

本董事會謹向股東提呈本公司二零零六年董事會報告和本公司及本集團截至二零零六年十二月三十一日止年度經審核之帳目。

經營管理研討與分析

1. 主營業務範圍及其經營狀況

本集團主要從事開發、製造和銷售化學原料藥、製劑、化工及其他產品。本集團利潤主要來源於主營業務。

銷售分析

本集團截至二零零六年十二月三十一日止年度按中國會計準則編制的銷售額為人民幣1,667,252千元，其中化學原料藥、製劑、商業流通、化工產品及其他銷售額所佔比重分別為58.62%、16.29%、23.97%、1.12%，分別較二零零五年上升1.20個百分點、下降1.28個百分點、下降0.09個百分點和上升0.17個百分點。

二零零六年本集團充分發揮主導化學原料藥市場優勢地位作用，大力開拓國際市場，產品出口創匯額較上年增長11.18%。化學原料藥整體毛利率較上年度增長2.5個百分點。

製劑產品銷售額完成人民幣271,657千元，較上年下降8.85%，製劑產品銷售額下降的主要原因是受市場競爭，以及國家降低藥品價格政策影響。

商業流通完成銷售額人民幣399,622千元，較上年下降2.10%，下降的主要原因是，本公司積極調整經營策略，調減毛利率低的產品銷售。

The Board of Directors sincerely submits to the shareholders the report of the Board of Directors and the audited accounts of the Company and the Group for the year ended 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

1. The business scope and operating results of the Company

The Group is mainly engaged in the development, production and sales of bulk pharmaceuticals, preparations, chemical products and other products. The profit of the Group is mainly attributable to its principal operations.

Sales Analysis

Under PRC accounting standards, the Group had a turnover of approximately RMB1,667,252,000 for the year ended 31 December 2006. Sales of bulk pharmaceuticals, sales of preparations, medical logistics, chemical and other products accounted for 58.62%, 16.29%, 23.97% and 1.12% respectively of the total sales of the Group, representing an increase of 1.20%, a decrease of 1.28%, a decrease of 0.09% and an increase of 0.17% respectively as compared with that of 2005.

With the continuing dominance of the products of the Group in the market, the Group focused on exploring overseas markets, by which the revenue generated from products for export increased by 11.18% as compared with that of last year and the overall gross profit margin of pharmaceuticals increased by 2.5% as compared with that of last year.

Sales of preparations was approximately RMB271,657,000, representing a decrease of 8.85% as compared with that of last year, which was mainly attributable to intense competition in the market and national policies to reduce the price of medicine.

Turnover generated from the sales was approximately RMB399,622,000, a decrease of 2.10% as compared to that of last year. The decrease was mainly due to the Company actively adjusting its business strategy and reducing sales of low gross profit margins products.



經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

化工產品及其他銷售額完成人民幣18,654千元，較上年度增長15.93%。

業績分析

截止二零零六年十二月三十一日止年度，按香港普遍採納之會計原則審計的本集團股東應佔盈利為人民幣22,761千元，較二零零五年度增長17.5倍；按中國會計準則審計的淨利潤為人民幣22,706千元，較二零零五年度增長319.24%。淨利潤增長的主要原因為：(i)本公司充份發揮主導產品市場優勢地位作用；(ii)通過加強費用控制和風險管理，本年度內營業費用大大降低；及(iii)長期投資減值準備較上年度大幅度下降。

主要產品及其於中國市場佔有率為：

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. The business scope and operating results of the Company (continued)

The sales of chemical and other products were approximately RMB18,654,000, increased by 15.93% as compared with that of last year.

Results Analysis

The Group's profit attributable to the equity holders of the Company for the year ended 31 December 2006 prepared in accordance with HKGAAP were approximately RMB22,761,000, representing an increase of 1750% as compared to that of last year. The profit after taxation prepared in accordance with PRC accounting standards was approximately RMB22,706,000, representing an increase of 319.24% as compared to that of last year. The main reasons for the increase were: (i) the continuing dominance of the products of the Group in the market; (ii) the reduction of operation expenses by the enhancement of cost control measures and other risk management controls; and (iii) the provision for depreciation of long-term investments dropped substantially compared with that of last year.

Major products and the corresponding market share in the PRC are set forth below:

主要產品	Major Products	佔二零零六年 總銷售額百分比(%) As % of total sales in 2006	二零零六年 國內市場佔有率(%) Market share in the domestic market in 2006
A. 化學原料藥	A. Bulk Pharmaceuticals		
安乃近	Analgin	13.79	46.4
咖啡因	Caffeine	16.15	38.9
氨基比林	Aminopyrine	4.09	62.7
阿斯匹林	Aspirin	6.75	83.3
氫化可的松	Hydrocortisone	1.70	45.3
吡哌酸	Pipemidic acid	1.43	100
布洛芬	Ibuprofen	4.31	38.3
茶碱	Theophylline	0.91	27.3
B. 製劑	B. Preparations		
吡哌酸片	Pipemidic acid tablets	2.45	75
複方甘草片	Co-liquorice tablets	1.39	4.5
尼莫地平片	Nimodipine tablets	1.05	18

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

按中國會計準則對財務狀況、經營成果的分析

於二零零六年十二月三十一日本集團總資產為人民幣1,880,020千元，較年初人民幣2,207,053千元減少人民幣327,033千元，降低14.82%，總資產減少的主要原因是本集團2006年償還了部份銀行借款及兌付了部份銀行承兌匯票。於二零零六年十二月三十一日股東權益(扣除少數股東權益)為人民幣1,343,337千元，較年初人民幣1,343,493千元減少人民幣156千元，降低0.01%，減少的主要原因是本公司於二零零六年內分配了二零零五年度現金紅利人民幣22,866千元。

於二零零六年十二月三十一日本集團負債總額為人民幣533,371千元，較年初人民幣862,469千元減少人民幣329,098千元，降低38.16%，減少的主要原因是本集團二零零六年償還了部份銀行借款及兌付了部份銀行承兌匯票。

二零零六年度本集團實現主營業務利潤為人民幣286,664千元，較上年同期降低人民幣5,805千元，下降1.98%，降低的主要原因是受市場競爭，以及國家降低藥品價格政策影響，製劑產品毛利率較上年下降7.13個百分點；淨利潤為人民幣22,706千元，較上年同期增長319.24%。淨利潤增長的主要原因見「業績分析」。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

Financial and results analysis in accordance with PRC accounting standards

Total assets of the Group as at 31 December 2006 decreased by 14.82% or approximately RMB327,033,000 to approximately RMB1,880,020,000, as compared with the figure at the beginning of the year of approximately RMB2,207,053,000. The decrease in total assets was mainly due to the repayment of certain bank loans and certain bank exchanges. Shareholders' equity (excluding minority interest) of the Group as at 31 December 2006 decreased by approximately RMB156,000 or 0.01% from approximately RMB1,343,493,000 at the beginning of the year to approximately RMB1,343,337,000. Such decrease was mainly attributable to the distribution of a cash dividend of approximately RMB22,866,000 for 2005.

The total liabilities of the Group as at 31 December 2006 were approximately RMB533,371,000, representing a decrease of approximately RMB329,098,000 or 38.16%, as compared to approximately RMB862,469,000 as at the beginning of the year. The decrease was mainly attributable to the repayment of certain bank loans and certain bankers' acceptances.

Profit from principal operations of the Group for 2006 amounted to approximately RMB286,664,000, representing a decrease of 1.98% or approximately RMB5,805,000 when compared with that of last year. The decrease was mainly due to intense competition in the market and national policies to reduce the price of medicine and a decrease of 7.13% for the gross margin of preparations as compared with that of last year. The net profit of the Group was RMB22,706,000, representing an increase of 319.24% when compared with that of last year. The main reasons for the net profit growth are set out in the above section headed Results Analysis".

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

二零零六年度本集團現金及現金等價物淨減少額為人民幣164,907千元，現金及現金等價物淨額變動的主要因為：二零零六年償還了部份銀行借款，導致籌資活動產生的現金流量淨減少額為人民幣209,495千元。

2006年按中國會計準則編制的分產品情況如下：

分行業或分產品	By product or By section	主營業務收入 Turnover 人民幣千元 RMB'000	主營業務成本 Cost of goods sold 人民幣千元 RMB'000	毛利率 % Rate of gross margin %
化學原料藥	Bulk pharmaceuticals	977,319	776,696	20.53
製劑	Preparations	271,657	185,248	31.81
商業流通	Medical Commercial Logistics	399,622	389,967	2.42
化工產品及其他	Chemical & other products	18,654	19,443	(4.23)
合計	Total	1,667,252	1,371,354	17.75

按香港普遍採納之會計原則分析

於二零零六年十二月三十一日，本集團流動比率為170.43%，速動比率為126.00%，應收賬款周轉率為654.23%（應收賬款周轉率 = 營業額 / 平均應收帳款及票據淨額 × 100%），存貨周轉率為553.38%（存貨周轉率 = 產品銷售成本 / 平均存貨淨額 × 100%）。

本集團資金需求無明顯季節性規律。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

The Group's net decrease in cash and cash equivalents for the year 2006 was approximately RMB164,907,000. Changes of cash and cash equivalents were mainly due to the repayment of certain bank loans, resulting in a net decrease in cash flows from financing activities of RMB209,495,000.

Segmental information of the main products for 2006 prepared under PRC accounting standards is as follows:

分行業或分產品	By product or By section	主營業務收入 Turnover 人民幣千元 RMB'000	主營業務成本 Cost of goods sold 人民幣千元 RMB'000	毛利率 % Rate of gross margin %
化學原料藥	Bulk pharmaceuticals	977,319	776,696	20.53
製劑	Preparations	271,657	185,248	31.81
商業流通	Medical Commercial Logistics	399,622	389,967	2.42
化工產品及其他	Chemical & other products	18,654	19,443	(4.23)
合計	Total	1,667,252	1,371,354	17.75

Analysis of the Group's performance under HKGAAP

As at 31 December 2006, the current ratio and the quick ratio of the Group were 170.43% and 126.00% respectively, and the rate of accounts receivable turnover (being turnover/average trade and bill receivables × 100%) and the rate of stock turnover (being cost of goods sold/average inventories × 100%) were 654.23% and 553.38% respectively.

The Group's demand for working capital was constant throughout the year.

經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

本集團資金來源主要是向金融機構借款。於二零零六年十二月三十一日，本集團銀行借款均為無抵押貸款，總額為人民幣235,234千元。於二零零六年十二月三十一日本集團共有貨幣資金人民幣162,535千元(包括約人民幣29,401千元銀行承兌匯票保證金存款)。

為加強財務管理，本集團在現金和資金管理方面擁有嚴格的內部控制制度。本集團資金流動性好，償債能力強。

截至二零零六年十二月三十一日止年度，本公司投入資金人民幣9,008千元與美國中西公司成立了一中外合資公司名為淄博新華—中西製藥有限責任公司(「中西公司」)，本公司佔合資公司註冊資本的75%。本公司之子公司山東新華醫藥貿易有限公司投資人民幣600千元，設立一合資公司名為山東新華製藥進出口有限責任公司(「進出口公司」)，並享有該公司98%的股東權益。本公司投入資金人民幣5,300千元合資成立了山東大地新華化學有限公司(「大地新華」)，本公司佔合資公司註冊資本的49%。本公司投入資金人民幣7,700千元合資，成立了山東新華長星化工設備有限公司(「新華長星」)，本公司佔合資公司註冊資本的35%。中西公司已經開始商業化運作，進出口公司運作正常，並開始產生盈利，大地新華和新華長星處於開工前準備階段。除上述交易外，本集團於報告期內無任何其他重大投資、收購或資產處置。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

The main source of funds of the Group was loans from financial institutions. As at 31 December 2006, the total amount of outstanding bank loans was approximately RMB235,234,000, all of which were unsecured. As at 31 December 2006, cash on hand and in bank amounted to approximately RMB162,535,000 (including deposit for bankers' acceptances of approximately RMB29,401,000).

The Group has stringent internal control systems for cash and fund management in order to strengthen its financial management. The Group maintained a good level of liquidity and had the ability to repay its debts.

During the financial year ended 31 December 2006, the Company made a capital investment of RMB9,008,000 to establish a sino-foreign joint venture named Zibo Xinhua-Eastwest Pharmaceutical Company Limited with Eastwest Inc. of the United States, of which the Company owns 75% of its registered capital. Shandong Xinhua Medical Trade Company Limited, a subsidiary of the Company, made a capital investment of RMB600,000 to establish a joint venture named Shandong Xinhua Pharmaceutical Import and Export Company Limited, of which Shandong Xinhua Medical Trade Company Limited owns 98% of its registered capital. The Company made a capital investment of RMB5,300,000 to establish Shandong Dadi Xinhua Medical Company Limited, of which the Company owns 49% of its registered capital. The Company made a capital investment of RMB7,700,000 to establish Shandong Xinhua Changxing Chemical Equipment Company Limited, of which the Company owns 35% of its registered capital. Zibo Xinhua-Eastwest Pharmaceutical Company Limited has started commercial operation. Shandong Xinhua Pharmaceutical Import and Export Company Limited operates normally and has begun to make profits. Shandong Dadi Xinhua Medical Company Limited and Shandong Xinhua Changxing Chemical Equipment Company Limited are at the preparation stage prior to the commencement of operation. Apart from the above transactions, the Group did not make any other significant investment, takeovers, asset acquisitions or disposals during this reporting period.



經營管理研討與分析 (續)

1. 主營業務範圍及其經營狀況 (續)

於二零零六年十二月三十一日，本集團員工人數為4,793人，2006年全年員工工資總額為人民幣92,448千元。

於二零零六年十二月三十一日，本集團無抵押資產。

本公司預計二零零七年度內無重大投資項目。

本集團的資本負債率為17.18%。
(資本負債率 = 借款總額/股本及儲備總額 × 100%)

公司現有的銀行存款主要目的是為生產經營及科研開發投入作資金準備。

於二零零六年十二月三十一日，公司無或有負債。

本集團之資產及負債主要以人民幣為記賬本位幣，但截至二零零六年十二月三十一日止，年度末出口創匯完成100,437千美元，亦存在一定的匯率波動風險。本集團在降低匯率波動風險方面主要採取了以下措施：1. 提高產品出口價格以降低匯率波動風險；2. 在簽訂大額出口合同時就事先約定，在超出雙方約定範圍的匯率波動限度時，匯率波動風險由雙方承擔；3. 與金融機構簽訂遠期結匯協議，鎖定匯率，規避風險。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Business scope and operating results of the Company (continued)

As at 31 December 2006, the number of staff of the Group was 4,793, and the total amount of their salaries and wages for the year 2006 was approximately RMB92,448,000.

As at 31 December 2006, there was no charge on the Group's assets.

The Company does not anticipate any significant investment plan in 2007.

The debt-to-capital ratio of the Group was 17.18%. (being total borrowings / share capital & total reserves × 100%)

The bank balances of the Company will mainly be used as working capital for production, sales and research.

As at 31 December 2006, the Company had no significant contingent liability.

The assets and liabilities of the Group were mainly recorded in Renminbi. For the year ended 31 December 2006, the revenue from the export of the Group was approximately US\$100,437,000, which may suffer from the risks associated with fluctuation in exchange rates. Therefore, the Group has taken following measures to hedge against the risks of fluctuation in exchange rates: (1) the Group has increased the prices of its exported products to mitigate the risks of fluctuation in exchange rates; (2) the Group has made arrangements with overseas customers when entered into significant export contracts that the risks associated with fluctuation in exchange rates shall be borne by both parties if the fluctuation exceeds the amount agreed by contract parties; and (3) the Group has entered into long-term settlement agreements with financial institutions to fix exchange rates in order to mitigate risks of fluctuation in exchange rates.

經營管理研討與分析 (續)

2. 關於執行新企業會計準則後，公司可能發生的會計政策、會計估計變更及其對公司的財務狀況和經營成果的影響情況

公司將從2007年1月1日起全面執行財政部已頒佈的新企業會計準則體系及相關規定，現對新企業會計準則的執行對公司財務狀況及經營成果的影響說明如下：

- (1) 根據財政部2006年2月15日發佈的財會[2006]3號《關於印發《企業會計準則第1號——存貨等38項具體準則的通知》的規定，公司應於2007年1月1日起執行新企業會計準則，公司目前依據財政部新企業會計準則規定已經辨別認定的2007年1月1日首次執行日現行會計準則與新準則的差異情況如下：

a. 衍生金融工具

按照新企業會計準則，在2007年1月1日，對於未在資產負債表內確認、或已按成本計量的衍生金融工具(不包括套期工具)，應當按照公允價值計量，同時調整留存收益，導致增加2007年1月1日股東權益人民幣134千元，其中歸屬於母公司所有者權益為人民幣134千元，歸屬於少數股東權益為人民幣0千元。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. Possible changes in accounting policies and changes in accounting estimate after implementation of new accounting standards for business enterprises and their effect on the Company's financial position and operating results:

The Company will implement the new accounting standards for business enterprises and the relevant provisions issued by the Ministry of Finance of the PRC from 1 January 2007. The effect of the implementation of new accounting standards for business enterprises on the Company's financial position and operating results are as follows:

- (1) According to the Caikui [2006] 3 "the notice about the issuance of "No. 1 Accounting Standards for Business Enterprises — Notice of 38 Standards Including Inventory Standard" issued by the Ministry of Finance of the PRC on 15 February 2006, the Company should implement the new accounting standards for business enterprises on 1 January 2007. Differences between the prevailing accounting standards and the new accounting standards which took effect on January 1, 2007 are as follows:

a. Derivative Financial Instruments

In accordance with the new accounting standards, the derivative financial instruments (excluding hedging tools) that have not been confirmed in the balance sheet or have been measured by their costs should be valued according to their fair value and the Company shall adjust retained earnings. As a result, shareholders' equity shall be increased by approximately RMB134,000 on 1 January 2007. The owner's equity belonging to the parent company is approximately RMB134,000 and there is no equity belonging to minority interests.



經營管理研討與分析 (續)

2. 關於執行新企業會計準則後，公司可能發生的會計政策、會計估計變更及其對公司的財務狀況和經營成果的影響情況 (續)

(1) (續)

b. 所得稅

按照新企業會計準則，所得稅核算應採用資產負債表債務法，在2007年1月1日，對資產、負債的賬面價值與其計稅基礎不同形成的暫時性差異，應當按照相關條件確認遞延所得稅資產或遞延所得稅負債，並將影響金額調整留存收益，導致增加2007年1月1日股東權益人民幣8,049千元，其中歸屬於母公司所有者權益為人民幣8,049千元，歸屬於少數股東權益為人民幣0千元。

c. 少數股東權益轉列

按照新企業會計準則，在2007年1月1日，本公司2006年12月31日按照現行會計準則編制的合併報表中的少數股東權益應轉列為股東權益，導致增加2007年1月1日股東權益人民幣3,313千元。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. Possible changes in accounting policies and changes in accounting estimate after implementation of new accounting standards for business enterprises and their effect on the Company's financial position and operating results: (continued)

(1) (continued)

b. Income tax

In accordance with new accounting standards, income tax shall be calculated by the debt method in preparing the balance sheet. As for the temporary difference between book value of assets and liabilities and their tax base, deferred income tax as assets or liabilities shall be recognized according to relevant conditions. Retained earnings shall be adjusted accordingly. As a result, shareholders' equity shall be increased by approximately RMB8,049,000 on 1 January 2007. The owner's equity belonging to the parent company is approximately RMB8,049,000 and there is no equity belonging to minority interests.

c. Minority interests

In accordance with new accounting standards, the minority interests in the consolidated statements prepared by the Company on 31 December 2006 in accordance with prevailing accounting standards shall be stated as shareholders' equity on 1 January 2007. As a result, shareholders' equity shall be increased by approximately RMB3,313,000 on 1 January 2007.

經營管理研討與分析 (續)

2. 關於執行新企業會計準則後，公司可能發生的會計政策、會計估計變更及其對公司的財務狀況和經營成果的影響情況 (續)

- (2) 執行新準則後可能發生的會計政策、會計估計變更及其對公司財務狀況和經營成果的影響：

根據公司經營計劃和戰略目標，執行新會計準則後可能發生的會計政策、會計估計變更及其對公司財務狀況和經營成果的影響主要有：

- a. 根據新《企業會計準則第2號——長期股權投資》，長期股權投資將按成本法進行核算，然後在編制合併會計報表時，先將母公司會計報表按照權益法進行調整後再進行合併抵消，該項會計政策變更，將會影響母公司的財務狀況及經營成果，但不會影響合併報表的財務狀況及經營成果。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. Possible changes in accounting policies and changes in accounting estimate after implementation of new accounting standards for business enterprises and their effect on the Company's financial position and operating results: (continued)

- (2) Possible changes in accounting policies and changes in accounting estimate after the implementation of new accounting standards and the analysis of their effect on the Company's financial position and operating results:

According to the business plans and strategic objectives of the Company, possible changes in accounting policies and changes in accounting estimate after the implementation of new accounting standards and the analysis of their effect on the Company's financial position and operating results are as follows:

- a. In accordance with "No.2 Accounting Standard for Business Enterprises -- Long-term Equity Investment", the Company shall account for such investment on cost basis. When consolidated financial statements are prepared, the parent company's financial statements shall be adjusted on equity basis first, then there shall be offsetting and consolidation. Thus, the financial position and operating results of the parent company will be affected but the consolidated financial statements of the Company will not be affected.



經營管理研討與分析 (續)

2. 關於執行新企業會計準則後，公司可能發生的會計政策、會計估計變更及其對公司的財務狀況和經營成果的影響情況 (續)

(2) (續)

- b. 根據新《企業會計準則第22號——金融工具和計量》，應當對交易性金融資產以公允價值計量，但以前公允價值不能可靠計量的金融資產，企業應當在其公允價值能夠可靠計量時改按公允價值計量。由於公司目前交易性金融資產的公允價值目前很難可靠取得，公司暫對交易性金融資產按成本價值進行計量。公司對交易性金融資產改按公允價值計量時，將會對公司的財務狀況及經營成果產生一定的影響，但具體數據目前很難確定。
- c. 根據新《企業會計準則第18號——所得稅》，公司將現行政策下的應付稅款法變更為資產負債表債務法，公司在取得資產、負債時，應當確定其計稅基礎。資產、負債的賬面價值與其計稅基礎存在差異的，應當確認所產生的遞延所得稅資產或遞延所得稅負債。此變更將會影響公司的當期會計所得稅費用，從而影響公司的當期損益和股東權益。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. Possible changes in accounting policies and changes in accounting estimate after implementation of new accounting standards for business enterprises and their effect on the Company's financial position and operating results: (continued)

(2) (continued)

- b. In accordance with No. 22 Accounting Standard for Business Enterprises -- Financial Instruments and Measurement, trading financial assets shall be measured at fair value. In the past, financial assets could not be measured at reliable fair value but it should be measured at fair value when the fair value is reliable. Since the reliable fair value of trading financial assets is difficult to obtain, the Company measures the trading financial assets on cost basis. When the Company measures the trading financial assets at fair value, the financial position and operating results of the Company will be affected to a certain extent, but it is difficult to assess the effect quantitatively for the time being.
- c. In accordance with No. 18 Accounting Standard for Business Enterprises -- Income Tax, the Company shall change the accounting method of tax payment to the debt method in preparing the balance sheet. When the Company acquires assets and incurs liabilities, the Company shall determine their taxable basis. If there are differences between the book value and taxable base of the assets and liabilities, the Company shall confirm deferred tax assets and deferred tax liabilities. This change in accounting policy will affect the Company's income tax expenses for the current period and thus affect the profit and loss and the shareholders' equity of the Company.

經營管理研討與分析 (續)

3. 控股子公司經營及業績情況

- (i) 本公司享有淄博新華大藥店連鎖有限公司88%的股東權益。合資公司經營範圍包括：中成藥、中藥飲片、化學藥製劑、診斷藥品、保健食品、計劃生育藥品、醫療器械、化妝品的零售。

二零零六年實現銷售收入人民幣19,203千元，較上年度下降35.20%，實現淨虧損人民幣221千元，虧損的主要原因為醫藥零售市場競爭激烈。

- (ii) 本公司享有淄博新華一三和化工有限公司70%股東權益，合資公司經營範圍為：醫藥中間體、香料中間體等化工產品(不含危險品)的研究、開發、生產和銷售。

- (iii) 本公司享有淄博新華醫藥設計院有限公司90%股東權益。合資公司主要經營醫藥工程的設計等，二零零六年實現營業額人民幣2,649千元，較上年度上升5.35%。實現淨利潤人民幣71千元，比上年度下降61.45%。淨利潤下降的主要原因是二零零六年度管理費用較上年同期增加。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

3. Operations and Results of subsidiaries of the Company

- (i) Zibo Xinhua Pharmacy Chain Company Limited ("Xinhua Pharmacy"), in which the Company holds 88% of the total equity interest. The main operations of the subsidiary are the sale of traditional Chinese medicine, prepared herbal medicine for decoction, preparations, drugs for diagnose, drugs for birth control, medical devices, health foods and cosmetics.

In 2006, the total turnover of the subsidiary was approximately RMB19,203,000, decreased by 35.20% and the loss after taxation was approximately RMB221,000. The loss was mainly due to intense competition in the local retail market.

- (ii) The Company accounted for 70% of the total equity interests of Zibo Xinhua Sanhe Chemical & Industrial Company Limited. The scope of business of this joint venture includes research, development, production and sale of chemical products including pharmaceutical intermediates and perfume intermediates etc, excluding dangerous materials.

- (iii) The Company accounted for 90% of total equity interests of Zibo Xinhua Pharmaceutical Design Institute Company Limited. This subsidiary is mainly engaged in the business of the design of projects and had a turnover of approximately RMB2,649,000 in 2006, an increase of 5.35% as compared to that of last year. The company gained a net profit of approximately RMB71,000, representing a decrease of 61.45% as compared to that of last year. The decrease in the profit was due to the increase in general and administrative expenses in 2006, as compared to that of last year.



經營管理研討與分析 (續)

3. 控股子公司經營及業績情況 (續)

- (iv) 本公司享有山東新華製藥(歐洲)有限公司76.9%的股東權益。合資公司主要經營醫藥原料藥及中間體。二零零六年實現銷售收入人民幣5,528千元，實現淨虧損人民幣500千元。
- (v) 本公司享有山東新華醫藥貿易有限公司98%股東權益，合資公司主要經營生物製品、中藥飲片、中成藥、化學原料藥、化學製劑、抗生素製劑、生化藥品、保健食品、醫療器械、計劃生育藥具、化妝品等。二零零六年實現銷售收入人民幣348,065千元，實現淨利潤人民幣85千元。
- (vi) 本公司享有淄博新華－中西製藥有限責任公司75%股東權益。合資公司主要生產、銷售聚卡波非鈣原料藥。由於該公司剛剛成立，2006年度還未開展生產經營活動。
- (vii) 本公司之子公司山東新華醫藥貿易有限公司享有山東新華製藥進出口有限責任公司98%的股東權益。合資公司主要從事貨物、技術進出口和開展對銷貿易、轉口貿易。2006年實現銷售收入人民幣14,112千元，實現淨利潤人民幣324千元。

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

3. Operation and Results of subsidiaries of the Company (continued)

- (iv) The Company accounted for 76.9% of total equity interests of Shandong Xinhua Pharmaceutical (Europe) GmbH. The subsidiary is mainly engaged in the business of bulk pharmaceutical intermediates. In 2006, the subsidiary had a turnover of approximately RMB5,528,000 and the loss after taxation approximately RMB500,000.
- (v) The Company accounted for 98% of the total equity interest of Shandong Xinhua Medical Trade, Co., Ltd.. The subsidiary is mainly engaged in the business of biological products, prepared herbal medicine for decoction, traditional Chinese medicine, bulk pharmaceuticals, preparation, antibiotic preparation biochemical medicine, health food, medical appliances, drugs and wares for birth control and cosmetic etc.. In 2006, the subsidiary had a turnover of approximately RMB348,065,000 and a net profit of approximately RMB85,000.
- (vi) The Company accounted for 75% of the total equity interest of Zibo Xinhua-Eastwest Pharmaceutical Company Limited. The subsidiary is mainly engaged in producing and selling calcium polycarbophil bulk pharmaceutical. The subsidiary has not commenced its production and business in 2006 because it has just set up.
- (vii) Shandong Xinhua Medical Trade Company Limited, a subsidiary of the Company, accounted for 98% of the total interest of Shandong Xinhua Pharmaceutical Import and Export Company Limited. The subsidiary is mainly engaged in import and export of goods and technologies, marketing and re-export. In 2006, the subsidiary had a turnover of approximately RMB14,112,000 and gained a net profit of approximately RMB324,000.

經營管理研討與分析 (續)

4. 募集資金使用情況

本公司於二零零一年九月三日增發3,300萬股A股(含國有股減持300萬股)，募集資金淨額為人民幣370,517千元，截止二零零六年十二月三十一日，共使用募集資金人民幣320,056千元，主要用於以下項目：

募集資金投資項目名稱 Name of project	募集資金 投入計劃 Total investment 人民幣千元 RMB'000	2006年 實際投入 Investment in 2006 人民幣千元 RMB'000	累計投資額 Accumulated investment 人民幣千元 RMB'000	完成計劃投 資額的比例 % of the total investment	備註 Remark
國家級技術中心改造項目 State-level technical centre	74,500	—	10,123	13.59%	N/A
針劑GMP改造項目 Injection workshop GMP renovation	80,000	—	80,226	100.28%	完工 Completed
咖啡因技術改造項目 Caffeine technical renovation	160,000	—	188,201	117.63%	完工 Completed
L-350技術改造項目 L-350 technical renovation	29,980	—	23,442	78.19%	完工 Completed
安乃近精幹包(GMP)改造項目 Analgin GMP renovation	39,800	—	46,265	116.24%	完工 Completed
合計 Total	384,280	—	348,257	—	其中28,201千元為 自有資金投入 RMB28,201,000 financed by the Company

附註：

- 安乃近精幹包(GMP)改造項目、L-350項目、咖啡因技術改進項目、針劑(GMP)改造項目均已經完工並已達產達效。
- 國家級技術中心改造項目已經完成前期準備階段，將進入施工建設階段。

尚未使用的募集資金存於銀行，將按照承諾投資項目使用。

Note:

- Analgin GMP renovation project, L-350 project and caffeine technical renovation project, and Injection GMP renovation project has finished and has come into trial production.
- The construction of the state-level technical center has come into the stage of preparation, and the construction will commence soon.

The unused proceeds were deposited in banks and will be used in accordance with project commitments.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

4. Use of Proceeds

On 3 September 2001, the Company raised an amount of RMB370,517,000 from the issue and offer of 33,000,000 A Shares (including the offer of 3,000,000 state-owned shares). As at 31 December 2006, a total of approximately RMB320,056,000 from the proceeds of the above issue of A Shares was used in the following projects:



董事會工作報告

1. 在本年度內，本公司董事會共召開六次會議：
 - A. 本公司於二零零六年三月二十四日在公司住所召開第五屆董事會第二次會議，相關公告刊登於二零零六年三月二十七日內地《證券時報》、香港《文匯報》及《虎報》。
 - B. 本公司於二零零六年四月二十一日在公司住所召開第五屆董事會第二次會議，相關公告刊登於二零零六年四月二十四日內地《證券時報》、香港《文匯報》及《虎報》。
 - C. 本公司於二零零六年六月二十一日在公司住所召開第五屆董事會第四次會議，相關公告刊登於二零零六年六月二十三日內地《證券時報》、香港《文匯報》及《虎報》。
 - D. 本公司於二零零六年七月二十八日在公司住所召開第五屆董事會第五次會議，相關公告刊登於二零零六年七月三十一日內地《證券時報》、香港《文匯報》及《虎報》。
 - E. 本公司於二零零六年九月十九日在公司住所召開第五屆董事會第六次會議，相關公告刊登於二零零六年九月二十日內地《證券時報》、香港《文匯報》及《虎報》。
 - F. 本公司於二零零六年十月二十三日在公司住所召開第五屆董事會第七次會議，相關公告刊登於二零零六年十月二十四日內地《證券時報》、香港《文匯報》及《虎報》。

Working Report of the Board

1. During the year, the Board of Directors passed resolutions on six occasions:
 - A. On 24 March 2006, the second meeting of the Fifth Board was convened at the Company's registered office, the results of the meeting was published in the domestic Securities Times, and Wen Wei Po, The Standard of Hong Kong on 27 March 2006.
 - B. On 21 April 2006, the third meeting of the Fifth Board was convened at the Company's registered office, the results of the meeting was published in the domestic Securities Times, and Wen Wei Po, The Standard of Hong Kong on 24 April 2006.
 - C. On 21 June 2006, the fourth meeting of the Fifth Board was convened at the Company's registered office, the results of the meeting was published in the domestic Securities Times, and Wen Wei Po, The Standard of Hong Kong on 23 June 2006.
 - D. On 28 July 2006, the fifth meeting of the Fifth Board was convened at the Company's registered office, the results of the meeting was published in the domestic Securities Times, Wen Wei Po and The Standard of Hong Kong on 31 July 2006.
 - E. On 19 September 2006, the sixth meeting of the Fifth Board was convened at the Company's registered office, the results of the meeting published in the domestic Securities Times, Wen Wei Po, The Standard of Hong Kong on 20 September 2006.
 - F. On 23 October 2006, the seventh meeting of the Fifth Board was convened at the Company's registered office, the results of the meeting was published in the domestic Securities Times, and Wen Wei Po, The Standard of Hong Kong on 24 October 2006.

董事會工作報告 (續)

2. 董事會執行股東大會決議情況
 - A. 二零零五年度公司股息已於二零零六年六月三十日前派發完畢；
 - B. 二零零六年十一月十四日臨時股東大會授權董事會以拍賣方式出售和平小區辦公樓，由於拍賣價格偏高，流拍。

董事、監事及高級管理人員簡介

董事、監事及高級管理人員簡介見「董事、監事、高級管理人員和員工情況」之「董事監事及高級管理人員簡介」。

公眾持股

本公司確認於本報告期內及截至發出本報告前的最後可行日期本公司公眾股東持股量滿足有關要求。

董事、監事的酬金

本年度本公司董事、監事的酬金詳情載於按香港普遍採納之會計原則編制帳目附註13。

最高酬金人士

本年度本集團獲最高酬金的前五名人士為四位董事及一位高級管理人員。

董事、監事購買股份或債券之權利中取得之利益

本公司、其控股公司及控股公司其他附屬公司概無於本年度內任何時間訂立任何安排，致使本公司之任何董事、監事或其配偶或其未滿十八歲子女通過購入本公司或任何其他公司之股份或債券而獲得利益。

Working Report of the Board (continued)

2. Implementation of the Resolutions Passed at the General Meeting by the Board
 - A. The dividend for 2005 of the Company was distributed on 30 June 2006;
 - B. The Board was authorized at the extraordinary general meeting held on 14 November 2006 to dispose of the office premise in Heping District by way of public auction. Due to relatively high auction price, the auction was withdrawn.

Brief Introduction of Directors, Supervisors and Senior Officers

Brief introduction of Directors, Supervisors and Senior Officers are listed in the above section headed "BRIEF INTRODUCTION OF DIRECTORS, SUPERVISORS AND SENIOR OFFICERS" under the section "DIRECTORS, SUPERVISORS, SENIOR OFFICERS AND STAFF".

Public Float

The Company has complied with the requirement in respect of the minimum public float during this reporting period and up to the latest practicable date prior to the issue of this report.

Remuneration of Directors and Supervisors

Details of the remuneration of the Company's Directors and Supervisors are set out in note 13 to the Accounts prepared in accordance with HKGAPP.

Individuals with the Highest Remuneration

The five individuals with the highest salaries paid by the Group during the year 2006 were 4 directors and 1 senior officer.

Directors' and Supervisors' Rights to Acquire Shares

At no time during the year was the Company, its holding company or its fellow subsidiaries a party to any arrangements to enable any of the Directors, the Supervisors, or their spouses or children under 18 years of age to take advantage by acquiring shares in, or debentures of, the Company or any other body corporate.

董事、監事之服務合約

所有董事、監事暫未與本公司訂立服務合約。

現任董事或監事與本公司概無訂立若於一年內作出賠償(法定賠償除外)方可終止之服務合約。

管理合約

本年度內，本公司並無就整體業務或任何重要業務的管理或行政工作簽訂或存有任何合約。

董事與監事之合約中的利益

本公司、其所屬公司、其控股股東或控股公司其他附屬公司之間於本年度年終或年內任何時間，均無就本集團業務簽訂任何董事、監事直接或間接佔有重大利益的合約。

帳目

根據香港普遍採納之會計原則及中國會計準則編制的有關本集團及本公司截至二零零六年十二月三十一日止年度業績和於二零零六年十二月三十一日財務狀況載於「根據香港普遍採納之會計原則編制的賬目」和「按中國會計準則編制之賬目」。

財務摘要

根據香港普遍採納之會計原則編制的本集團於過去五個財政年度及中國會計準則編制的本集團於過去三個財政年度的業績、資產及負債載於「會計數據和業務數據摘要」。

利潤分配

根據中國會計準則編制本集團截至二零零六年十二月三十一日止年度實現淨利潤人民幣22,706千元，按10%提取法定盈餘公積金人民幣2,078千元；建議派發末期股息每10股人民幣0.2元(折合港幣約0.202元，A股含稅)，按已發行的307,312,830股A股及150,000,000股H股計算，共計人民幣9,146千元。以上建議將提交本公司二零零六年度周年股東大會審議批准。

Service Contracts of Directors and Supervisors

Each of the Directors and Supervisors has not entered into a service contract with the Company.

None of the Directors and the Supervisors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' and Supervisors' Interests in Contracts

Neither the Company, its holding company, its controlling shareholder nor fellow subsidiaries have signed any contracts in relation to the Company's business in which any Directors or Supervisors had a material interest, whether directly or indirectly at the end of the year or at any time during the year.

Accounts

The Group's results for the year ended 31 December 2006 and the financial position of the Group and the Company as at 31 December 2006 prepared in accordance with HKGAAP and PRC accounting standards are set out in section headed "ACCOUNTS PREPARED IN ACCORDANCE WITH HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPALS" and "ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS".

Financial Summary

A summary of the results, assets and liabilities of the Group prepared in accordance with HKGAAP for the last five financial years and PRC accounting standards for the last three financial years is set out in section headed "SUMMARY OF FINANCIAL AND OPERATING RESULTS".

Profit Appropriation

In accordance with PRC accounting standards, the Group recorded a net profit of approximately RMB22,706,000 for the year ended 31 December 2006, 10% of which was transferred to the statutory surplus reserves amounting to approximately RMB2,078,000. The Board has recommended to distribute a final dividend at RMB0.2 per 10 shares subject to the approval of the shareholders of the following 2006 annual general meeting of the Company (equivalent to approximately HK\$0.202 per A Shares, tax inclusive) on 307,312,830 A Shares and 150,000,000 H Shares in issue, which is aggregated to be approximately RMB9,146,000. The above recommendation will be submitted to the 2006 Annual General Meeting of the Company for approval.

主要業務及按地區劃分的營業額

本集團及本公司本年度按地區分析之營業額載於按香港普遍採納之會計原則編制帳目附註6。

股本變動及股東情況介紹

本公司於本年度內股本變動及股東情況介紹見「股東變動及股東情況」

儲備

本集團及本公司本年度內儲備的變動情況分別載於按香港普遍採納之會計原則編制之綜合權益變動表及按中國會計準則編制帳目附註六.22及六.23。

固定資產

本集團及本公司於二零零六年度固定資產變動情況載於按香港普遍採納之會計原則編制帳目附註16及按中國會計準則編制帳目附註六.9。

銀行貸款及其他借款

本集團及本公司於二零零六年十二月三十一日的銀行貸款及其他借款情況之詳情載於按香港普遍採納之會計原則編制帳目附註33及中國會計準則編制帳目附註六.12。

資本化利息

本年度內本集團無有關在建工程所借貸款的資本化利息。

Principal Activities and Geographical Analysis of Operations

The turnover of the Group and the Company in various geographical locations is set out in note 6 to the Accounts prepared in accordance with the HKGAAP.

Changes in Share Capital and Shareholders

Changes in share capital and shareholders are set out in the above section headed "CHANGES IN SHARE CAPITAL AND SHAREHOLDERS"

Reserves

Movements in the reserves of the Group and the Company during the year 2006 are set out in Consolidated Statement of Changes in Equity to the Accounts prepared in accordance with the HKGAAP, and notes 6.22 and 6.23 to the Accounts prepared in accordance with PRC accounting standards, respectively.

Fixed Assets

Details of the movement in the fixed assets of the Group and the Company during year 2006 are set out in notes 16 to the Accounts prepared in accordance with the HKGAAP, and note 6.9 to the Accounts prepared in accordance with PRC accounting standards.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2006 are set out in note 33 to the Accounts prepared in accordance with the HKGAAP, and notes 6.12 to the Accounts prepared in accordance with the PRC accounting standards.

Interest Capitalised

During the year, no interest was capitalized in respect of loans borrowed by the Group and the Company for financing its construction-in-progress.

職工宿舍

本集團截至二零零六年十二月三十一日止年度內並無出售職工宿舍予本集團員工。但自一九九八年一月一日起，本集團已根據中國政府有關規定，按員工工資8%繳納由山東省淄博市財政局管理的住房公積金，截至二零零六年十二月三十一日止年度本集團共繳納職工住房公積金人民幣4,472千元。

職工基本醫療保險

根據《山東省建立城鎮職工基本醫療保險製度的實施方案》和《淄博市關於建立城鎮職工醫療保險制度的實施方案》等文件要求，本公司已經於二零零四年十二月實行職工基本醫療保險制度。截至二零零六年十二月三十一日止年度本集團共繳的職工醫療保險人民幣5,716千元。

稅收優惠問題

自二零零四年一月一日起，本公司位於開發區內的經營所得適用稅率為15%，開發區外的經營所得適用稅率為33%，並已在當地稅務部門進行備案。

委託存款問題

截至二零零六年十二月三十一日止年度，本集團沒有於非銀行金融機構的存款及屬於委託性質的存款，也不存在到期不能收回的定期存款。

重要事項

二零零六年度內本公司的重要事項見「重要事項」

Staff Quarters

The Group did not sell any staff quarters to its employees during the year ended 31 December 2006 but was required to contribute 8% of the basic wages of the Group's staff to the accommodation scheme managed by the Shandong Province Zibo Municipal Finance Bureau in accordance with the relevant regulations implemented by the PRC government authorities since 1 January 1998. For the year ended 31 December 2006, contributions to the accommodation scheme made by the Group in this respect amounted to approximately RMB4,472,000.

Staff Basic Medical Insurance

Pursuant to the Plan for Implementation of Basic Medical Insurance System for Urban Employees promulgated by the Shandong Provincial Government and the Schedule for Establishment of Medical Insurance System for Urban Employees implemented by Zibo Municipal Government, the Company has joined the above-mentioned Medical Insurance System for Urban Employees in December 2004. For the year ended 31 December 2006, the total contribution of the Group to the staff basic medical insurance was approximately RMB5,716,000.

Preferential Tax Treatment

Since 1 January 2004, the operating results of the Company arising from the business conducted in the development zone are subject to PRC enterprise income tax at a rate of 15%, while the business conducted outside the development zone are subject to PRC enterprise income tax at a rate of 33%. The Company has submitted a tax filing to the local tax bureau.

Designated Deposits

For the year ended 31 December 2006, the Group had neither placed any deposits with any non-banking financial institutions, nor had it placed any designated deposits. The Group does not have any overdue time deposits.

Important Issues

Important issues of the Company for the year 2006 are set out in the section headed "IMPORTANT ISSUES".

主要客戶及供應商

本集團五大原料供應商的採購費用及五大客戶的銷售額分別佔本集團於截至二零零六年十二月三十一日止年度總採購額及總銷售額之比重分別為16.73%和17.38%。

購買、出售及贖回本公司之上市股份

截至二零零六年十二月三十一日止年度內本公司並無贖回本公司之上市股份。本公司及其附屬公司於年度內並無購買或出售任何本公司股份。

優先認股權

本公司的公司章程及中國法律並無優先認股權條款。

員工退休金計劃

本集團參加國家管理的社會養老及退休保險基金，並按照當地政府的規定繳納保險費。本集團目前向社會養老及退休保險基金繳納的保險費為所有員工每年工資及獎金總額的23%。當地政府承諾支付所有現在和將來退休員工的退休福利支出。所有向社會養老及退休保險基金繳納的保險費將於損益表內作為開支。於截至二零零六年十二月三十一日止之年度內，本集團繳納的社會養老及退休保險費為人民幣18,814千元。

Major Customers and Suppliers

The percentages of purchases and sales attributable to the Group's five largest suppliers and five largest customers were 16.73% and 17.38% of the Group's total purchases and total sales, respectively, for the year ended 31 December 2006.

Purchase, Sale and Redemption of the Company's Listed Securities

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries had redeemed, purchased or sold, any of the Company's listed securities.

Pre-emptive Rights

According to the Company's Articles of Association and the laws of the PRC, there is no provision for pre-emptive rights.

Retirement Scheme Arrangements

The Group participates in the State Social Retirement Scheme (the "Scheme") and pays the insurance premium in accordance with the particular regulation issued by the local municipal government whereby it is required to make an annual contribution of 23% of the total salaries and bonuses paid to staff. In turn, the local municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. Contributions to the Scheme are charged to the profit and loss account as and when they are incurred. For the year ended 31 December 2006, the total contribution of the Group to the Scheme was approximately RMB18,814,000.

關聯交易

Connected Transactions

(1) 本集團在正常業務範圍內進行之重大有關聯人士交易摘要如下：

(1) Significant connected transactions carried out in the normal course of the Group's business are summarised as follows:

		二零零六 2006 人民幣千元 RMB'000	二零零五 2005 人民幣千元 RMB'000
與控股公司山東新華醫藥集團 有限責任公司及其附屬公司	With immediate holding company Shandong Xinhua Pharmaceutical Group Company Limited ("SXPGC") and its subsidiaries		
— 銷售水電汽及原材料	— Sale of water, electricity, steam and raw materials	13,160	19,170
— 採購原材料	— Purchase of raw materials	72,293	65,208
— 採購物業、廠房及設備	— Purchase of property, plants and equipment	1,499	—
— 租金收入	— Rental income	1,438	1,506
— 接受勞務及其他服務	— Payment for labour and other services	—	143
— 商標使用費	— Trademark licence fee	1,000	200
— 租金支出	— Rental expenses	500	—
		<u>500</u>	<u>—</u>
與聯營公司	With associates		
— 採購原材料	— Purchase of raw materials	6,421	4,568
— 銷售水電汽	— Sale of water, electricity and steam	6,766	367
— 利息收入	— Interest income	270	80
— 銷售技術	— Sale of technique	2,005	—
— 銷售在產品	— Sale of work in progress	4,759	—
— 出售物業、廠房及設備	— Sale of property, plant and equipment	1,708	—
		<u>1,708</u>	<u>—</u>

本公司董事(包括獨立非執行董事)確認上述的交易乃於日常業務過程中進行，而上述交易於2005年度及2006年度之總額均不超過本公司於二零零五年六月二十九日舉行的臨時股東大會批准上限分別為人民幣128,120,000元及人民幣144,440,000元。本公司獨立非執行董事已經審閱上述關聯交易，並確認該等交易乃本公司在日常業務中按約束該等交易的協議條款訂立。

In the opinion of the Directors (including the Independent Non-Executive Directors), the above transactions were carried out in the ordinary and usual course of the Group's business. The aggregate amount of the above transactions for the year 2005 and 2006 did not exceed the upper limit of RMB128,120,000 and RMB144,440,000 approved in the extraordinary general meeting held on 29 June 2005. The Independent Non-Executive Directors have reviewed the above connected transactions and are of the opinion that the transactions are in the ordinary course of business of the Group and carried out in accordance with the terms of agreements governing the transactions.

(2) 本年度內，本公司已停止為山東新華醫藥集團有限責任公司代墊費用(二零零五年：約人民幣24,602,000元)。

(2) During the year 2006, the Company had ceased to pay any more expenses on behalf of SXPGC (2005: approximately RMB24,602,000).

核數師

本公司及本集團本年度按照香港普遍採納之會計原則及中國會計準則編制的帳目已分別由信永中和(香港)會計師事務所有限公司(香港執業會計師)和信永中和會計師事務所(中國註冊會計師)審核。

本公司擬於二零零七年召開的本公司二零零六年度周年股東大會上建議續聘信永中和(香港)會計師事務所有限公司和信永中和會計師事務所分別為本公司二零零七年度國際和中國核數師。

其他

本公司職工代表大會於2007年2月2日形成決議：因工作內部調整，呂忠德先生(「呂先生」)不再擔任本公司監事，選舉劉強先生取代呂先生擔任本公司監事。本公司確定呂先生與本公司董事會並無不協調，而其亦繼續留在本公司工作。有關詳情，請參閱本公司2007年3月5日的公告。

承董事會命
郭琴
董事長

中國山東濰博
二零零七年三月二十三日

Auditors

The accounts of the Company and the Group for the year 2006 prepared in accordance with HKGAAP and PRC accounting standards have been audited by SHINEWING (HK) CPA Limited and ShineWing, Certified Public Accountant, PRC respectively.

The Company intends to re-appoint SHINEWING (HK) CPA Limited and ShineWing as international auditors and PRC auditors of the Company respectively for the year ending 31 December 2007 at the Annual General Meeting for the year 2006 to be held in 2007.

Others

As a result of job allocation, Mr. Lü Zhongde ("Mr. Lü") has resigned from his position as supervisor of the Company. Pursuant to a resolution of the employee's representatives meeting held on 2 February 2007, Mr. Liu Qiang has been appointed to replace Mr. Lü as a supervisor of the Company. The Company confirms that Mr. Lü has no disagreement with the board of directors of the Company. Mr. Lü shall remain with the Company. For details, please refer to the announcement of the Company dated 5 March 2007.

By order of the Board
Guo Qin
Chairman

Zibo, Shandong, PRC
23 March 2007