Stock Code: 000028, 200028 Notice No.: 2007-02
Short Form of the Stock: Accord Pharm., Accord B

Shenzhen Accord Pharmaceutical Co., Ltd.
Summary of Annual Report 2006

§1 Important Notes

1.1 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. The Summary of Annual Report 2006 is abstracted from the full text of Annual Report; the investors are suggested to read the full text of the Annual Report to understand more details.

1.2 No directors, supervisors and senior executives stated any objection for the correctness, accuracy and completeness of the contents of this report.

1.3 Independent Director Mr. Sui Guangjun brought forward the application of resigning the position of independent director; thus, he did not attended the 15th meeting of the 4th Board of Directors, 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.

1.4 Domestic ShuLun Pan Certificated Public Accountants Co., Ltd. and overseas Horwath Certificated Public Accountants audited the Company's Financial Report and both issued standard unqualified Auditors' Report for the Company.

1.5 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.

§2 Company Profile

2.1 Basic information

Short form of the stock	Accord Pharm., Accord Pharm.-B
Stock code	000028, 200028
Listed stock exchange	Shenzhen Stock Exchange
Registered address	Accord Pharm. Bulg., Ba Gua Si Road No. 15, Futian District, Shenzhen, Guangdong Province
Post code of registered address	518029
Office address	Accord Pharm. Bulg., Ba Gua Si Road No. 15, Futian District, Shenzhen, Guangdong Province

Post code of office address	518029
Internet web site of the Company	http://www.szaccord.com.cn
E-mail	investor@szaccord.com.cn

2.2 Contact person and method

	Secretary of the Board of Directors
Name	**Chen Changbing**
Contact address	Secretariat of the Board of Directors of Shenzhen Accord Pharmaceutical Co., Ltd.
Telephone	+(86)755 25875195，25875222
Fax	+(86)755 25875147
E-mail	investor@szaccord.com.cn

§3 Summary of Accounting Data and Financial Indexes

3.1 Major accounting data

Unit: RMB

	2006	2005	Increase or decrease over last year（%）	2004
Income from main operations	5,667,611,804.68	1,635,568,517.10	246.52%	1,576,085,283.69
Total profit	104,676,664.78	41,619,934.83	151.51%	25,657,456.44
Net profit	72,555,229.24	35,765,331.72	102.86%	27,254,148.36
Net profit after deducting the non-recurring losses/gains	63,962,326.55	35,956,065.32	77.89%	23,700,002.32
Net cash flows from operating activities	181,729,861.80	148,275,068.00	22.56%	130,295,006.15
	At the end of 2006	At the end of 2005	Increase/Decrease from the end of previous year (%)	At the end of 2004
Total assets	2,679,240,445.07	1,072,448,048.81	149.82%	846,186,796.73
Shareholders' equity (excluded minority interest)	447,731,956.74	393,721,269.08	13.72%	358,197,820.37

3.2 Major financial indexes

Unit: RMB

	2006	2005	Increase/Decrease over last year (%)	2004
Earnings per share	0.252	0.124	103.23%	0.095
Return on equity	16.21%	9.08%	Up 7.13 percentage	7.61%
Return on equity as calculated based on net profit after deducting non-recurring losses and gains	14.29%	9.13%	Up 5.16 percentage	6.62%
Net cash flow per share arising from operating activities	0.631	0.515	22.52%	0.452

	At the end of 2006	At the end of 2005	Increase/Decrease from the end of previous year (%)	At the end of 2004
Net asset per share	1.554	1.366	13.76%	1.243
Net assets per share after adjustment	1.524	1.342	13.56%	1.193

Note: If from the end of the report period to the report disclosure date, the shares of the Company changes, it should be calculated based on new shares.

Items of non-recurring gains and losses

√ Applicable ☐Inapplicable

Unit: RMB

Items of non-recurring gains and losses	Amount
Gains and losses from disposal of long-term equity investment, fixed assets, construction in progress, 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	8,592,902.69

3.3 Difference in net profit as audited by Chinese Accounting Standard (CAS) and International Accounting Standard (IAS)

√ Applicable ☐Inapplicable

Unit: RMB

	CAS	IAS
Net profit	72,555,229.24	38,664,833.36
Explanation on the difference	The net profit as of the year 2006 was RMB 41,445,000 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.	

§4 Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share

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%		16,465,680			16,465,680	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%

The date for the restricted shares to be listed for transaction

Unit: Share

Date	The amount of additional listed shares expired the restricted period	Balance of the amount of restricted shares	Balance of the amount of unrestricted shares	Explanations
April 29, 2007	39,977,088	121,935,432	166,213,968	The shares with restricted conditions have not reached the date for listed transaction.
April 29, 2008	37,963,986	83,971,446	204,177,954	The shares with restricted conditions have not reached the date for listed transaction.
April 29, 2009	83,971,446	0	288,149,400	The shares with restricted conditions have not reached the date for listed transaction.

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.

4.2 Statement of shares held by the top ten shareholders and the top ten unrestricted shareholders

Unit: share

Total number of shareholders	22,753				
Particulars about shares held by the top ten shareholders					
Full Name of shareholder	**Nature of shareholders**	**Proportion of shares held**	**Total amount of shares held**	**Amount of the 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	Other	1.76%	5,058,437	5,058,437	

INDUSTRIAL CO., LTD.					
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	3,049,634	
PINPOINT CHINA FUND	Other	0.95%	2,725,849	2,725,849	
FORTS BANQUE LUXEMBOURG S.A.	Other	0.85%	2,438,283	2,438,283	
YUE YUEN INVESTMENT FUND	Other	0.76%	2,200,000	2,200,000	
JINGFU SECURITIES INVESTMENT FUND	Other	0.74%	2,144,678	2,144,678	

Particulars about the shares held by the top ten unrestricted shareholders		
Full Name of shareholder	**Amount of unrestricted shares held**	**Type of shares**
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.

4.3 Particulars about the controlling shareholders and actual controller of the Company

4.3.1 Particulars about change in the controlling shareholders and actual controller of the Company

☐Applicable √ Inapplicable

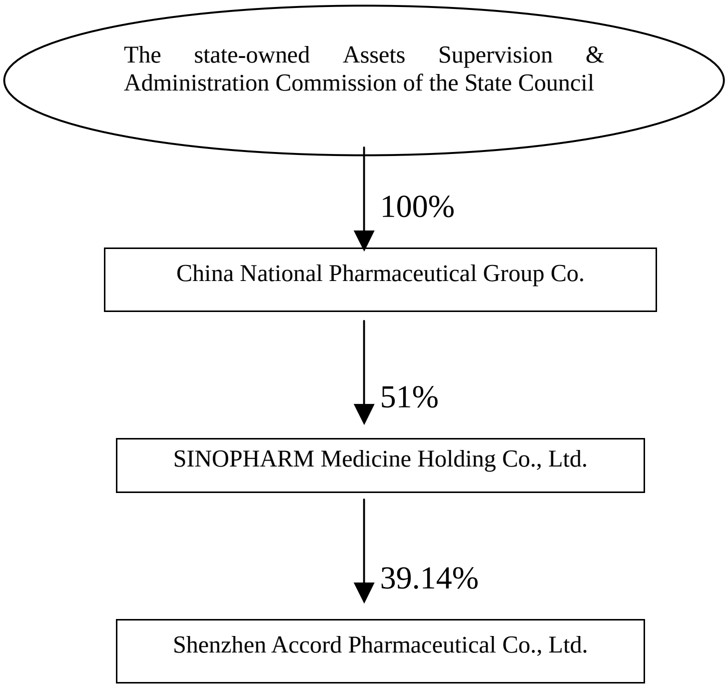
4.3.2 Introduction of especial situation for the controlling shareholder and other actual controller

(1) 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).

(2) 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..

4.3.3 Property right and controlling relationship between the actual controller of the Company and the Company is as follows:



§5. Particulars about Directors, Supervisors and Senior Executives

5.1 Particulars about changes in shares held by directors, supervisors and senior executives and remunerations

Names	Titles	Sex	Age	Beginning date of office term	Terminating date of office term	Shares held at the year-begin	Shares held at the year-end	Reason of change	Total remuneration drew from the Company in the report period (RMB'0000)	Draw the remuneration from other 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'min	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	Jan.13, 2008	0	0		26.98	No
Shen Tianfang	Supervisor	Male	57	Jan. 13, 2005	Jan.13, 2008	0	0		24.12	No
Zhao Junpeng	Supervisor	Male	38	Jan. 13, 2005	Jan.13, 2008	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	-

§ 6. Report of the Board of Directors

6.1 Discussion and analysis of management team

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, sales promotion group, and living mall 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 steadily 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.

6.1.1 Alterations on accounting policy and accounting estimation of the Company, and influences on financial status and business results of the Company after implementing the New Accounting Standards.

√ Applicable ☐ Inapplicable

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.

6.2 Statement of main operations classified according to industries or 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 (%)	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
Main operations classified according to products						
Isedyl cough syrup	23,409.60	4,089.74	82.53%	-3.66%	-11.72%	Up 1.59 percentage
Cef. Series of products	28,309.36	24,940.16	11.90%	23.81%	34.74%	Down 7.15 percentage
Including: related transactions	6,839.02	2,002.98	70.71%	-6.95%	22.28%	Down 7.01 percentage

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
Domestic sales	566,431.80	247.09%
Oversea sales	329.38	-8.77%

6.4 Application of the raised proceeds

☐Applicable √ Inapplicable

Particulars about changed projects:

☐Applicable √ Inapplicable

6.5 Application of the proceeds not raised through shares offering

√ Applicable ☐Inapplicable

Unit: RMB'0000

Name of project	Amount of project	Progress of project	Income of project
Project of Medicine R& D Base	23,663.00	In the report period, the removal project of medicine research and development base went well; fundamental construction, installation of equipment, debugging were finished according to the plan. Ended as the report period, the accumulated investment amounted to RMB 144 million and accomplished 60.81% in the total investment of project budget. The medicine R&D base will be accomplished on Dec. 1, 2006.	With the establishment of medicine R&D base of the Company, the ability of profit-gaining by the Company will be gradually increased.
Total	23,663.00	-	-

6.6 Explanation of the Board of Directors on the "Qualified Opinion" made by the Certified Public Accountants

☐Applicable √ Inapplicable

6.7 The preplan on the profit distribution and capitalization of capital public reserve of the Board of Directors

√ Applicable ☐Inapplicable

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 75,335,229.24; audited by Horwath Certified Public Accountants under International Accounting Standards, the net profits the Company realized in 2006 amounted to RMB 41,445,000.

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 11,964,871.67, 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 RMB 29,775,232.72. 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 RMB 1.00 (including tax), and the total amount for cash dividend was amounting to RMB 28,814,940.00; the surplus of undistributed profit amounted to RMB 960,292.72 9 (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.

The Company made profit but did not present preplan on cash profit distribution.

□Applicable √ Inapplicable

§ 7. Significant Events

7.1 Purchase of assets

√ Applicable □Inapplicable

Unit: RMB'0000

The other party of transaction	Assets purchased	Date of purchasing	Price of purchasing	Net profit contributed to the Company from purchasing date to the end of 2006	Related transaction or not	Explanation on price setting	Assets rights concerned transferred ownership fully or not	The other party of transaction
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd.	49% equity of Sinopharm Medicine Holding Guangdong Xinlong Co., Ltd.	July 10, 2006	980.00	1.31	Yes	Confirmed the transferred price by taking the original capital contribution amounted to RMB 9.8 million as reference	Yes	Yes

7.2 Sales of assets

√ Applicable □Inapplicable

Unit: RMB'0000

The other party of transaction	Assets sold	Sales date	Sales price	Net profit contributed to the Company from sales date to the end of 2006	Gains and losses rising from sales	Related transaction or not	Explanation on price setting	Assets rights concerned transferred ownership fully or not	Credit and liability concerned shifted fully or not
Ren Maode	30% equity of Shenzhen Chinese& Western Pharmaceutical Co., Ltd.	Nov. 23, 2006	69.54	7.59	29.25	No	The sales were on the basis of net assets after appraisal and confirmation on files with taking	Yes	Yes

							the base day Sep. 30, 2006 of Shenzhen Chinese& Western Pharmaceutical Co., Ltd.; and the confirmed sales price was RMB 695,370.		

7.1 & 7.2 items concerned resulting in influence on the continuity of the Company's business and the stability of the managers

The matters concerned did no have impact on the continuity of business and stability of management.

7.3 Significant guarantees

√ Applicable ☐Inapplicable

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 party (yes or not)
Total amount of guarantee in the report period		0.00				
Total balance of guarantee at the end of the report period		0.00				
Guarantee of the Company for the controlling subsidiaries						
Total amount of guarantee for controlling subsidiaries in the report period		43,600.00				
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 party		0.00				
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly		33,600.00				
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				

7.4 Significant related transactions

7.4.1 Related transaction connected to routine operations

√ Applicable ☐Inapplicable

Unit: RMB’0000

Related parties	Selling products and providing service to related parties		Purchasing products and accepting service from related parties	
	Transaction amount	Proportion in the same kind of transaction amount	Transaction amount	Proportion in the same kind of transaction amount
Shanghai Sinopharm Wai Gaoqiao Medicine Co., Ltd.	0.00	0.00%	42,693.30	7.06%
China National Medicines Corporation Ltd.	828.03	0.15%	10,786.87	1.78%
Guangdong South Pharmaceutical Foreign Trade Corporation	539.75	0.10%	2,596.69	0.43%
Sinopharm Medicine Holding Hubei Xinlong Co., Ltd.	1,993.54	0.35%	1,147.36	0.19%
Suzhou Medicine Foreign Development Co., Ltd.	0.00	0.00%	832.38	0.14%
Sinopharm Medicine Holding Tianjin Co., Ltd.	3,731.24	0.66%	805.55	0.13%
Guangdong Dong Fang Uptodate & Special Medicines Co. Ltd.	249.13	0.04%	705.30	0.12%
Sales Subdivision of China National Pharmaceutical Foreign Trade Corp.	0.00	0.00%	693.44	0.11%
Sinopharm Medicine Holding Shenzhen TCM	0.00	0.00%	422.18	0.07%
Sinopharm Medicine Holding Nanning Co., Ltd	2,848.29	0.50%	239.82	0.04%
China Medicine Group Company	0.00	0.00%	10.61	0.00%
Sinopharm Medicine Guoda Pharmacy Co., Ltd.	920.77	0.16%	189.00	0.03%
Sinopharm Medicine Holding Shanghai Co., Ltd.	0.00	0.00%	24,853.97	4.11%
Shenzhen Chinese and Western Pharmaceutical Company	468.56	0.08%	129.78	0.02%
Shenzhen Main Luck Pharmaceutical Inc.	0.00	0.00%	82.35	0.01%
Guangdong Tianliang Medicine Co., Ltd.	0.93	0.00%	38.27	0.01%
Sinopharm Medicine Group Shanghai Medical Equipment Co., Ltd.	0.00	0.00%	2.59	0.00%
Beijing Zhongxin Medical Trading Company	0.00	0.00%	2.18	0.00%
Sinopharm Medicine Industry Holding Co., Ltd.	0.00	0.00%	0.17	0.00%
Huahe Pharmaceutical Holding Co., Ltd.	0.00	0.00%	0.11	0.00%
Sinopharm Medicine Holding Co., Ltd.	2,199.05	0.39%	0.00	0.00%
Sinopharm Medicine Holding Shenyang Co., Ltd.	11,924.41	2.10%	0.00	0.00%
Sinopharm Medicine Holding Hunan Tianjian Co., Ltd.	4,739.41	0.84%	0.00	0.00%
Sinopharm Medicine Holding Hubei Co., Ltd.	2,925.46	0.52%	0.00	0.00%
Sinopharm Group Medicine Holding	1,673.27	0.30%	0.00	0.00%

Wuhan Co., Ltd				
Sinopharm Medicine Holding Beijing Co., Ltd.	1,097.53	0.19%	0.00	0.00%
Tianjin East Bokang Medical Trade Co., Ltd.	332.25	0.06%	0.00	0.00%
Sinopharm Medicine Holding Jiangsu Co., Ltd.	198.81	0.04%	0.00	0.00%
China National Pharmaceutical Group Southwest Medicine Co., Ltd.	3,368.97	0.59%	0.00	0.00%
Sinopharm Medicine Holding Shanxi Co., Ltd.	149.84	0.03%	0.00	0.00%
Guangdong Renbo Medical Equipment Co., Ltd.	117.49	0.02%	0.00	0.00%
Sinopharm Medicine Holding Beijing Huahong Co., Ltd.	40.11	0.01%	0.00	0.00%
Sinopharm Medicine Holding Zhejiang Co., Ltd.	15.45	0.00%	0.00	0.00%
Sinopharm Medicine Holding Jingzhou Xinlong Pharmaceutical Co., Ltd.	4.37	0.00%	0.00	0.00%
China National Pharmaceutical Group Northwest Medicine Co., Ltd.	4.23	0.00%	0.00	0.00%
Sinopharm Medicine Holding Shenzhen TCM	1.14	0.00%	0.00	0.00%
Guangxi Guoda Pharmacy Franchise Co., Ltd.	0.18	0.00%	0.00	0.00%
Guangdong Zhongyue Medicinal Materials Association Company	0.14	0.00%	0.00	0.00%
Total	40,372.35	7.12%	86,231.92	14.26%

Including:

In the report period, the transaction amount which the listed company sold products or provided labor forces to controlling shareholders and its subsidiaries was RMB 389,963,200.

7.4.2 Current related credits and liabilities

√ Applicable ☐Inapplicable

Unit: RMB’0000

Related parties	Supply funds to related parties		Related parties supplied funds to the Company	
	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., Ltd.	2.68	0.21	0.00	0.00
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 capital amount the listed company provided to controlling shareholder and its subsidiaries was RMB 498,049,600 and the balance was RMB 91,345,200.

7.4.3 Progress of paying off the occupied fund at the end of year 2005

☐ Applicable √ Inapplicable

Occupation of newly increased fund during the year 2006

☐ Applicable √ Inapplicable

Reasons, measures of paying off debts adopted and plan for responsibility ascertainment in case of listed companies' failure to complete paying off the occupied non-operating fund at the end of 2006

☐ Applicable √ Inapplicable

7.5 Entrusted assets management

☐ Applicable √ Inapplicable

7.6 Implementation of commitments

7.6.1 Commitment during the Share Merger Reform made by the original non-tradable shareholders and its implementations

√ Applicable ☐Inapplicable

Shareholders	Commitments	Commitment implementation	Remarks
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 from Sinopharm Medicine Holding Co., Ltd.	Implementing	It does not reach the requirements of implementation.

7.6.2 Amount of tradable shares with unrestricted conditions held by original non-tradable shareholders whose holding proportion exceeded 5% at the end of report period

☐ Applicable √ Inapplicable

7.7 Significant lawsuit and arbitrations

☐ Applicable √ Inapplicable

§8. Report of the Supervisory Committee

√ Applicable ☐Inapplicable

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.

§9. Financial Report

9.1 Auditor's opinions

Auditor's opinions: standard unqualified auditor's opinions

9.2 Financial statement

9.2.1 Balance Sheet

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. December 31, 2006 Unit: RMB

Items	Amount at year-end		Amount at year-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets:				
Monetary funds	205,341,835.52	51,149,747.14	169,288,045.66	75,509,035.69
Short-term investment				
Notes receivable	207,461,757.47	27,417,436.43	26,624,529.36	
Dividend receivable			517,540.03	2,826,076.94
Interest receivable				
Accounts receivable	1,134,397,089.98	232,925,656.56	343,370,764.44	226,103,323.79
Other receivables	36,052,214.72	155,515,089.60	21,188,887.65	79,390,509.30
Accounts in advance	31,281,294.12	3,932,363.78	23,533,697.28	16,474,647.61
Subsidy receivable			324,171.69	324,171.69
Inventories	489,402,122.53	72,299,571.82	209,691,744.63	91,774,981.89
Expenses to be apportioned	1,885,446.77		1,481,611.95	
Long-term bonds investment due within one year				
Other current assets				
Total current assets	2,105,821,761.11	543,239,865.33	796,020,992.69	492,402,746.91
Long-term investment:				
Long-term equity investment	109,103,269.61	476,653,167.42	76,253,572.46	287,092,973.30
Long-term credit investment				
Total long-term investment	109,103,269.61	476,653,167.42	76,253,572.46	287,092,973.30
consolidation variance	51,576,499.07		21,872,551.07	

Fixed assets:				
Fixed assets-original value	461,778,502.42	87,338,984.85	240,207,450.20	88,430,478.76
Less: accumulative depreciation	200,645,918.84	34,832,724.38	119,744,857.80	28,723,623.95
Fixed assets-net value	261,132,583.58	52,506,260.47	120,462,592.40	59,706,854.81
Less: provision for devaluation of fixed assets	1,540,690.74		3,601,113.91	512,279.34
Fixed assets-net amount	259,591,892.84	52,506,260.47	116,861,478.49	59,194,575.47
Engineering material				
Construction in progress	150,990,967.55	253,886.24	81,250,107.61	31,624,756.59
Disposal of fixed assets				
Total fixed assets	410,582,860.39	52,760,146.71	198,111,586.10	90,819,332.06
Intangible and other assets:				
Intangible assets	32,031,022.36	30,444,684.41	1,461,987.80	1,426,733.67
Long-term expenses to be apportioned	6,155,684.69	122,397.20	599,909.76	308,018.00
Other long-term assets	15,545,846.91			
Total intangible and other assets	53,732,553.96	30,567,081.61	2,061,897.56	1,734,751.67
Deferred tax				
Deferred tax-debit				
Total assets	2,679,240,445.07	1,103,220,261.07	1,072,448,048.81	872,049,803.94
Current liabilities:				
Short-term loans	296,986,007.95	37,417,436.43	10,000,000.00	10,000,000.00
Notes payable	419,175,924.81	110,205,719.50	41,850,930.83	41,850,930.83
Accounts payable	956,987,248.04	261,167,008.52	334,334,823.97	267,050,720.43
Accounts received in advance	30,835,803.43	26,057.63	25,804,370.45	60,723.30
Wage payable	68,321,509.92	15,400,684.50	50,353,654.37	15,866,058.79
Welfare funds payable	9,293,326.86	1,015,189.72	5,315,887.56	1,486,505.30
Dividends payable				
Taxes payable	2,919,570.97	3,570,730.56	5,903,780.81	-947,922.12
Other duties payable	300,476.67	111,629.16	51,511.89	479.34
Other accounts payable	286,472,925.28	183,885,968.98	196,669,571.70	109,188,644.36
Accrued expenses	10,086,010.69	2,768,458.92	7,642,248.15	1,863,887.92
Projected liabilities	1,300,000.00			
Long-term liabilities due within 1 year				
Other current liabilities				
Total current liabilities	2,082,678,804.62	615,568,883.92	677,926,779.73	446,420,028.15
Long-term liabilities				
Long-term loans	97,720,000.00			
Bonds payable				
Long-term accounts payable	1,054,352.56			
Special accounts payable	1,800,000.00	800,000.00	800,000.00	800,000.00
Other long-term liabilities	23,085,874.07			
Total long-term liabilities	123,660,226.63	800,000.00	800,000.00	800,000.00
Deferred tax				
Deferred tax-credit item				
Total liabilities	2,206,339,031.25	616,368,883.92	678,726,779.73	447,220,028.15

Minority interests	25,169,457.08			
Owner's equity (or shareholders' equity):				
Paid-in capital (or share capital)	288,149,400.00	288,149,400.00	288,149,400.00	288,149,400.00
Less: Restituted investment				
Net amount of paid-in capital (share capital)	288,149,400.00	288,149,400.00	288,149,400.00	288,149,400.00
Capital public reserve	18,044,074.54	17,902,522.48	17,741,872.48	17,741,872.48
Surplus public reserve	83,419,602.89	57,416,316.59	71,732,731.22	50,136,125.19
Including: Statutory public welfare fund				
Retained profit	96,039,768.76	123,383,138.08	46,112,373.80	68,802,378.12
Including: Cash dividend	25,933,446.00	25,933,446.00	10,940,962.61	10,940,962.61
Unconfirmed investment	-37,920,889.45		-30,015,108.42	
Balance difference of foreign currency translation				
Total owner's equity (shareholders' equity)	447,731,956.74	486,851,377.15	393,721,269.08	424,829,775.79
Total liabilities and owner's equity (shareholder's equity)	2,679,240,445.07	1,103,220,261.07	1,072,448,048.81	872,049,803.94

9.2.2 Profit and profit distribution statement

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. January-December, 2006 Unit: RMB

Items	This period		Same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Income from core business	5,667,611,804.68	1,235,289,968.87	1,635,568,517.10	1,018,142,952.57
Less: Cost of core business	5,085,977,449.60	1,187,855,348.02	1,262,423,283.60	975,324,008.22
Taxes and extras of core business	8,222,343.49	422,175.45	2,162,323.57	207,308.63
II. Profit of core business (Loss is listed with "-")	573,412,011.59	47,012,445.40	370,982,909.93	42,611,635.72
Add: Profit of other business (Loss is listed with "-")	33,992,236.29	4,925,302.60	23,109,566.19	3,490,023.52
Less: Operating expense	302,041,168.71	20,077,860.70	248,324,783.40	25,975,836.77
Administrative expense	180,856,840.70	57,097,785.06	105,633,634.57	47,507,171.20
Financial expense	21,028,175.82	412,514.18	-1,639,816.76	-117,035.99
III. Operating profit (Loss is listed with "-")	103,478,062.65	-25,650,411.94	41,773,874.91	-27,264,312.74
Add: Investment earnings (Loss is listed with "-")	-2,055,612.17	96,278,737.48	-83,885.09	64,025,838.62
Subsidy income	6,600.00			
Non- operating income	1,113,684.76	79,693.70	327,389.77	31,121.42
Less: non-operating expenditure	-2,133,929.54	-2,093,894.73	397,444.76	7,071.81
IV. Total profits (Total loss is listed with "-")	104,676,664.78	72,801,913.97	41,619,934.83	36,785,575.49
Less: Income tax	29,900,100.37		6,096,486.12	
Minority interests	5,206,304.87			
Add: Occurring amount of unconfirmed investment loss	2,984,969.70		241,883.01	
V. Net profit (Net loss is listed with "-")	72,555,229.24	72,801,913.97	35,765,331.72	36,785,575.49

Add: Undistributed profits at the year-begin	46,112,373.80	68,802,378.12	15,553,905.74	37,534,638.95
Other transfer-in			691,729.87	
VI. Profit available for distribution	118,667,603.04	141,604,292.09	52,010,967.33	74,320,214.44
Minus: appropriation of statutory surplus public reserve	11,686,871.67	7,280,191.40	3,932,395.69	3,678,557.55
Appropriation of statutory public welfare funds			1,966,197.84	1,839,278.77
Appropriation of employees' encouragement and welfare funds				
Appropriation of reserve funds				
Appropriation of enterprise development funds				
Profits' restoring to investments				
VII. Profits available for distribution to investors	106,980,731.37	134,324,100.69	46,112,373.80	68,802,378.12
Less: dividends of preference share payable				
Appropriation of arbitrary surplus public reserve				
Dividends of ordinary share payable	10,940,962.61	10,940,962.61		
Dividends of ordinary share converting into capital (share capital)				
VIII. Retained profit	96,039,768.76	123,383,138.08	46,112,373.80	68,802,378.12
Supplemental information:				
1. Income from selling or disposal branch and investee enterprise	407,053.62	292,540.55	-1,362,915.49	-1,362,915.49
2. Losses due from natural disaster				
3. Increase (or decrease) of total profit due to the change of accounting policies				
4. Increase (or decrease) of total profit due to the change of accounting estimation				
5. Loss on debts reorganization				
6. Others				

9.2.3 Cash Flow Statement

Prepared by Shenzhen Accord Pharmaceutical Co., Ltd. January-December, 2006 Unit: RMB

Items	This period	
	Consolidation	Parent Company
Ⅰ. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	6,474,284,434.24	1,395,666,908.40
Write-back of tax received	21,960.81	
Other cash received concerning operating activities	39,385,095.05	84,177,282.11

Subtotal of cash inflow arising from operating activities	6,513,691,490.10	1,479,844,190.51
Cash paid for purchasing commodities and receiving labor service	5,704,246,545.06	1,264,303,273.27
Cash paid to/for staff and workers	202,087,381.21	24,049,344.20
Taxes paid	158,627,080.03	11,319,068.27
Other cash paid concerning operating activities	267,000,622.00	93,615,312.62
Subtotal of cash outflow arising from operating activities	6,331,961,628.30	1,393,286,998.36
Net cash flows arising from operating activities	181,729,861.80	86,557,192.15
II. Cash flows arising from investing activities:		
Cash received from recovering investment	685,070.00	685,070.00
Cash received from investment income	2,922,492.43	64,043,624.34
Net cash received from disposal of fixed, intangible and other long-term assets	1,917,138.34	421,370.00
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	5,524,700.77	65,150,064.34
Cash paid for purchasing fixed, intangible and other long-term assets	118,219,681.23	2,408,200.70
Cash paid for investment	16,141,553.32	161,688,060.00
Other cash paid concerning investing activities		
Subtotal of cash outflow from investing activities	134,361,234.55	164,096,260.70
Net cash flows arising from investing activities	-128,836,533.78	-98,946,196.36
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	339,520,000.00	
Other cash received concerning financing activities	2,626,000.00	
Subtotal of cash inflow from financing activities	342,146,000.00	
Cash paid for settling debts	306,600,000.00	
Cash paid for dividend and profit distributing or interest paying	49,125,972.19	11,969,087.29
Other cash paid concerning financing activities	3,253,708.44	
Subtotal of cash outflow from financing activities	358,979,680.63	11,969,087.29
Net cash flows arising from financing activities	-16,833,680.63	-11,969,087.29
IV. Influence on cash due to fluctuation in exchange rate	-5,857.53	-1,197.05
V. Net increase of cash and cash equivalents	36,053,789.86	-24,359,288.55

Supplement information:		
1. Adjusting net profit to cash flows for operating activities:		
Net profit	72,555,229.24	72,801,913.97
Add: Withdrawal of provision for devaluation of assets	7,966,744.84	14,259,169.87
Depreciation of fixed assets	29,040,178.26	7,583,029.25
Amortization of intangible assets	1,897,100.61	1,173,261.09
Amortization of long-term expenses to be apportioned	2,199,426.49	185,620.80
Decrease of expenses to be apportioned (Less: increase)	8,591.83	
Increase of accrued expenses (Less: decrease)	-1,049,647.95	904,571.00
Loss on disposal of fixed, intangible and other long-term assets (Less: income)	86,932.84	215,095.59
Loss on rejection of fixed assets	12,889.33	
Financial expenses	24,107,213.80	1,029,321.73
Investment loss (less: income)	2,055,612.17	-96,278,737.48
Deferred tax- credit item (Less: debit)		
Decrease of inventories (Less: increase)	-85,612,420.54	19,258,792.80
Decrease of receivables in operating (less: increase)	-279,199,607.51	-106,122,161.34
Increase of payables in operating (Less: decrease)	405,440,283.22	171,547,314.87
Other	-2,984,969.70	
Income of minority shareholders in this period	5,206,304.87	
Net cash flows arising from operating activities	181,729,861.80	86,557,192.15
2. Investment and financing activities with no cash incomings/outgoings involved		
Capital transferred from debts		
Convertible company bonds due within one year		
Fixed assets leasing for financing		
3. Net increase of cash and cash equivalents:		
Balance of cash at the period-end	205,341,835.52	51,149,747.14
Less: Balance of cash at the period -begin	169,288,045.66	75,509,035.69
Add: Balance of cash equivalents at the period -end		
Less: Balance of cash equivalents at the period -begin		
Net increase of cash and cash equivalents	36,053,789.86	-24,359,288.55

9.3 Explanation on changes of accounting policy, accounting estimation and settlement compared with the latest annual report

☐Applicable √ Inapplicable

9.4 Contents, correct amount, reason and its influence of significant accounting errors

√ Applicable ☐Inapplicable

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

√ Applicable ☐Inapplicable

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.

9.6 Reconciliation Statement on Differences of Shareholders' Equity Based on Old and New Accounting Standards

Unit: RMB

Items	Amount
Shareholders' equity as December 31 2006 (Based on Existing Accounting Standards)	447,731,956.74
differences of long-term equity investment	-53,262,485.95
Including: Differences in long-term equity investment caused by merger of enterprises under the same control	-53,262,485.95
Differences in credit of long-term equity investment calculated based on equity method	
Investment property measured with fair value	
Prior year depreciation withdrawal due to dismantling cost	
Dismissal indemnity conformed to the acknowledgement of estimated liabilities	

Share-based payment	
Reconstructuring duties conformed to the acknowledgement of estimated liabilities	
Enterprises merger	
Including: Book value of enterprises consolidated goodwill under the same control	
Provision for impairment of goodwill withdrawn based on New Accounting Standards	
Financial asset booked as current losses and gains with fair value measurement and changes, and disposable financial assets	
Financial liabilities booked as current losses and gains with fair value measurement and changes	
Increased equity due to demerger of financial instrument	
Derived financial instrument	
Income tax	7,410,670.30
Minority shareholders' interest	23,909,356.50
Other	
Shareholders' equity as January 1 2007 (Based on New Accounting Standards)	425,789,497.59

Auditors' Report

REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF SHENZHEN ACCORD PHARMACEUTICAL CO., LTD

(2007) No10701. Audited by ShuLun Pan CPAs

We have audited the accompanying Reconciliation Statement on Differences of Shareholders' Equity based on Old and New Accounting Standards ("Reconciliation Statement") of Shenzhen Accord Pharmaceutical Co., Ltd. ("the Company"). According to Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice on Fulfillment of Financial and Accounting Information Disclosures Related to the New Accounting Standards (ZJF[2006] No. 136, "Notice"), compilation on the Reconciliation Statement are the responsibility of the Company's management. Our responsibility is to express an opinion on these Reconciliation Statement based on our audit.

Pursuant to the requirement of Notice, we conducted our audit in accordance with Standard on Review Engagements for CPAs of China No. 2101- Review of Financial Statements on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Reconciliation Statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reconciliation Statement. An audit also includes assessing the accounting principles used and significant estimates made by the relevant persons of the Company, as well as evaluating the overall presentation of the Reconciliation Statement. The guarantee supplied from the review was lower than the audit. We did not conduct; thus, we issued no auditor's opinions.

In our opinion, we did not notice that any matters made us believed that, the Reconciliation Statement was not compiling in accordance with the Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice.

In Addition, we recommended the attention on the Reconciliation Statement of participants, as listed in significant note in the accompanying Reconciliation Statement: the New Accounting Standards of Shareholders' Equity listed in the Reconciliation Statement 1 January 2007 possibly remained differences between the relevant data listed in financial statements of 2007 Annual Report.

ShuLun Pan Certificated Public Accountants
Shanghai, P.R.C

SHENZHEN ACCORD PHARMACEUTICAL CO., LTD
Attachment of Reconciliation Statement on Differences of Shareholders' Equity Based on Old and New Accounting Standards
(Unless otherwise specified, the standard currency in the financial data or unit refers to Renminbi.)

I. Purpose of compilation

The Company began to adopt the New Accounting Standards January 1 2007, CRSC released Notice on Fulfillment of Financial and Accounting Information Disclosures Related to the New Accounting Standards (ZJF[2006] No. 136, "Notice") dated Nov., 2006 in order to analyses and disclose the influence of financial status of listed companies by implementing the New Accounting Standards which requested that the Company disclosed the adjustment process of significant difference in reconciliation statement in supplementary materials in 2006 Annual Report in accordance with the requirement of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises and Notice.

II. Compilation basis

The Reconciliation Statement is complied according to the 5th and 19th of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises and the requirement of Notice, with combining with the own characteristic and specific situations of the company on the basis of consolidated financial statement in 2006.

In light of the indefinite items in 5th and 19th of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises, the Reconciliation Statement is compiled as follows:

(I) The subsidiaries, associates and affiliated company conducted Retroactive adjustment according to the 5th and 19th of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises; for the matters that the aforesaid companies retained profit and influenced the net asset share taken by the Company pursuant to the equity proportion, the Company adjusted the retained profit or capital public reserve according to the actual business situations;

(II) While compiling the consolidated statement, the Company adjusted the minority shareholders' equity according to the New Accounting Standards, and reflected on the independent item of Reconciliation Statement.

III Attachment of main items

(I) The amount of shareholders' equity as Dec. 31, 2006 (Existing Accounting Standards) was taken form the consolidated balance statement as Dec. 31 2006 compiled in accordance with existing Accounting Standard for Business Enterprises and Accounting System for Business Enterprises ("The Existing Accounting Standards"), and issued standard unqualified auditor's opinion as XXX 2007 (ShuLun Pan BZ (2007) No.) from Shulun Pan Certified Public Accountants Co., Ltd. For compilation basis and main accounting policy relevant to the statement, please refer to the 2006 Annual Financial Statement of the Company.

(II) 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.

(III) 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.

(IV) 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.

Significant notice:

The Company begin to conduct Accounting Standards for Business Enterprises ("New Accounting Standards") promulgated by Ministry in 2006 of Finance from January 1 2007. 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.