and system of engaging for senior executives so as confirm the rights and obligations of senior executive. The Company implemented the performance checking system by the month from the year 2006, and carried out the level checking system for the senior executives, whose results were directly related to their benefit wages. According to the Articles of Association, Rules of Procedures of Board of Directors and Rules of Procedures of Supervisory Committee, the Board and Supervisory Committee carried through the process supervision on the routine performance for senior executives; the Company is establishing the relevant encouragement and binding mechanism gradually in order to further exert the enthusiasm and creativity of senior executives, urge the senior executives to perform the obligations of being honest and diligent.

CHAPTER VI. PARTICULARS ABOUT THE SHAREHOLDER'S GENERAL MEETING

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

I. The Shareholders' Meeting of A-Stock on Share Merger Reform
The Shareholders' Meeting of A-Stock on Share Merger Reform was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on April 14, 2006. The relevant notice was published on Securities Times and Hong Kong Wen Wei Po dated April 15, 2006.

II. The 2005 Annual Shareholders' General Meeting
The 2005 Annual Shareholders' General Meeting was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on May 22, 2006. The relevant notice was

published on Securities Times and Hong Kong Wen Wei Po dated May 23, 2006.

III. The Extraordinary Shareholder's General Meeting of 2006
The Extraordinary Shareholder's General Meeting was held at the meeting hall on the 5/F of the Company, No. 15, Ba Gua Si Road, Futian Dis. Shenzhen on Dec.28, 2006. The relevant notice was published on Securities Times and Hong Kong Wen Wei Po dated Dec.29, 2006.

CHAPTER VII REPORT OF THE BOARD OF DIRECTORS

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

In 2006, it was the first year of the implementation of "The First Medicine Brand in South China" development strategy, was the basic year of "Integration, Performance, Innovation, Promotion, and Leap-forward", and was the innovative year of promoting the resource recombination in Guangxi and Guangdong provinces. In the report period, the Company on one side actively adapted to the adjustment and innovation trend of pharmaceutical industry, tried hard to build up integrated operation platform on Guangxi and Guangdong, while on the other side tried to deal with the relationship between scale and development, scale and benefit, scale and accumulation, scale and risk in the integration of Guangdong and Guangxi, seized the outstanding problems, took specific measures, gave priority to optimization and improvement, continuously enhanced the operation quality. In 2006, the economic index was fulfilled; the operation performance was growing continuously, all the works have made a break through. The main achievements were as follows:

I. The three key work have been successfully carried out

1. Accomplished the Share Merger Reform

With the joint efforts of large state-owned shareholders, other original non-circulating shareholders and vast circulating shareholders, the Company successfully completed the Share Merger Reform, actualized the win-win situation of the whole shareholders.

2. The integration of Guangxi and Guangdong have been successfully carried out

After the integration started in 2006, it already obtained series of achievements, including: established the management and control mode which suits the characteristic of the Company, built up the organization structure of four function centers and four business segments, confirmed the design of function of the segment, setting-up the posts and reporting relationship, and the fix on core posts; started up the flow mechanism construction of Guangxi and Guangdong; Completed the type-chosen, on-line application and trial running of the new financial system of the Company.

3. The project of pharmaceutical R&D and manufacturing base has been completed on scheme

In 2006, the pharmaceutical R&D and manufacturing base that built according to the international advanced standards has been successfully completed, which provide the basis for internationalization of pharmaceutical industry of Shenzhen Accord Pharmaceutical Co., Ltd. The base introduced the top international introduction and examination equipments from America, Japan, Italy, and Germany etc., established auxiliary facilities such as 3 production workshops of pulverous needle, oral liquid and oral solid, 5 production lines and R&D building.

II. Strengthened the basic management, the whole operation quality of the Company steadily enhanced

1. In the aspect of pharmaceutical distribution

(1) Strengthen the operation management, seek and established the monitoring index system,

formed the monitoring analysis system with the core of 5 sorts and 17 indices; formed the special analysis pattern of focus on two key business node each month, Step-based Analysis Systems that increasing in month, quarter and year, and special business disposal mechanisms.

(2) Strengthened the purchase-leading strategy, paid attention to the cooperation of Guangxi and Guangdong, actualized purchase combination of some varieties, reduced the procurement cost, the integration of Guangxi and Guangdong took a little effect. In the aspect of merchandise management, adjusted the existing merchandise structure, made the variety structure more reasonable, in each quarter, on the basis of assessment and analysis of newly introduced varieties, draw corresponding strategy according to the sale.

(3) Established the credit management group, strengthened the management of operation risk. On one side, established the credit management system and flow, and supervised the implementation, strictly examined the accounts receivable; on the other side, consummated the operation system, comprehensively actualized the dual control of amounts and the number of days.

(4) Actively react to the changes of policy and market, seek for the third terminal business, actualized enhance in customer quantity and sales. In order to respond to the policy of Sun Purchasing Policy of auction and controlled price in medicines of Guangdong Province, on the basis of deep research and investigation, the Company established specific organization of purchase via network in Shenzhen Accord Pharmaceutical Co., Ltd. and SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. The Company did well the consulting service for suppliers, at the same time, strove for variety commission, which achieved significant effects.

2. In the aspect of manufacturing pharmaceuticals industry

(1) Innovated the marketing mode, expanded the second and third stage market, segment the sales area, and continuously regulated the product distribution channels through the way of authorized sales etc., carried out product combination with the lead of leading products, pulled in sales of the other products, formed group effect; while keeping the pioneering status of the leading products in the top market, the Company continue to promote the “626 “plan, continuously expanded the low-end market shares.

(2) Strictly complemented the examination and approval mechanism of price compare and inquiry, strengthened the supply chain management, and reduced the production cost.

(3) Strengthened cooperation with domestic scientific organizations, enhanced product R&D and quality, actively seek for excellent varieties, reasonably programmed the short-term, medium-term, and long-term products reserve.

(4) Changed the name of “Shenzhen Pharmaceutical Factory” to “Shenzhen Zhijun Pharmaceutical Co., Ltd”, actualized the strategy transfer from “Product Brand” to “Enterprise Brand”.

3. In the aspect of pharmaceuticals retail chain

(1) Devoted efforts to chain stores exploiture, in 2006, the total number of chain stores amounting to nearly 400 in Guangxi and Guangdong area.

(2) Strengthened merchandise management, enhanced operation quality, on the basis of promoting the 5+1 management mode of single-store earnings, the Company developed the variety analysis of the merchandise, continuously adjusted the varieties structure, provided series of private brand varieties, started up the project of chain price strategy, significantly improved the profit-earning ability of the chain stores.

(3) Continuously developed marketing with successful sales pattern such as theme promotion, and sales promotion group, etc., speeded up the health express frequency, developed the linkage sales promotion activities, pulled in the sales amount increasing of chain stores, the whole capability of

gaining profit improved.

Through series of measures, the Company consolidated the leading status of the pharmaceutical market in Shenzhen, and further strengthened the competitive ability of pharmaceutical distribution market in Guangzhou.

Section II. Operation Result and main business of the Company

I. The scope of main operations was R&D and production of pharmaceuticals, wholesales and chain retails of Chinese and western patent medicine, Chinese traditional medicine, biological products, bio-chemical medicine, health care products and medical apparatus and instruments. The scope of main operations of the holding enterprise of the Company SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. is: agency and distribution of the import drugs and drugs from joint-venture enterprises.

II. Formation of income from main operations

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

Unit: RMB’0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Medical industry	52,157.92	29,318.17	43.79	2.70	17.81	Down 7.21 percentage
Medical wholesale	643,938.10	615,875.49	4.36	280.58	279.16	Up 0.36 percentage
Medical retail	31,117.93	24,218.78	22.17	40.63	38.20	Up 1.37 percentage
Non-medical trade	3,589.21	2,782.59	22.47	—	—	—
Lease	1,516.48	463.88	69.41	—	—	—
Less: Counteracting between internal industries	165,558.46	164,061.16	-	-	-	-
Consolidation	566,761.18	508,597.74	10.26%	246.52	302.87	Down 12.55 percentage
Including: related transactions	40,372.35	34,599.48	14.30	257.97	534.17	Down 37.32 percentage

Note: 1. The price of related transactions were on the basis of market price.

2. In current year, there added combined units totally amounted to 16, all of which were resulted from purchasing; they are SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries. Sinopharm Medicine Holding (Guangzhou) Co. Ltd is known for commercial cannibalization and so called Fast Wholesale. As gross profit margin of medicine commercial cannibalization and Fast Wholesale is relatively low, income from prime operations of medicine whole sale increased dramatically while consolidated gross profit margin dropped greatly.

3. The same to the aforesaid reason, in current year, the transactions of affiliated enterprises of SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries are newly consolidated, as the gross profit margin of medicine wholesale industry is relatively low, and 65% affiliated transactions were medicine industry products that have a relatively high gross profit margin in 2005, so the gross profit margin of related transactions dropped greatly.

Main operations classified according to products

Respiratory antitussive medicines	23,409.60	4,089.74	82.53	-3.66	-11.72	Up 1.59 percentage
Anti-infectious cef-series products	28,309.36	24,940.16	11.90	23.81	34.74	Down 7.15 percentage
Including the related transaction	6,839.02	2,002.98	70.71	-6.95	22.28	Down 7.01 percentage
Pricing principle	Market price adopted					
Necessity and durative of related transactions	1. Related transactions of the Company, with making profit as objective, transacted fairly based on market price, accorded with market economy principles; 2. Related transactions took small part of the total sales amount, which didn't impact the Company severely; 3. To enlarge market share and decrease costs, relevant related transactions of the Company would be necessary and durative.					

Note: In the report period, the amount in the related transaction for the Company to sell the products and provide labor forces to the controlling shareholders and its subsidiaries amounted to RMB 389,963,200.

2. Income from main operations classified according to areas

Unit: RMB'0000

Item	Income from main operations	Cost of main operations
Domestic sales	566,431.80	247.09
Oversea sales	329.38	-8.77

3. Major suppliers and customers

Unit: RMB'0000

Total amount of purchase of the top five suppliers	156,301.59	Proportion in the total amount of purchase	25.85%
Total amount of sales of the top five sales customers	42,281.74	Proportion in the total amount of sales	7.46%

III. Constitution of the assets for the Company in the report period

Unit: RMB'0000

Item	Dec.31, 2006		Dec.31, 2005		Increasing ratio in the total assets
	Amount	Proportion in the total assets (%)	Amount	Proportion in the total assets (%)	
Total assets	267,924	100	107,245	100	
Monetary fund	20,534	7.66	16,929	15.79	-8.13
Notes receivable	20,746	7.74	2,662	2.48	5.26
Accounts receivable	113,440	42.34	34,337	32.02	10.32
Inventories	48,940	18.27	20,969	19.55	-1.28
Long-term equity investments	10,910	4.07	7,625	7.11	-3.04

Net fixed assets	25,959	9.69	11,686	10.9	-1.21
Construction in progress	15,099	5.64	8,125	7.58	-1.94
Intangible assets	3,203	1.20	146	0.14	1.06
Other long-term assets	1,535	0.57			0.57
Short-term loans	29,699	11.08	1,000	0.93	10.15
Notes payable	41,918	15.65	4,185	3.90	11.75
Accounts payable	95,699	35.72	33,434	31.17	4.55
Advance receivable	3,084	1.15	2,580	2.41	-1.26
Taxation payable	292	0.11	590	0.55	-0.44
Other payables	28,647	10.69	19,667	18.34	-7.65
Estimated debts	130	0.05			0.05
Long-term loans	9,772	3.65			3.65
Other long-term debts	2,309	0.86			0.86

Reasons for changing on constitution of the assets compared to last year:
1. Accounts receivable: The main reason for increasing compared to last period was the newly added combined units SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries which totally amounted to 16, while the sales scale significantly expanded, the accounts receivable increased in the same direction.
2. Long-term equity investments: the main reason for increasing compared to last period was the influence of long-term equity investment of SINOPHARM Medicine Holding (Guangzhou) Co., Ltd.
3. Intangible assets: The main reason was the Company has transferred the rights to the use of the land of Longgang industry area from construction in progress to intangible assets.
4. Short-term loans: Besides the newly added bank loan balance RMB 114 million at the end of the report period, there's also the factor of discount amounting to RMB 172.986 million of non-expired acceptance draft of the Company and its controlling subsidiaries reflec ted on the short-term loans.
5. Notes payable: The main reason was the notes payable balance of the newly added combined units SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subsidiaries amounted to RMB 308.97 million at the end of the period, and the increase of notes payable balance of the Company.
6. Accounts payable: the reason was the increasing of production sales and enlarging of Spring Festival preparation of goods in the year-end, and causing the increasing of the amount of buying on tally.
7. Estimated debts: The newly added estimated debts were withdrawn from the subsidiary of the Company Shenzhen Accord Pharm Chain Store Co., Ltd according to the SSBF [2006] No.83 Notice promulgated by Administration of Social Insurance Fund of Shenzhen.
8. Long-term loans: The increase in current period was resulted from the increasing loans raised for project of Pharmaceutical R&D base construction of subsidiary of the Company Shenzhen Zhijun Pharmaceutical Co., Ltd.
9. Other long-term debts: The increase in current period was resulted from central medicine reserve

fund of SINOPHARM Medicine Holding (Guangzhou) Co., Ltd.

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

Unit: RMB'0000

Item	2006	2005	Increase/decrease ratio(%)	Reason for changing
Operating expenses	30,204	24,832	21.63	In current year, as the newly added combined units SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries totally amounted to 16, the operating expenses and administrative expenses increased compared with last period. The total expenses of SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries amounting to RMB 164.7 million in the report period this current year.
Administrative expenses	18,086	10,563	71.22	
Financial expenses	2,103	-164		
Investment incomes	-206	-8		Mainly resulted from the RMB 130,000 decrease of the investment income of participating and associated enterprises, and RMB 3.62 million increase of the amortization of the share investment balance and RMB 1.77 million increase from equity transfer income
Non-operating incomes	111	33	236.36	Mainly influenced by the increasing of clearing net incomes of fixed assets in the report period compared to last period
Non-operating expenses	-213	40		Mainly influenced by the offsetting of provision for devaluation of fixed assets and provision for devaluation of construction in progress that withdrew in previous years
Income tax	2,990	610	390.16	Mainly influenced by the income tax of SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries amounted to RMB 15.61 million this current year, and meanwhile, the enterprise income tax of subsidiary of the Company Shenzhen Zhijun Pharmaceutical Co., Ltd. recovered to 15% in 2006.

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

Unit: RMB

Item and reasons for changes compared to last period	2006	2005	Increase/decrease (%)
Cash flow arising from the operating activities			
Subtotal of cash inflow	6,513,691,490.10	1,883,720,276.60	245.79

Subtotal of cash outflow	6,331,961,628.30	1,735,445,208.60	264.86
Net cash flow arising from operating activities	181,729,861.80	148,275,068.00	22.56
Cash flow arising from investing activities			
Subtotal of cash inflow	5,524,700.77	5,099,094.23	8.35
Subtotal of cash outflow	134,361,234.55	88,448,075.60	51.91
Net cash flow arising from investing activities	-128,836,533.78	-83,348,981.37	54.57
Cash flow arising from financing activities			
Subtotal of cash inflow	342,146,000.00	36,302,800	842.48
Subtotal of cash outflow	358,979,680.63	12,808,138.36	2,702.75
Net cash flow arising from financing activities	-16,833,680.63	23,494,661.64	-171.65

Explanations:

As the newly added combined units SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries totally amounted to 16, the cash flows increased greatly compared to last period. The explanations are as follows:

1. The reason for the increasing of operating cash flow was that the cash receiving from the sales of commodities increased RMB 4,610,222,200 compared to same period; the cash receiving from other operating activities increased RMB 19,727,100; the return of tax received increased RMB 22,000.

2. The reason for the increasing of operating cash flow was that the cash for purchasing of commodities increased RMB 4,302,654,300; the cash for paying the employees increased RMB 93,175,800; the paid taxes and expenses increased RMB 82,892,900; the cash for other operating activities increased RMB 117,793,400.

3. The reason for the increasing of cash inflow arising from investing activities was that cash from obtaining from investing income increased RMB 253,600; cash from the disposal of fixed assets increased RMB 1,720,200; cash receiving from the withdrawal of investment from the disposal of shares of Shenzhen Chinese and Western Pharmaceutical Company decreased RMB 1,548,100 compared with the withdrawal of investment from the disposal of shares of Shenzhen Jian'an.

4. The reason for the increasing of cash outflow arising from investing activities was that the investment on fixed assets increased RMB 67,597,200; the net cash flow arising from purchasing SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. and its subordinate subsidiaries led to the increase of cash outflow arising from investing activities amounting to RMB 16,141,600; and the cash outflow arising from other investing related activities decreased RMB 37,825,600.

5. The reason for the increasing of cash inflow arising from financing activities was that the bank loans received increased RMB 3,295,200; the net cash flow arising from purchasing the subordinate company received employee's economic compensation due to transformation and Finance special funds for commercial development respectively amounting to RMB 1.476 million and 1.15 million; and received cash arising from other financing activities increased RMB 2.626 million compared with the same period of last year.

6. The reason for the increasing of the cash outflow arising from the financing activities was that the cash of expenses for returning the bank loan increased RMB 294,100,000; and the cash of expenses for distributing dividend and repaying the interests increased RMB 48,817,800; in current year, the subordinate SINOPHARM Medicine Holding Liuzhou Co., Ltd. paid employee's economic

compensation amounting to RMB 3,253,700 due to transformation.
In the report period, net profits of the Company amounted to RMB 72,555,200; net cash flow arising from the operating activities amounted to RMB 181,729,900. There existed great differences between the net profits and net cash flow arising from the operation activities, and the reasons were as follows:
(1) In the report period, the expenses for amortizations which were reckoned in losses and gains but not concerning the cash flow (Provision for asset devaluation, Depreciation of fixed assets, and Amortization of long-term expenses to be apportioned, Amortization of intangible assets, Amortization of accrued expenses) made the differences amounted to RMB40,060,000 between them.
(2) In the report period, the interest expenses which were reckoned in losses and gains but not concerning the operational cash flow made the differences amounted to RMB 24.11 million between them.
(3) In the report period, the amounts of changing on the operation receivable concerning the cash flow but not-reckoned in losses and gains, items receivable, increase and decrease of inventory made the differences amounted to RMB 40.63 million between them.

VI. Operation and business analysis to the main holding companies and participating companies of the Company
1. Shenzhen Zhijun Pharmaceutical Co., Ltd. (Previous Shenzhen Pharmaceutical Plant): wholly-owned subsidiary of the Company. Its registered capital was amounting to RMB 32.19 million, and it deals with the manufacturing of the original chemical medicine, processing with the traditional medicine, the R&D and management of chemical raw material of medicine. It mainly produced respiratory medicines; and has main products such as isedyl cough syrup and Cefuroxime Sodium, etc.. ended Dec.31, 2006, the total assets of the Company realized amounted to RMB 557.24 million, income from main operation in 2006 amounted to RMB 521.43 million, profit from main operation amounted to RMB 226.56 million and net profit amounted to RMB 60.63 million.
2. Shenzhen Accord Pharm Chain Store Co., Ltd.: wholly-owned subsidiary of the Company. Its registered capital was amounting to RMB 10.8 million, and it deals with the retailed sales of the traditional medicine, western medicine and medical equipments. ended Dec.31, 2006, the total assets of the Company realized amounted to RMB 64.74 million, income from main operation in 2006 amounted to RMB 231.79 million, profit from main operation amounted to RMB 51.77 million and net profit amounted to RMB 390,000. Shenzhen Accord Pharm Chain Store Co., Ltd. improved the profit-gaining capability in current year due to adjust positively the type structure and strengthen to controlling the expenses and enlarged the promotions according to the demand of market.
3. SINOPHARM Medicine Holding (Guangzhou) Co., Ltd.: Its registered capital was amounting to RMB 50 million, 90% shares were held by the Company. It mainly deals with the imports and exports of Chinese patent, medicine chemical agent, antibiotics, biochemical, biological, diagnosis drug, therapy and diagnosis biological, shaped packing food, chemical products, the merchandise and techniques that self-supported or act as an agent. Ended Dec.31, 2006, the total assets of the Company realized amounted to 1,320.69 million, income from main operation in 2006 amounted to RMB 3,311.08 million, profit from main operation amounted to RMB 152.48 million, net profit amounted to RMB 41.63 million.
4. Shenzhen Main Luck Pharmaceutical Inc.: Its registered capital was amounting to USD 5 million,

35.19% shares were held by the Company. It deals with the development, research, production and management of anti-cancer drugs, ended Dec.31, 2006, the total assets of the Company realized amounted to RMB 190.08 million, income from main operation in 2006 amounted to RMB 213.01 million, profit from main operation amounted to RMB 144.02 million and net profit amounted to RMB 23 million.

Section III. The Prospect for the future of the Company

In 2007, the medical economy keeps a relatively high speed of development, at the same time, the competition in medicine market will be more severe, it will cause the medicine distribution market to further concentrate, and meanwhile, it will also be helpful to gradually form the top one in regional medicine. Although the market price of drug kept slowly, the policy-based dropping of price continued and influenced the profit-gaining level; but with further deepening of the reform of medical and health mechanism, it provided more development chances for enterprises with brand superiority, management superiority, type superiority and the scale superiority in a more and more standardized market environment.

Faced with the unprecedented opportunity and the challenge, under the great support of the major shareholder Sinopharm Medicine Holding Co., Ltd., the company will comprehensively integrate the resources of the companies, optimize the organization structure and management pattern, promote management efficiency, reduce the operation cost, comprehensively improve the operation quality, promote market share and controlling through trans-regional development, gain scale benefit, continuously improve the status in the medicine industry in south China and strengthen core competition and brand competitive advantages, exert to realize the goal of “The first Medicine Brand in South China”.

Section IV. Influence of changes in market operating environment, macro-policies and regulations on the Company

1. The national policy-based dropping of price influenced the medicine industry. Guangdong province promoted Sun Purchasing Policy of auction and controlled price in medicines in the basis of Purchasing System of Drug Bidding, which proposed higher requests for the purchasing of drugs and allocated services and influenced the gross ration of the sales of the Company.

2. With flourishing development of the state economy, the health consciousness and the per capital medicine-using level improved; the transform in national medicine system made the price of medicine dropped continually and further stimulate the growth of consumption market of drugs. China carried on the System of New Policy for the Cooperative Medical Service of Counties to bring in chances for the Company’s development into the suburbs and countryside which provided good environment for all the business of the Company with the advantage of rapid sale.

Section V. Investment and application of raised proceeds

1. Investments

(1) On Jun.21, 2005, the Company signed the Equity Transfer Agreement with controlling shareholder Sinopharm Medicine Holding Co. Ltd, which is about purchasing 90% equities of Sinopharm Medicine Holding (Guangzhou) Co. Ltd., fixed the purchase price: RMB 106,731,100. In current year, the Company has already fully paid the equity fund and completed the transferring procedure of the property rights.

(2) On Mar.28, 2006, Proposal on Acquiring a Stake of 49% in Guangdong Sun Dragon Co. Ltd

Controlled by Sinopharm was passed in the 11th Meeting of the 4th Board of Directors. The original investment of RMB 9,800,000 will be the reference for price fixing of the purchase by the Company, which was approved by general meeting of shareholders of the Company on May 22, 2006. Register procedure of equity transferring was completed in the end of Jul. 2006.

(3) On Aug.11, 2006, the 12th Meeting of the 4th Board of Directors examined and approved the Proposal on Adjustment of Equity Structure of Shenzhen Accord Medicine Co., Ltd. The Company agreed to carry out the adjustment of equity structure of subordinate subsidiary Shenzhen Accord Medicine Co., Ltd. and signed the Equity Transfer Agreement with subordinate Shenzhen Medicine Company, Shenzhen Zhijun Pharmaceutical Co., Ltd. and SINOPHARM Medicine Holding (Guangzhou) Co., Ltd on Oct.25, 2006. The agreement promised that Shenzhen Medicine Company and Shenzhen Zhijun Pharmaceutical Co., Ltd transfer the 100% equities which were consolidated held by them to the Company and SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. according to the estimated value. In November, 2006, the Company and SINOPHARM Medicine Holding (Guangzhou) Co., Ltd. agreed to increase the registered capital of Shenzhen Accord Medicine Co., Ltd. from RMB 500,000 to RMB 50 million in cash. In February, 2006, approved by Administration Department for Industry and Commerce in Shenzhen and Guangdong province, Shenzhen Accord Medicine Co., Ltd formally changed its name into “Guangdong Accord Pharmacy Co., Ltd.”

2. Application of raised proceeds

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

3. The material application of significant non-raised proceeds

In the report period, the project of pharmaceutical R&D and manufacture base of the Company carried out successfully, according to the programming, it has already finished the capital construction, the equipment installation and debugging. Ended the report period, the accumulative investment amounted to RMB 144 million, completed 60.81% of the total investment budget of the project, the pharmaceutical R&D and manufacture base of the Company finished on Dec.1, 2006.

Section VI. Routine work of the Board of Directors

In the year 2006, the Board of the Company held the Meetings and made the resolutions with details as follows:

(1) On Mar.29, 2006, the 11th meeting of the 4th Board of Directors was held. The resolution of the meeting was published on Securities Times and Wen Wei Po dated Mar.31, 2006.

(2) On Apr.17, 2006, the Extraordinary Meeting of the Board of Directors was held by way of communications. The resolution of the meeting was published on Securities Times and Wen Wei Po dated Apr.18, 2006.

(3) On May 9, 2006, the Extraordinary Meeting of the Board of Directors was held by way of communications. The resolution of the meeting was published on Securities Times and Wen Wei Po dated May 11, 2006.

(4) On Aug.11, 2006, the 12th meeting of the 4th Board of Directors was held by way of communications. The resolution of the meeting was published on Securities Times and Wen Wei Po dated Aug.14, 2006.

(5) On Oct.20, 2006, the 13th meeting of the 4th Board of Directors was held. The resolution of the meeting was published on Securities Times and Wen Wei Po dated Oct.24, 2006.

(6) On Dec.8, 2006, the 14th meeting of the 4th Board of Directors was held by way of communications. The resolution of the meeting was published on Securities Times and Wen Wei Po dated Dec.12, 2006.

Section VII. Implementation of the resolutions of the Board of Directors in the report period

(1) Implementation of Share Merger Reform

In April, 2006, according to the resolutions made in shareholders' meeting in relation to Share Merger Reform held on Apr.14, 2006, the Company implemented the Proposal on Share Merger Reform: the tradable shareholders obtain 3 shares from non-tradable shareholders with each 10 tradable A-share. After the Share Merger Reform completed, the total shares of the Company are still 288,149,400, including 161,912,520 restricted tradable A-shares which accounting for 56.19% of the total shares of the Company; 126,236,880 unrestricted tradable shares which accounting for 43.81% of the total shares of the Company. The price computation proposal finished implementation on Apr.28, 2006.

(2) Implementation of transactions of the Company and related parties and subordinate enterprises routine associates

In the report period, the 2005 Annual Shareholders' General Meeting examined and approved the Proposal on Routine Related Party Transactions between the Company and Associates on May 22, 2006. In 2006, the Company essentially purchased material from related parties amounting to RMB 862.32 million, and sales amounting to RMB 403.72 million, the sum respectively accounting for 89.83% and 126.16% of the quota approved by Annual Shareholders' General Meeting.

(3) Implementation of profit distribution proposal in 2005

On May 22, 2006, the 2005 Annual Shareholders' General Meeting was held, and passed the 2005 profit distribution plan of distributing cash dividends RMB 0.38 (including tax) for every 10 share calculated on the released shares of 288,149,400. On Jul.6, 2006, the Board of Directors promulgated the public notice of Implementation on 2005 Annual Dividend Distribution (published on Securities Times, Wen Wei Po dated Jul.6, 2006 and Juchao website http://www.cninfo.com.cn), the Company implemented the 2005 profit distribution plan, and the public shareholders' dividend reached the shareholders' accounts on Jul.13, 2006.

Section VIII. 2006 Profit Distribution Plan and Converting Capital Reserve into Share Capital

According to the provisions in Letter on How to Confirm Profit Distribution Standard for Enterprises Issuing B Shares During Dividends Distribution released by China Securities Regulatory Commission with ZJHZ [1994] No.1 document, the principle of taking the lower amount of the two was adopted in the profit distribution. In 2006, audited by Shulun Pan Certificated Public Accountants under China Accounting Standards, the net profits the Company realized in 2006 amounted to RMB 72, 555, 229. 24; audited by Horwath Certified Public Accountants under International Accounting Standards, the net profits the Company realized in 2006 amounted to RMB38, 665, 000.

According to the related laws and the Articles of Association, the profit distribution plan for 2006 was as follows: after 10% net profit appropriating as statutory surplus reserve amounted to RMB 11, 686, 871. 67 after distributing the cash dividend of 2005 amounting to RMB 10,940,962.61, in accordance with principle of Implementation of Lower of Profit Distribution, the profits for distribution of the shareholders were amounting to RMB27, 273, 232. 72. Calculated on the base number of total shares of 288,149,400 at the end of 2006, cash dividends for every 10 share allotted to shareholders were RMB0. 90 (including tax), and the total amount for cash dividend was amounting to RMB 25, 933, 446. 00; the surplus of undistributed profit amounted to RMB 1, 339, 786. 72 (B share) and were transferred to the after annual years' distribution.

The Company did not convert capital reserve into share capital in 2006.

The said distribution plan should be submitted to the 2006 Annual Shareholders' General Meeting for consideration and approval.

Section IX. After the implementation of New Accounting Standards, the possible changes in accounting policy, accounting estimate and the influences on financial and operational results of the Company

I. Analysis on the differences of shareholders' equity between Existing Accounting Standards and New Accounting Standard for Business Enterprises on first implementation date of New Accounting Standards on Jan.1, 2007

According to the regulation of CK [2006] No.3 Notice on Print and Distribute 38 Specific Guidelines including Accounting Standard for Business Enterprises No.1 – Inventory etc. promulgated by Ministry of Finance on Feb.15, 2006, the Company has implemented the New Accounting Standards since Jan.1, 2007. According to Notice on Notice on Fulfillment of Financial and Accounting Information Disclosures Related to the New Accounting Standards (ZJF[2006] No. 136) promulgated by CSRC in Nov. 2006 and the regulations of New Accounting Standards, the Company analyzed and disclosed the influence of implementation of New Accounting Standards on the financial results of the Company as follows:

(I) Balance of long-term equity investment

Among which, long-term investment balance formed by merger of enterprises under the same control was decreased with the retained profit as Jan.1, 2007 amounting to RMB 55,186,551.58 according to the New Accounting Standards, of which, the equity attributable to owners of parent company decreased amounting to RMB 53,262,485.95, and the equity attributable to minority shareholders decreased amounting to RMB 1,924,065.63.

(II) Income tax

The Company made the accounting policy of the Company in accordance with the existing accounting standards. For that, the Company withdrew the devaluation depreciation. According to the New Accounting Standards, deferred income tax asset was calculated base on the differences between the book value formed by provision for devaluation of asset and was available for offsetting the losses, retained profit as January 1 2007amounting to RMB 8,074,635.35, of which, the equity attributable to owners of parent company increased amounting to RMB7, 410,670.30, and the equity attributable to minority shareholders increased amounting to RMB 663,965.05.

(III) Minority shareholders' interest

The equity of minority shareholders of subsidiaries in the consolidated statement complied with The Existing Accounting Standards as December 31 2006 was RMB 25,169,457.08, and was attributable to the shareholders' equity under the New Accounting Standards. Thus, RMB 25,169,457.08 was increased in shareholders' equity as January 1 2007. In addition, the deferred income tax asset due to the withdrawal of provision for devaluations, the equity attributable to the minority shareholders increased RMB 310,832.62; the equity attributable to minority shareholders in equity of offsetting by balance of long-term equity investment by the enterprises merger under the same control decreased amounting to RMB 1,924,065.63; under the New Accounting Standards the minority shareholders' equity was RMB 23,909,356.50.

(IV) Now, the Company is evaluating the financial status, the operation results and influences on cash flow after the implementation of New Accounting Standards; with the consideration and refer to the further explanations on New Accounting Standards by Ministry of Finance; when prepared the financial report 2007, the Company possibly adjusted by the relevant accounting policy or significant accreditation adopted in compilation of Reconciliation Statement. Thus, it resulted in possible difference of shareholders' equity listed between the Reconciliation Statement as January 1 2007 and financial report in 2007.

II. The possible alterations in accounting policy, accounting estimation after implementation of New Accounting Standard for Business Enterprises and its influences on financial and operation results of the Company

1. According to the regulations of New Accounting Standard for Business Enterprises No.6 Long-term Investment, the Company transferred the calculation method from equity method to cost method under existing policy, therefore, the influence of operation results of subordinate subsidiaries on investment income of the Company in current period would be reduced, but the event didn't influence on consolidated statement of the Company.

2. According to the regulations of New Accounting Standards No.33 Consolidation of Financial Statements, the Company will fix on the consolidation scale of financial statement on the basis of control, therefore, has already stopped the influence of financial results of operated subordinate subsidiaries on the Company of consolidated statement.

3. According to the regulations of Accounting Standard for Business Enterprises No.18 Income Tax, the Company transferred the taxes payable method to Tax-affect-accounting method of balance sheet which will influence the accounting expenses on income tax in current period, and will consequently influence the profit and shareholders' equity of the Company.

4. According to regulations of Accounting Standard for Business Enterprises No.20 Enterprises Combinations and No. 38 - First Time Adoption of Accounting Standards for Business Enterprises, the equity investment balance that have not yet finished amortization of long-term equity investments that under same control resulted from enterprises combinations should totally been offset, this event will decrease the long-term assets and shareholders' equity of the Company.

5. The aforesaid events and influences events are likely to adjust to the further explanation from New Accounting Standards by Ministry of Finance.

CHAPTER VIII. REPORT OF THE SUPERVISORY COMMITTEEC

I. In the report period, the Supervisory Committee, in accordance with relevant regulations of Company Law, Articles of Association and Rules of Procedure of the Supervisory Committee, attended the meeting of the Board of Directors as non-voting delegates, held the meeting of Supervisory Committee, performed its duties strictly by law, started the work earnestly, and exerted their functions effectively. The details of the meetings were as follows:

1. All supervisors had attended six meetings of the Board of Directors as non-voting delegates and supervised over the contents of the meetings of the Board and decision-making procedure.

2. The 4th meeting of the 4th Supervisory Committee held on March 28, 2006 examined and approved 2005 Report of the Supervisory Committee, 2005 Financial Settlement Report, 2005 Profit Distribution Preplan, 2005 Annual Report and its Summary (A, B), Proposal on the Related Transaction between the Company and Related Parties, Proposal on Accepting 49% Equity of

Sinopharm Medicine Holding Xinlong (Guangdong) Co., Ltd., and Proposal on Joint Establishment of Sinopharm Medicine Holding Guangzhou Logistic Co., Ltd.. The resolutions of the meeting were published on Securities Times and Wen Wei Po dated March 31, 2006.

3. The 5th meeting of the 4th Supervisory Committee held on Oct., 20, 2006 examined and approved 2006 3rd Quarter Report and Proposal on Canceling after Verification of the Company and Subordinate Companies' Bad Assets. The resolutions of the meeting were published on Securities Times and Wen Wei Po dated Oct., 24, 2006.

II. The Supervisory Committee had supervised over the Company's operation and decision-making in 2006, and expressed opinions concerning relevant issues as follows:

1. The operation under the law

The Supervisory Committee believed, in the report period, the Company has established comparatively perfect internal control systems, the decision-making process is legal, and the directors and general managers had neither violated the laws, regulations, and Articles of Association, nor abused their posts and rights or done harm to the interests of shareholders, the Company or employees.

2. The finance

The Supervisory Committee believed the Financial Report of 2006 had truly reflected the Company's financial status and operation achievements, and agreed with the standard unqualified Auditors' Reports issued by ShuLun Pan Certified Public Accountants Co., Ltd. and Horwath Certified Public Accountants.

3. The purchases and sales of assets

The Supervisory Committee believed, in the report period, the Company purchased and sold assets with reasonable price and regular process, and no inside transactions and actions that would do harm to the interests of the Company and shareholders had been discovered.

4. The related transaction

The Supervisory Committee believed, in the report period, the prices of related transactions had been set based on the market principle, prices reasonable and transactions fair. No actions that would do harm to the interest of the Company had been discovered.

CHAPTER IX. SIGNIFICANT EVENTS

Section I. Significant lawsuits and arbitrations

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

Section II. Purchases and sales of assets

1. The 11th meeting of the 4th Supervisory Committee held on March 28, 2006 examined and approved Proposal on Accepting 49% Equity of Sinopharm Medicine Holding Xinlong (Guangdong) Co., Ltd.. The meeting agreed that the Company could accept the 49% Equity of Sinopharm Medicine Holding Xinlong (Guangdong) Co., Ltd. held by Sinopharm Medicine Holding Hubei Xinlong Co., Ltd., the accepting price could be confirmed with the original investment amounts of RMB 9.80 million as a reference, and submitted to the Shareholders' General Meeting of the Company for examination and approval in May 22, 2006. By the end of July, 2006, the procedures of industrial and commercial change on the transfer of equity had been completed.

2. On Nov. 23, 2006, the Company signed the Agreement on Equity Transfer which was about sales

of 30% equity of Shenzhen Chinese and Western Pharmaceutical Company with natural person Ren Maode. The sales were on the basis of net profits after appraisal and confirmation on files with the base day Sep. 30, 2006 of the appraisal of Shenzhen Chinese and Western Pharmaceutical Company. The price for sales was RMB 695,370. According to relevant regulations, the transferred equity was publicly listed in China Hi-tech Property Exchange in Oct. 25, 2006, and this equity transaction action had been confirmed by the property exchange. The procedures of industrial and commercial change on the transfer of equity had been completed Dec. 06, 2006.

Section III. Important related transactions

(I) Related transactions of purchases of goods

1. Purchases of goods from related parties:

Full name	In the report period		In last report period
	Amount (RMB)	Proportion in the amount of transaction of the same kind	Amount (RMB)
Shanghai Sinopharm Wai Gaoqiao Medicine Co., Ltd.	426,933,006.52	14.26%	
Sinopharm Medicine Holding Guangzhou Co., Ltd.			45,802,196.75
Guangdong Yuexing Medicine Co., Ltd.			27,902,070.66
China National Medicines Corporation Ltd.	107,868,712.23		4,849,009.20
Guangdong South Pharmaceutical Foreign Trade Corporation	25,966,897.26		
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd.	11,473,575.45		
Suzhou Medicine Foreign Development Co., Ltd.	8,323,830.76		
Sinopharm Medicine Holding Tianjin Co., Ltd.	8,055,495.20		
Guangdong Dong Fang Uptodate & Special Medicines Co. Ltd.	7,053,002.89		
Sales Subdivision of China National Pharmaceutical Foreign Trade Corp.	6,934,431.77		
Sinopharm Medicine Holding Xinlong (Guangdong) Co., Ltd.			4,130,343.50
Guangdong Nanfang Medicine Corporation			969,310.68
Sinopharm Medicine Holding Shenzhen TCM	4,221,809.24		432,651.28
Sinopharm Medicine Holding Nanning Co., Ltd	2,398,221.43		
China Medicine Group Company	106,060		369,426.28
Sinopharm Medicine Guoda Pharmacy Co., Ltd.	1,890,009.08		282,291.75
Sinopharm Medicine Holding Shanghai Co., Ltd.	248,539,673.84		132,845.16
Shenzhen Chinese and Western Pharmaceutical Company	1,297,809.42		5,347,688.37

Shenzhen Main Luck Pharmaceutical Inc.	823,546.93		856,477.72
Guangdong Tianliang Medicine Co., Ltd.	382,653.65		
Sinopharm Medicine Group Shanghai Medical Equipment Co., Ltd.	25,888.14		
Beijing Zhongxin Medical Trading Company	21,783.11		
Sinopharm Medicine Industry Holding Co., Ltd.	1,661.54		
Huahe Pharmaceutical Holding Co., Ltd.	1,117.09		
Total	**862,319,185.55**		**91,074,311.35**

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

2. Sales of goods to related parties:

Full name	The report period		Last report period
	Amount (RMB)	Proportion in the amount of transaction of the same kind	Amount (RMB)
Sinopharm Medicine Holding Co., Ltd.	21,990,457.89	7.12%	26,829,117.38
Sinopharm Medicine Holding Shenyang Co., Ltd.	119,244,080.79		17,480,537.77
Sinopharm Medicine Holding Hunan Tianjian Co., Ltd.	47,394,073.48		
Sinopharm Medicine Holding Hubei Co., Ltd.	29,254,551.22		
Sinopharm Group Medicine Holding Wuhan Co., Ltd	16,732,708.26		
Sinopharm Medicine Holding Beijing Co., Ltd.	10,975,332.83		
Sinopharm Medicine Holding Guangzhou Co., Ltd.			17,098,461.55
Sinopharm Medicine Holding Tianjin Co., Ltd.	37,312,402.54		17,141,707.87
Sinopharm Medicine Guoda Pharmacy Co., Ltd.	9,207,671.60		9,949,589.74
China National Medicines Corporation Ltd.	8,280,254.50		
Guangdong South Pharmaceutical Foreign Trade Corporation	5,397,667.99		
Guangdong Guoda Pharmacy Franchise Co., Ltd.			5,880,557.30
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd.	19,935,409.55		5,124,676.04
Sinopharm Medicine Holding Xinlong (Guangdong) Co., Ltd.			3,503,232.26
Shenzhen Chinese and Western Pharmaceutical Company	4,685,668.46		6,979,381.43
Tianjin East Bokang Medical Trade Co., Ltd.	3,322,489.15		
Guangdong Dong Fang Uptodate & Special Medicines Co.	2,491,297.89		
Sinopharm Medicine Holding Jiangsu Co., Ltd.	1,988,084.37		
China National Pharmaceutical Group Southwest Medicine Co., Ltd.	33,689,681.08		699,688.89
Sinopharm Medicine Holding Shanxi Co., Ltd.	1,498,376.09		474,358.97
Guangdong Renbo Medical Equipment Co., Ltd.	1,174,937.97		
Sinopharm Medicine Holding Beijing Huahong Co., Ltd.	401,066.67		
Sinopharm Medicine Holding Zhejiang Co., Ltd.	154,514.20		
Sinopharm Medicine Holding Jingzhou Xinlong Pharmaceutical Co., Ltd.	43,692.31		

China National Pharmaceutical Group Northwest Medicine Co., Ltd.	42,254.37		384,615.38
China National Pharmaceutical Group Guangzhou Company			139,655.56
Sinopharm Medicine Holding Nanning Co., Ltd	28,482,910.68		95,785.85
Sinopharm Medicine Holding Shenzhen TCM	11,430.17		
Guangdong Tianliang Medicine Co., Ltd.	9,323.08		
Guangxi Guoda Pharmacy Franchise Co., Ltd.	1,803.42		
Guangdong Zhongyue Medicinal Materials Association Company	1,398.72		
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.			262,415.38
Guangdong Nanfang Medicine Corporation			560,472.48
Shanghai Guoda Pharmacy Franchise Co., Ltd.			41,410.26
Shaanxi Guoda Pharmacy Franchise Co., Ltd.			2,595.73
Shanghai Donghong Medicine Co., Ltd.			132,512.82
. **Total**	**403,723,539.28**		**112,780,772.66**

Including: In the report period, the amount of related transactions for the listed companies to sell products and offer labor services to the controlling shareholders as well as their subsidiaries was RMB 389,963,200.

Notes:

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

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

(II) Other related transactions

Controlling subsidiary Sinopharm Medicine Holding Guangzhou Co., Ltd. had borrowed funds from Sinopharm Medicine Holding Co., Ltd. since 2003, and in 2006, it was charged with RMB 5,799,941.67 in all for use of funds the same year.

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

Unit: RMB'0000

Related parts	Funds offered to related parties		Funds offered to the listed company by related parties	
	Occurred Amount	Balance	Occurred Amount	Balance
Accounts receivable from affiliated units (lender)	50, 721. 81	9, 239. 99		
Other accounts receivable from affiliated units (lender)	773. 01			
Accounts payable to affiliated units (borrower)			91, 703. 62	11, 109. 98
Other accounts payable to affiliated units (borrower)			29, 246. 01	8, 000. 00

Total	51, 494. 82	9, 239. 99	120, 949. 63	19, 109. 98

The detail circumstances are as follows:

Unit: RMB'0000

Related parts	Funds offered to related parties		Funds offered to the listed company by related parties	
	Occurred Amount	Balance	Occurred Amount	Balance
Shenzhen Chinese and Western Pharmaceutical Company	573.56	0.00	0.00	0.00
Sinopharm Medicine Holding Shenzhen TCM	1.30	1.12	0.00	0.00
Sinopharm Medicine Guoda Pharmacy Co., Ltd.	1,125.20	82.36	0.00	0.00
Sinopharm Medicine Holding Shanxi Co., Ltd	203.48	35.71	0.00	0.00
Sinopharm Medicine Holding Nanning Co., Ltd	3,637.12	1,798.81	0.00	0.00
China National Pharmaceutical Group Southwest Medicine Co., Ltd.	4,466.18	989.42	0.00	0.00
Sinopharm Medicine Holding Shenyang Co., Ltd	14,020.12	3,361.59	0.00	0.00
Sinopharm Medicine Holding Tianjin Co., Ltd	4,832.26	155.25	0.00	0.00
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd	2,515.34	419.85	0.00	0.00
Sinopharm Medicine Holding Jingzhou Xinlong Pharmaceutical Co., Ltd.	5.11	0.00	0.00	0.00
China National Medicines Corporation Ltd.	996.48	47.69	0.00	0.00
Guangdong Dong Fang Uptodate & Special Medicines Co.	344.05	16.41	0.00	0.00
Sinopharm Medicine Holding Co., Ltd	2,641.61	101.82	0.00	0.00
Sinopharm Medicine Holding Beijing Co., Ltd	1,540.88	162.78	0.00	0.00
Tianjin East Bokang Medical Trade Co., Ltd.	551.72	64.93	0.00	0.00
Sinopharm Medicine Holding Beijing Huahong Co., Ltd	51.87	0.00	0.00	0.00
Sinopharm Group Medicine Holding Hubei Co., Ltd	3,789.81	481.91	0.00	0.00
Sinopharm Group Medicine Holding Wuhan Co., Ltd	2,215.33	103.88	0.00	0.00
Sinopharm Medicine Holding Hunan Tianjian Co., Ltd	6,080.05	1,273.33	0.00	0.00
Guangxi Guoda Pharmacy Franchise Co.,	2.68	0.21	0.00	0.00

Ltd.				
Guangdong South pharmaceutical Foreign Trade Corporation	658.16	88.15	0.00	0.00
Guangdong Renbo Medical Equipment Co., Ltd.	137.47	0.91	0.00	0.00
Guangdong Tianliang Medicine Co., Ltd.	1.09	0.00	0.00	0.00
Guangdong Zhongyue Medicine Materials Association Company	0.18	0.00	0.00	0.00
Sinopharm Medicine Holding Zhejiang Co., Ltd	42.57	0.53	0.00	0.00
Sinopharm Medicine Holding Jiangsu Co., Ltd	276.68	53.26	0.00	0.00
China National Pharmaceutical Group Northwest Medicine Co., Ltd.	4.94	0.07	0.00	0.00
Suzhou Medicine Foreign Development Co., Ltd.	6.57	0.00	0.00	0.00
Dongyuan Accord Medical Chain Co., Ltd	-24.65	0.00	0.00	0.00
Sinopharm Medicine Holding Nanning Co., Ltd	790.95	0.00	0.00	0.00
Sinopharm Medicine Holding Medical Logistics Co., Ltd	4.31	0.00	0.00	0.00
Sinopharm Medicine Holding Shenzhen TCM	2.40	0.00	0.00	0.00
Shenzhen Main Luck Pharmaceutical Inc.	0.00	0.00	727.20	90.39
Shenzhen Chinese and Western Pharmaceutical Company	0.00	0.00	155.59	0.00
Sinopharm Medicine Holding Shenzhen TCM	0.00	0.00	734.50	141.50
China National Medicines Corporation Ltd.	0.00	0.00	12,553.10	1,439.10
China National Group of Traditional & Herbal Medicine	0.00	0.00	28.33	17.72
Sinopharm Medicine Guoda Pharmacy Co., Ltd.	0.00	0.00	266.35	44.13
Sinopharm Medicine Holding Shanghai Co., Ltd	0.00	0.00	27,455.91	4,001.63
Shanghai Sinopharm Wai Gaoqiao Medicine Co., Ltd.	0.00	0.00	41,302.69	4,609.15
China National Pharmaceutical Group Shanghai Company	0.00	0.00	-1.22	0.35
Sinopharm Medicine Group Shanghai Medical Equipment Co., Ltd.	0.00	0.00	47.08	6.09
Beijing Zhongxin Medical Trading Company	0.00	0.00	27.98	27.98
Sales Subdivision of China National Pharmaceutical Foreign Trade Corp.	0.00	0.00	809.80	94.88

Guangdong Renbo Medical Equipment Co., Ltd.	0.00	0.00	0.84	1.03
Guangdong Dong Fang Uptodate & Special Medicines Co.	0.00	0.00	854.99	152.67
China National Pharmaceutical Foreign Trade Corporation	0.00	0.00	-4.43	-4.55
Guangdong Tianliang Medicine Co., Ltd.	0.00	0.00	45.53	0.76
Sinopharm Medicine Holding Co., Ltd	0.00	0.00	0.40	0.62
Sinopharm Medicine Holding Tianjin Co., Ltd	0.00	0.00	896.54	81.46
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd	0.00	0.00	2,019.94	175.51
Suzhou Medicine Foreign development Co., Ltd.	0.00	0.00	946.73	0.20
Guangdong South Pharmaceutical Foreign Trade Corporation	0.00	0.00	2,313.29	125.97
Huahe Pharmaceutical Holding Co., Ltd.	0.00	0.00	3.60	0.44
Sinopharm Medicine Industry Holding Co., Ltd.	0.00	0.00	0.17	0.11
Sinopharm Medicine Group Guorui Pharmaceutical Co., Ltd.	0.00	0.00	0.37	0.37
Sinopharm Medicine Group Beijing Medical Equipment Co., Ltd.	0.00	0.00	3.76	1.22
Guangxi Wuzhou Huawu Medicinal Materials Co., Ltd	0.00	0.00	0.28	0.28
Yunnan Medicinal Materials Co., Ltd.	0.00	0.00	0.98	0.98
Sinopharm Group Chemical Reagent Co., Ltd.	0.00	0.00	11.97	0.08
Sinopharm Medicine Holding Beijing Co., Ltd	0.00	0.00	0.40	0.40
Sinopharm Medicine Holding Beijing Huahong Co., Ltd	0.00	0.00	0.09	0.09
Sinopharm Group Medicine Holding Hubei Co., Ltd	0.00	0.00	1.15	1.15
Sinopharm Medicine Holding Nanning Co., Ltd	0.00	0.00	499.33	97.99
Nanning Medicine Wholesale Station of Guangxi Zhuang Autonomous Region	0.00	0.00	0.38	0.28
Sinopharm Medicine Holding Co., Ltd	0.00	0.00	29,246.01	8,000.00
Total	51,494.82	9,239.99	120,949.63	19,109.98

Including:

In the report period, the occurred amount of funds offered by listed companies to controlling shareholders as well as their subsidiaries totaled up RMB 498,049,600, and balance totaled up RMB 91,345,200. The Company has not provided any non-operating funds to the controlling shareholders or their subsidiaries.

Section IV. Important contracts and implementation

1. Entrustment, contracting and leasing

In the report period, the Company had not entrusted, contracted or leased assets of other companies or used to but extended into this report period, nor had other companies ever entrusted, contracted or leased the assets of the Company.

2. Significant guarantees

Unit: RMB' 0000

Particulars about the external guarantee of the Company (Barring the guarantee for the controlling subsidiaries)						
Name of the Company guaranteed	Date of happening (date of signing agreement)	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related parts (yes or not)
Total amount of guarantee in the report period				0.00		
Total balance of guarantee at the end of the report period (A)				0.00		
Guarantee of the Company for the controlling subsidiaries						
Total amount of guarantee for controlling subsidiaries in the report period						
Total balance of guarantee for controlling subsidiaries at the end of the report period				43,600.00		
Particulars about the total guarantee of the Company (Including the guarantee for the controlling subsidiaries)						
Total amount of guarantee				43, 600. 00		
The proportion of the total amount of guarantee in the net assets of the Company				97. 38%		
Including:						
Amount of guarantee for shareholders, actual controller and its related parties				0. 00		
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly				33, 600. 00		
Proportion of total amount of guarantee in net assets of the Company exceeded 50%				26, 606. 01		
Total amount of the aforesaid three guarantees				60, 206. 01		

3. Entrustment of cash assets management

In the report period, the Company has not entrusted others with cash assets management, nor had it done so in previous periods and lasted into the report period.

4. Other important contracts

See attachment of Section III Accounting Statements in Chapter X Financial Report for references.

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

Special commitments by the former shareholders of non-tradable shares in Reform of Non-tradable Shares and the implementation

Shareholders	Commitments	Commitment	Remarks

		implementation	
SINOPHARM Medicine Holding Co., Ltd.	(1) Not selling original non-tradable equities through stock exchange in 24 months from the day they become tradable. (2) Original non-tradable equities sold after the 24 months through stock exchange take up no more than 10% of the Company's total shares in the following 12 months, and the price is no lower than 110% of the stock weighted average price of the 30 trading days before Accord Pharmaceutical's Board of Directors publish the reform plan (from the day of implementing Non-tradable Shares Reform to the day when Sinopharm Medicine Holding sells equities, Ex Warrant/Ex Dividend on the price will be implemented if dividend, allotment or transferring of public capital to equity and so on happens).	Implementing	It does not reach the requirements of implementation.
Shenzhen Baoan District Shiyan Town Economic and Development Corporation	Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out; on basis of the aforementioned time limited, original non-tradable equities sold through stock exchange take up no more than 5% of the Company's total shares in the following 12 months; no mare than 10% within 24 months.	Implementing	It does not reach the requirements of implementation.
Shenzhen Baoan Shangwu Economic and Development Co., Ltd.	Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out.	Implementing	It does not reach the requirements of implementation.
Shenzhen Wangzong Industrial Co., Ltd.	Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out.	Implementing	It does not reach the requirements of implementation.
Nanjing Junyue Investment and Consultation Co., Ltd.	Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out.	Implementing	It does not reach the requirements of implementation.
Wuxi Huaxin Investment Management Co., Ltd.	Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out.	Implementing	It does not reach the requirements of implementation.
Shanghai Shisheng Enterprise Development Co., Ltd.	Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out.	Implementing	It does not reach the requirements of implementation.
Shanghai Huaxia Yifu Investment Management Co., Ltd.	Not trading or selling equities within 12 months from the day when plan of Non-tradable Shares Reform is carried out. If the shares held by Shanghai Huaxia Yifu Investment Management Co., Ltd could be sold for listed transaction, the company should pay back the shares and relevant account Sinopharm Medicine Holding Co., Ltd paid for on its behalf in the Share Merger Reform, and also get the written agreement	Implementing	It does not reach the requirements of implementation.

	from Sinopharm Medicine Holding Co., Ltd.		

Section VI. Engagement of Certified Public Accountants

1. Engagement of Certified Public Accountants

In the report period, the 2005 Annual Shareholders' General Meeting of the Company continued to engage ShuLun Pan Certified Public Accountants Co., Ltd. (now changed into ShuLun Pan Certified Public Accountants Co., Ltd.) and Horwath Certified Public Accountants as the auditing institutions for the A-share and B-share of the Company on May 22, 2006; the relevant resolutions had been published on Securities Times and Wen Wei Po dated May 23, 2006.

2. Remuneration paid to Certified Public Accountants

The auditing fees the Company paid to the Certified Public Accountants for the Annual Report 2006 totaled RMB 1.1 million (A-share, B-share), and the fees for the business trips the Certified Public Accountants took for the Company's auditing affairs had been paid by the Company.

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

Since initially signing audit business agreement in 2004, ShuLun Pan Certified Public Accountants Co., Ltd. and Horwath Certified Public Accountants had provided auditing service consistently for the Company for three years.

Section VII. Other important events

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

Section VIII. Explanation on change of accounting policy, accounting estimation and calculating method compared with the latest annual report

Compared with the latest annual report, there were no change of accounting policy, accounting estimation and calculating method of the Company.

Section IX. Significant accouting errors, corrected amount, the reason and influence

In the report period, there were no significant accouting errors and corrections.

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

1. There were totaling 16 new consolidated units this year, which were all purchased and multiplied subsidiaries and were Sinopharm Medicine Holding Guangzhou Co., Ltd. and its subsidiaries (See attachment of Section III Accounting Statements in Chapter X Financial Report for references.).

The consolidated balance sheet of Sinopharm Medicine Holding Guangzhou Co., Ltd. listed the total assets of RMB 1.573 billion at the report period-end, including current assets of RMB 1.376 billion and total fixed assets of RMB 150 million. The amounts of total liabilities were 1.418 billion, including the current liabilities of RMB 1.394 billion.

2. The interrelated income, cost, profits of Sinopharm Medicine Holding Guangzhou Co., Ltd. and its subsidiaries from the year-begin to the report period-end were taken into the consolidated profit statement of the Company. In the report period, the amount of income from main operation was 4.07 billion, the amount of profit from main operation RMB 211 million and net profit RMB 41.65

million.
3. The cash flow statement of Sinopharm Medicine Holding Guangzhou Co., Ltd. and its subsidiaries from the year-begin to the report period-end was taken into the consolidated cash flow statement of the Company, and the monetary fund balance of RMB 100 million in its period-begin was used to offset the item of Cash Paid to Acquire Investments of consolidated cash flow statement.
The consolidated cash flow statement of Sinopharm Medicine Holding Guangzhou Co., Ltd. listed the net cash flow from operating activities of RMB 68.94 million, the net cash flow arising from investment activities of RMB -13.98 million and net cash flow arising from financing activities of RMB -76.07 million in the report period.
4. There was no decrease of consolidated units in this year.

CHAPTER X. FINANCIAL REPORT

Section I. Auditor's report

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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

INDEPENDENT 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 consolidated financial statements of Shenzhen Accord Pharmaceutical Co., Ltd.(the "Company") and its subsidiaries (the "Group") set out on pages 3 to 39 which comprise the consolidated balance sheets as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely 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.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

28 March 2007

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 2006

(Expressed in Renminbi thousands)

	Notes	2006 RMB'000	2005 RMB'000
Turnover	6	**5,667,612**	**1,635,569**
Cost of sales		**(5,094,199)**	**(1,264,585)**
Gross profit		**573,413**	**370,984**
Other operating revenue	7	**39,970**	**25,403**
Selling and distribution costs		**(302,044)**	**(248,325)**
Administrative expenses		**(180,542)**	**(105,648)**
Other operating expenses		**(4,454)**	**(552)**
Profit from operations	8	**126,343**	**41,862**
Finance costs	9	**(25,486)**	**(401)**
Share of results of associates		**6,462**	**6,707**
Goodwill written off		**(42,658)**	**-**
Gain on liquidation of subsidiaries		**1,406**	**-**
Gain/(Loss) on disposal of an associate		**293**	**(673)**
Profit before taxation		**66,360**	**47,495**
Taxation	10(a)	**(22,489)**	**(6,096)**
Profit for the year		**43,871**	**41,399**
Attributable to:			
Equity holders of the parent		**38,665**	**41,399**
Minority interests		**5,206**	**-**
Profit attributable to shareholders		**43,871**	**41,399**
Earnings per share	11	**RMB0.152**	**RMB0.144**

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

(Expressed in Renminbi thousands)

	2006	2005	
	Notes	**RMB'000**	**RMB'000**
Non-current assets			
Property, plant and equipment	12	262,122	118,840
Construction in progress	13	150,991	76,568
Intangible assets	14	29,562	-
Interests in associates	15	53,933	53,373
Goodwill	16	19,317	19,348
Other investments		1,284	284
Deferred tax assets	10(c)	7,411	-
		524,620	268,413
Current assets			
Inventories	17	489,402	209,692
Other current assets	18	15,347	-
Accounts receivable and other receivables		1,287,399	370,772
Amounts due from related companies	26(b)	85,832	16,729
Prepayments		32,426	28,216
Cash and bank balances		205,342	169,288
		2,115,748	794,697
Current liabilities			
Bank loans - due within one year	19	296,986	10,000
Accounts payable, other payables and accruals		1,559,990	616,947
Receipts in advance		30,836	25,804
Amounts due to related companies	26(b)	103,237	19,760
Amounts due to ultimate holding company	26(b)	78,988	-
Tax payable		6,621	588
Other current liabilities	20	23,086	-
		2,099,744	673,099
Net current assets		16,004	121,598
Assets less current liabilities		540,624	390,011

CONSOLIDATED BALANCE SHEET(continued)
AS AT 31 DECEMBER 2006

(Expressed in Renminbi thousands)

	Notes	2006 RMB'000	2005 RMB'000
Assets less current liabilities		540,624	390,011
Non-current liabilities			
Bank loans	19	(97,720)	-
Net assets		442,904	390,011
Representing:			
Share capital	21	288,149	288,149
Reserves	22	129,585	101,862
Equity holders of the parents		417,734	390,011
Minority interests		25,170	-
Total equity		442,904	390,011

The financial statements were approved and authorised for issue by the board of directors on 28 March 2007.

Shi Jinming	Wu Aimin
Director	Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Renminbi thousands)

	Share capital RMB'000 (Note 21)	Capital reserve RMB'000	Statutory and discre-tionary surplus reserve fund RMB'000 (Note 22)	Retained earnings /(loss) RMB'000	Attributable to equity holders of the parent RMB'000	Minority interest RMB'000	Total equity RMB'000
At 1 January 2005	288,149	18,891	66,526	(24,954)	348,612	-	348,612
Profit for the year	-	-	-	41,399	41,399	-	41,399
Transfer on reorganization 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
Profit for the year	-	-	-	38,665	38,665	5,206	43,871
Acquisition of subsidiaries	-	-	-	-	-	29,796	29,796
Acquisition of additional interest in subsidiaries	-	-	-	-	-	(8,629)	(8,629)
Dividend declared	-	-	-	(10,942)	(10,942)	(1,203)	(12,145)
Profit appropriations	-	-	11,689	(11,689)	-	-	-
At 31 December 2006	288,149	18,891	83,421	27,273	417,734	25,170	442,904

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Renminbi thousands)

	Notes	2006 RMB'000	2005 RMB'000
Operating activities			
Profit before taxation		66,360	47,495
Adjustments for:			
Interest income		(4,458)	(2,041)
Interest expenses		24,101	308
Depreciation		30,961	23,389
Loss on disposal of property, plant and equipment		100	34
Goodwill written off		42,689	718
Amortisation of intangible assets		458	-
(Write back of)/Provision for impairment on revaluation of property, plant and equipment and construction in progress		(4,462)	228
Share of results of associates		(6,462)	(6,707)
Gain on disposal of an associate		(293)	(45)
Cash flow from operations before changes in working capital		148,994	63,379
Increase in inventories		(68,693)	(52,658)
Increase in accounts receivables, other receivables and amounts due from related parties		(258,222)	(51,065)
Decrease/(Increase) in prepayments		9,609	(17,345)
Increase in accounts payable, other payables and accruals receipts in advance and amounts due to related companies		274,262	231,246
Cash generated from operating activities		105,950	173,557
Interest paid		(24,101)	(308)
Income taxes paid		(23,867)	(6,958)
Net cash generated from operating activities		57,982	166,291

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

(Expressed in Renminbi thousands)

	Notes	2006 RMB'000	2005 RMB'000
Investing activities			
Interest received		7,280	2,041
Dividend received		-	2,669
Purchase of property, plant and equipment		(22,501)	(9,073)
Proceeds from disposal of property, plant and equipment		1,929	206
Payment for construction in progress		(69,638)	(35,638)
Payment for intangible assets		(30,020)	-
Cash outflow on acquisition of subsidiaries	23	(6,291)	-
Proceeds from disposal of an associate		686	2,251
Cash outflow on change of status of a consolidated subsidiary to an associate		-	(37,826)
Net cash used in investing activities		(118,555)	(75,370)
Financing activities			
New bank loans raised		587,506	10,000
Repayment of bank loans		(470,105)	(12,500)
Capital withdrawal by minority shareholders		(8,629)	-
Dividends paid to minority shareholders		(1,203)	-
Dividend paid		(10,942)	-
Net cash generated from/(used in) financing activities		96,627	(2,500)
Net increase in cash and cash equivalents		36,054	88,421
Cash and cash equivalents, at beginning of year		169,288	80,867
Cash and cash equivalents, at end of year		205,342	169,288

The accompanying notes form part of these financial statements.

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 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 2006. 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:

Investments classified as at fair value through profit or loss

Following amendments to IAS 39 Financial Instruments: Recognition and Measurements in June 2005, the ability of entities to designate any financial asset or financial liability as 'at fair value through profit or loss' (FVTPL) has been limited.

Financial assets that can no longer be designated as at FVTPL are now classified as either loans and receivables, held-to-maturity or available-for-sale financial assets, as appropriate, and measured at amortized cost, or at fair value with changes in fair value recognized in equity, according to their classification. Financial liabilities that can no longer be designated as at FVTPL are classified as 'other' financial liabilities and measured at amortized cost.

These changes have had no material effect on the financial statements of the Group.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Accounting for financial guarantee contracts

The IASB has also amended IAS 39 Financial Instruments: Recognition and Measurement to require certain financial guarantee contracts issued by the Group to be accounted for in accordance with that Standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provision, Contingent Liabilities and Contingent Assets; and

- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out in note 3 below.

These changes have had no material impact on the financial statements of the Group.

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

	Effective for annual periods beginning on or after
IFRIC 8 Scope of IFRS 2	1 May 2006
IFRIC 10 Interim Financial Reporting and Impairment	1 November 2006

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 30. The principal accounting policies adopted by the Group are as follows:

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation

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

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

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.

(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 initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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 2006 are set out in Note 28 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill

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

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

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

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

(f) Property, plant and equipment and depreciation

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

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

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

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

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

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the consolidated financial statements and any gain or loss resulting from their disposal is included in the income statement

(g) Construction in progress

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

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

(h) Intangible assets

Land use rights are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method over the life of the land use rights.

(i) 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.

(j) 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.

(k) 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.

(k) 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)

(l) Operating leases

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

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

(m) Provisions

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

(n) 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)

(n) 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.

(o) 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(q) 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.

(r) 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.

(s) Contingencies

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

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

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(t) 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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. SEGMENT INFORMATION

(a) Primary reporting format - business segments

In 2006, the major products of the Group are Chinese medical materials, Chinese patent drugs and western patent drugs.

(b) Secondary reporting format - geographical segments

In 2006, the revenue of the Group mainly arises from the operations in the PRC and the related operating assets are located in the PRC.

6. TURNOVER

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

7. OTHER OPERATING REVENUE

	2006 RMB'000	2005 RMB'000
Commission income	18,163	18,043
Conference income	8,364	-
Others	5,033	2,475
Interest income	4,458	2,041
Rental income	3,763	2,793
Government subsidies	189	-
Sale of sundry materials	-	51
	39,970	25,403

8. PROFIT FROM OPERATIONS

	2006 RMB'000	2005 RMB'000
Profit from operations is arrived at after charging:-		
Provision for obsolete inventories	1,738	3,232
Depreciation on property, plant and equipment	30,961	23,389
Amortisation of intangible assets	458	-
Loss on disposal of property, plant and equipment	100	34
(Write back of)/Provision for impairment loss		
on property, plant and equipment	(4,462)	228
Provision for bad debts	5,488	929
Staff costs	154,812	123,253
Staff benefit costs	14,465	9,792

9. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest expenses	24,101	308
Bank charges	1,738	541
Net exchange gain	(353)	(448)
	25,486	401

10. TAXATION

(a) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current year taxation	29,900	6,096
Deferred taxation	(7,411)	-
	22,489	6,096

Provision for PRC income taxes is calculated based on the estimated assessable profits for the year determined in accordance with the relevant tax rules and regulations applicable in the PRC. The Company is subject to income tax at the rate of 15%. The income tax rates applicable to subsidiary companies range from 15% to 33%. (2005: 7.5% to 15%).

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

	2006 RMB'000	2005 RMB'000
Profit before taxation	66,360	47,495
Income tax calculated at the tax rate of 15%	9,954	7,124
Tax effect of share of results of associates	6,788	(1,006)
Effect of different tax rates or tax exemption for certain subsidiaries and joint ventures	9,597	(5,249)
Tax effect of expenses that are not deductible in determining taxable profit	(23)	89
Under-provision in prior year	2,319	8
Deferred taxation	(7,411)	-
Non-taxable item	(1,092)	-
Tax refund	(750)	-
Effect of unrecognised tax losses and temporary differences	3,107	5,130
Tax expense for the year	22,489	6,096

10. TAXATION (CONTINUED)

(c) Deferred taxation

	2006 RMB'000	2005 RMB'000
Balance at 1 January	-	-
Charge to profit and loss account	7,411	-
Balance at 31 December	7,411	-

The major deferred tax assets recognised by the Group are as follows:

	2006 RMB'000	2005 RMB'000
Provision for bad debts and diminution of inventory	874	-
Prepaid tax on accrued expenses	3,550	-
Recognised tax losses	2,987	-
Deferred tax assets	7,411	-

11. EARNINGS PER SHARE

The calculation of the basic profit per share is based on the profit for the year of RMB 43,871,000 (2005: RMB41,399,000) and the number of shares outstanding during the year of 288,149,400 (2005: 288,149,400).

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Motor vehicles	Electronic equipment, office equipment and software	Leasehold improve-ments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2005	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	(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
Additions	1,074	1,971	2,946	8,659	7,851	22,501
Other addition – new subsidiaries	158,674	25,497	9,695	11,445	5,585	210,896
Transfer from construction in progress	-	3,727	-	-	-	3,727
Disposal	(1,783)	(858)	(3,908)	(5,673)	–	(12,222)
At 31 December 2006	269,897	90,017	33,032	56,323	38,664	487,933
Accumulated depreciation and impairment loss:						
At 1 January 2005	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	(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
Charge for the year	11,642	4,363	3,524	9,598	1,834	30,961
Other addition - new subsidiaries	29,382	21,029	5,291	6,176	1,586	63,464
Reversal of impairment loss	(1,675)	-	-	(937)	-	(2,612)
Written back on disposal	(721)	(668)	(3,251)	(5,553)	-	(10,193)
At 31 December 2006	76,880	64,565	20,201	37,757	26,408	225,811
Net book value:						
At 31 December 2006	193,017	25,452	12,831	18,566	12,256	262,122
At 31 December 2005	73,680	19,839	9,662	13,419	2,240	118,840

As of 31 December 2006, properties with a net book value of RMB84,033,000 (2005 : Nil) were pledged as collateral for the Group's bank loans (Note 19).

13. CONSTRUCTION IN PROGRESS

	2006 RMB'000	2005 RMB'000
At 1 January	76,568	40,963
Additions	103,382	35,638
Other addition - new subsidiaries	6,662	-
Write back on provision for impairment	1,850	-
Transfer to property, plant and equipment	(3,727)	-
Transfer to intangible assets	(30,020)	-
Written off	(3,724)	-
Other decrease	-	(33)
At 31 December	150,991	76,568

As of 31 December 2006, interest expenses of RMB1,933,000 (2005: Nil) have been capitalized during the year.

14. INTANGIBLE ASSETS

	Land use rights RMB'000
Cost：	
At 1 January and 31 December 2005	-
Transfer from construction in process	30,020
At 31 December 2006	30,020
Accumulated amortisation:	
At 1 January and 31 December 2005	-
Charge for the year	458
At 31 December 2006	458
Net book value:	
At 31 December 2006	29,562
At 31 December 2005	-

15. INTERESTS IN ASSOCIATES

	2006 RMB'000	2005 RMB'000
Cost of investment in associates	42,538	42,838
Share of post-acquisition profits, net of dividend received	13,703	10,157
	56,241	52,995
Amounts due from associates	-	1,239
Amounts due to associates	(2,308)	(861)
	53,933	53,373

Details of the associates, all of which were incorporated and operated in the PRC, at 31 December 2006 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
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.	RMB50,000,000	47.39%	Manufacture and trading of

（國藥控股深圳中藥有限公司）	oral liquid, tablets and external lotion

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

15. INTERESTS IN ASSOCIATES (CONTINUED)

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

	2006 RMB'000	2005 RMB'000
Total assets	256,241	255,131
Total liabilities	(126,212)	(135,283)
Net assets	130,029	119,848
Group's share of associates' net assets	56,241	52,995
Revenue	377,006	979,488
Profit for the year	21,287	21,617
Group's share of associates' profit for the year	6,462	6,707

16. GOODWILL

	2006 RMB'000	2005 RMB'000
Net carrying amount:		
At 1 January	19,348	23,476
Written off	(31)	(718)
Other decrease	-	(3,410)
At 31 December	19,317	19,348

17. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	36,978	28,840
Finished goods	452,424	180,852
	489,402	209,692

18. OTHER CURRENT ASSETS

	2006 RMB'000	2005 RMB'000
Reserves of special drugs and medicines	15,347	-

The balances represent reserve of drugs and medicines for the State which are only permitted to use in situation of significant disaster, epidemic and first aid, and military strategy.

19. BANK LOANS

	2006		2005	
	Interest rate per annum	Amount RMB'000	Interest rate per annum	Amount RMB'000
Unsecured, guaranteed by related companies and non-related companies	4.698% to 6.12%	340,706	5.58%	10,000
Secured by properties (Note 12)	5.022%	54,000		-
		394,706		10,000

	2006 RMB'000	2005 RMB'000
The borrowings are repayable as follows:		
On demand or within one year	296,986	10,000

In the second year	97,720	-
	394,706	10,000
Less: Amount due for settlement within 12 months (shown under current liabilities)	(296,986)	(10,000)
Amounts due for settlement after 12 months	97,720	-

20. OTHER CURRENT LIABILITIES

	2006 RMB'000	2005 RMB'000
Pharmaceutical reserve fund	23,086	-

The fund represents advance from the State for purchase of special drugs and medicines (note 18). The fund is unsecured, interest free and released upon use of relevant special drugs and medicines.

21. SHARE CAPITAL

As of 31 December 2006, 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.

Issued and fully paid shares of RMB1 each:

	A share			B share	Total
	State-owned share RMB'000	Legal person shares RMB'000	Domestically listed ordinary share RMB'000	Domestically listed foreign share RMB'000	RMB'000
At 1 January 2005 and 31 December 2005	124,865	53,513	54,885	54,886	288,149
Restructure of shares (Note)	(12,079)	(4,387)	16,466	-	-
At 31 December 2006	112,786	49,126	71,351	54,886	288,149

Note: Pursuant to a Share Restructure Proposal was approved by holders of A shares at a meeting held on 14 April 2006, all holders of domestically listed A shares will be transferred 3 non-publicly trading shares for every 10 domestically listed A shares held free of charge in exchange for the public trading right of all the non-publicly trading shares. Change of share registration has been done on 27 April 2006. The proposal was fully implemented on 28 April 2006 and at the same date all shares of the Company became domestically listed A shares. Among the shares, 161,912,520 shares, being 56.19% of total number of shares, are restricted domestically listed A shares. The remaining shares are unrestricted domestically listed A shares.

22. RESERVES

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

(a) Statutory surplus fund

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

(b) Statutory public welfare fund

In prior years, the Company was 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. According to the amendment on relevant financial regulations in the PRC, the Company and its subsidiaries are no longer required by law to appropriate their annual statutory net profit to the statutory public welfare fund with effect from 1 January 2006.

(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.

23. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisition of a subsidiary

During the year, the Group acquired 90% of the equity interest in SinoPharm Holdings Guangzhou Co., Ltd. ("SinoPharm Guangzhou") from its ultimate holding company for a total consideration of RMB106,731,000. SinoPharm Guangzhou became the Group's subsidiary. Details of the assets and liabilities of the company acquired, in aggregate, are as follows:

	RMB'000
Net assets:	
Property, plant and equipment	147,432
Construction in progress	6,662
Other investments	1,000
Other current assets	15,153
Inventories	211,017
Accounts receivable and other receivables	725,015
Prepayment	13,819
Cash and bank balance	100,440
Bank loan	(267,305)
Accruals, accounts payable and other payables	(854,580)
Receipts in advance	(4,784)
Minority interest	(29,796)
Group's share of equity	64,073
Consideration	106,731
Goodwill written off	42,658
Cash outflow on acquisition:	
Cash and bank balance	6,291

The acquired subsidiary contributed RMB 4,069,774,000 of revenue and RMB 54,936,000 of profit before tax for the period between the date of acquisition and the balance sheet date.

During the period between the date of acquisition and the balance sheet date, the acquired subsidiary used RMB 2,980,000, RMB 7,408,000 and RMB 10,717,000 in operating, investing and finance activities, respectively.

24. OPERATING LEASE COMMITMENTS

At 31 December 2006, the Group had minimum rental payments under irrevocable operation leases as follows:

	2006 RMB'000	2005 RMB'000
Within one year	25,659	13,948
Over one year but less than five years	33,681	11,941
Over five years	268	-
	59,608	25,889

25. CAPITAL COMMITMENTS

At 31 December 2006, capital expenditure commitments, which were not provided in financial statements, but for which contracts had been signed, were as follows:

	2006 RMB'000	2005 RMB'000
Property, plant and equipment	33,443	54,146

26. 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:

	2006 RMB'000	2005 RMB'000
Sales to associated companies	4,697	6,979
Sales to related companies under common control	377,036	78,972
Sales to ultimate holding company	21,990	26,829
Purchases from associated companies	6,343	6,637
Purchases from related companies under common control	855,976	84,437

(b) Balances with related parties

Amounts due from/to related companies and ultimate holding company 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:

	2006 RMB'000	2005 RMB'000
Remuneration	14,557	8,153
Pension funds	624	387
Medical insurance and others	774	370
	15,955	8,910

27. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The interest rates and terms of repayment of bank borrowings of the Group are disclosed in Note 19. 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.

28. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2006, all of which were incorporated and are operated in the PRC, as follows:-

Name of company	Registered capital	Percentage of ownership		Principal activity
	RMB'000	Directly	Indirectly	
Shenzhen Zhijun Pharmaceutical Co., Ltd. (深圳致君制藥有限公司) (Formerly known as Shenzhen Pharmaceutical Plant)	32,190	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	47.1%	52.9%	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)	6,000	90%	10%	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	75%	25%	Retailing of Chinese patent drugs and western medicine

Shenzhen Accord Pharm Co., Ltd. (深圳市一致醫藥有限公司)	50,000	90%	10%	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	90%	10%	Provision of logistic and storage services
SinoPharm Holdings Guangzhou Co., Ltd. (國藥控股廣州有限公司)	50,000	90%	-	Sales of Chinese patent drugs and chemicals

28. SUBSIDIARIES (CONTINUED)

Name of company	Registered capital RMB'000	Percentage of ownership Directly	Percentage of ownership Indirectly	Principal activity
China Pharm (Group) Guangzhou Company (中國醫藥（集團）廣州公司)	50,000	-	100%	Property rental and management
SinoPharm Holdings Guangdong New Dragon Co., Ltd. (國藥控股廣東新龍有限公司)	20,000	49%	51%	Sales of medicine and medical machine
SinoPharm Holdings Liuzhou Co., Ltd. (國藥控股柳州有限公司)	20,530.6	-	51%	Sales of Chinese medical raw materials, Chinese patent drugs and chemicals
Guangzhou Southern Medical Machinery Company (廣州南方醫療器械公司)	2,000	-	100%	Sales of medical electric machine
Guangzhou New Pharmaceutical Company (廣州新特藥公司)	500	-	100%	Sales of Chinese patent drugs and biological drugs
Guangzhou Southern Pharmaceutical Company (廣州南方醫藥公司)	2,000	-	100%	Sales of Chinese patent drugs and healthy products
Guangdong Yuexing Pharmaceutical Co., Ltd. (廣東粵興醫藥有限公司)	3,000	-	100%	Wholesales of Chinese patent drugs and chemicals
Guangzhou Accord Pharm Chain Store Co., Ltd. (廣州一致藥店連鎖有限公司)	2,000	-	100%	Retails of Chinese medical raw material and Chinese patent drugs
Guangdong Southern Storage and Logistic Company (廣東南方儲運公司)	540	-	100%	Rendering storage, loading services
Guangzhou Qingyun Hotel Co., Ltd. (廣州市青雲酒店有限公司)	300	-	100%	Rendering rental services

28. SUBSIDIARIES (CONTINUED)

Name of company	Registered capital RMB'000	Percentage of ownership Directly	Indirectly	Principal activity
Guangdong Dongshi Enterprise Development Co., Ltd. (廣東東氏企業發展有限公司)	500	-	100%	Property rental management and sales of architecture material
Liuzhou Chinese Pharmacy Plant (柳州市中藥飲片廠)	40	-	100%	Sales of Chinese medicine
Liuzhou Huikang Pharm Chain Store Co., Ltd. (柳州市匯康醫藥連鎖有限公司)	500	-	100%	Sales of Chinese patent drugs, chemicals and medical machine

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

29. 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:

	2006	**2005**
	RMB'000	**RMB'000**
Pension funds	11,473	8,985
Medical expenses	4,235	4,899
	15,708	13,884

30. 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 2006 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	72,555	447,732
Recognition of losses of subsidiaries in excess of the Company's investment costs in profit and loss account	(2,985)	-
Goodwill on acquisition of subsidiaries and amortization	(35,044)	(32,460)
Recognition of deferred taxation	7,411	7,411
Employee retirement payment written off	(4,878)	(4,878)
Others	1,606	(71)
As determined pursuant to IFRS	38,665	417,734

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the directors propose to pay a dividend of RMB0.9 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 RMB 25,933,000.

CHAPTER XI. DOCUMENTS FOR REFERENCE

1. Accounting Statement carrying the signatures and seals of the legal representative, financial chief and person in charge of accounting;
2. Original of Auditors’ Report carrying the seals of Certified Public Accountants, and signatures and seals of the CPAs;
3. Originals of all the documents and notifications of the Company ever disclosed in the report period in Securities Times and Wen Wei Po designated by CSRC;
4. Original of the Annual Report carrying the signature of the Chairman of the Board.
5. The Place Where the document placed: Office of Secretariat of the Board of Directors, Accord Pharm Bldg., No. 15, Ba Gua Si Road, Futian District, Shenzhen.

Chairman of the Board: Chen Weigang

Board of Directors of Shenzhen Accord Pharmaceutical Co., Ltd.

March 28, 2007