

REPORT OF THE DIRECTORS

The Board present their report together with the audited financial statements for the year ended 31 December 2005.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 28 September 2004. In preparation for the public listing of the shares of the Company ("Shares") on the Stock Exchange, the Group underwent a reorganisation and the Company became the holding company of the Group. Details of the reorganisation are set out in note 2 to the financial statements.

ISSUE AND LISTING OF SHARES

The Shares were listed on the Stock Exchange on 20 December 2005 by way of public offer and placing.

Under the public offer and placing, 80,500,000 shares (including 10,500,000 over-allotment Shares) were issued at the share offer of HK\$2.15 per Share.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 33.

The Directors recommend the payment of a final dividend of HK\$0.16 per Share totalling HK\$46,480,000.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 31 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,181,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 30 to the financial statements.

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DISTRIBUTABLE RESERVES

Reserves of the Company as at 31 December 2005 available for distribution amounted to RMB54,426,000. The Company's share premium account and capital surplus, in the amount of RMB121,239,000 and RMB152,040,000 respectively are also available for distribution to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution of share premium and contributed surplus if (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due in the ordinary course of business; or (b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its Shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a written resolution of all shareholders of the Company on 16 October 2005 ("Scheme"), the Company may grant options to, amongst others, the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the Shares. The offer for grant of options ("Offer") must be taken up within 28 days from the date of Offer, with a payment of HK\$1.00 as consideration for the grant. The exercise price of the share option will be determined at the higher of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer; and (iii) the nominal value of the Shares. The share options are exercisable at any time during a period of not more than 10 years from the date of Offer, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of Shares in issue as at the date dealings in the Shares first commence on the Stock Exchange unless further shareholders' approval has been obtained pursuant to the conditions set out in the Scheme. The total number of Shares issued and to be issued upon exercise of all options granted under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

No option has been granted by the Company under the Scheme since its adoption.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Wu Qin	(appointed on 27 December 2004)
Mr. Wu Zhihong	(appointed on 27 December 2004)
Mr. Huang Chao	(appointed on 27 December 2004)
Mr. Xie Yunfeng	(appointed on 27 December 2004)
Ms. Sun Xinglai	(appointed on 27 December 2004)

Non-executive Directors

Mr. Liu Zhiyong	(appointed on 27 December 2004)
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Independent Non-executive Directors

Mr. Qu Jiguang	(appointed on 16 October 2005)
Mr. Leung Chong Shun	(appointed on 16 October 2005)
Mr. Chow Kwok Wai	(appointed on 16 October 2005)

In accordance with Article 86 of the Company's articles of association, Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai, Mr. Liu Zhiyong, Mr. Qu Jiguang, Mr. Leung Chong Shun and Mr. Chow Kwok Wai will hold office as Directors only until the forthcoming annual general meeting and being eligible offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from 16 October 2005.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the Scheme disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on page 10 to 12.

EMPLOYEES AND REMUNERATION POLICY

Emoluments of the directors are determined by the Board with reference to the prevailing market practice, the Company's remuneration policy, duties and responsibilities of the Directors within the Group and their contribution to the Group.

As at 31 December 2005, the Group had 2,580 employees, most of whom were members of the Group's production team based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs and the emolument policy of employees is based on industry practice.

The remuneration policy of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for year ended 31 December 2005 was RMB87,408,000 (2004: RMB78,429,000).

RETIREMENT BENEFIT PLANS

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 7%, respectively, of the employees' basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. Otherwise, the Group would pay monthly allowance to old retired persons. The Group has no further pension obligation beyond the above contributions. Expenses incurred by the Group in connection with the retirement benefit plans were approximately RMB9,912,000 for the year ended 31 December 2005 (2004: RMB9,523,000).

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK\$1,000 by each of the employee and the Group) on a monthly basis to the fund.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2005, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules once the Shares are listed, were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of shares held	% of the issued share capital of the Company
Mr. Wu Qin	Interest in a controlled corporation (<i>Note</i>)	22,344,000	7.69%

Note: These Shares were registered in the name of and beneficially owned by Success Manage, the issued share capital of which is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, Mr. Wu Qin is deemed to be interested in all the Shares held by Success Manage.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executives had an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

The register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that as at 31 December 2005, the Company had been notified of the following interests and short positions, being 5% or more in the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Long positions in the Shares

Name of shareholder	Capacity	Number of Shares	% of the issued share capital of the Company
Prime United (Note 1)	Beneficial owner	123,984,000	42.68%
Victory Rainbow Investment Limited	Beneficial owner	52,500,000	18.07%
Grand Ocean Shipping Company Ltd. (Note 2)	Interest of controlled corporation	52,500,000	18.07%
Ms. Chen Lin-Dong (Note 2)	Interest of controlled corporation	52,500,000	18.07%
Mr. Xu Ming (Note 2)	Interest of controlled corporation	52,500,000	18.07%
Success Manage	Beneficial owner	22,344,000	7.69%
Ms. Zhang Minfang (Note 3)	Interest of spouse	22,344,000	7.69%

Notes:

1. Prime United is held as to 2.43% by Mr. Wu Qin, an executive Director, as to approximately 2.43% by Mr. Wu Zhihong, an executive Director, as to approximately 2.41% by Mr. Huang Chao, an executive Director, as to approximately 4% by Mr. Xie Yunfeng, an executive Director, as to approximately 4% by Ms. Han Yamei, a member of the management of Xi'an Lijun, and as to approximately 84.73% by Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng and Ms. Han Yamei who jointly hold such shares on trust for 4,965 individuals who are present and former employees or their respective estates of Xi'an Lijun and Rejoy Group. The beneficial ownership structure in Prime United is a replication of the ownership structure of Rejoy Technology.
2. Victory Rainbow Investment Limited is wholly-owned by Grand Ocean Shipping Company Ltd., a company incorporated in the Republic of Liberia, which in turn is owned as to 50% by Ms. Chen Lin-Dong and 50% by Mr. Xu Ming. By virtue of Part XV of the SFO, each of Grand Ocean Shipping Company Ltd., Ms. Chen Lin-Dong and Mr. Xu Ming is deemed to be interested in the Shares held by Victory Rainbow Investment Limited.
3. Success Manage is held as to approximately 37.88% by Mr. Wu Qin. Pursuant to Part XV of the SFO, the spouse of Mr. Wu Qin, Ms. Zhang Minfang, is deemed to be interested in all the Shares held by Success Manage.

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MANAGEMENT CONTRACTS

Save as disclosed under the heading “Connected transactions”, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the Group purchased less than 30% of its total purchases from its 5 largest suppliers and sold less than 30% of its turnover to its 5 largest customers.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 33 to the financial statements also fell under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules, details of which are set out below. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

(1) Discontinued Continuing Connected Transaction

(a) *Purchase of raw materials from Rejoy Group Zhenjiang Pharmaceutical Co., Ltd. (利君集團鎮江製藥有限責任公司) (“Zhenjiang Pharmaceutical”)*

Zhenjiang Pharmaceutical was principally engaged in the sale and production of bulk pharmaceuticals and was one of the suppliers of the Group in raw material. It was previously held as to 51% by Rejoy Group, a substantial shareholder of Xi’an Lijun and accordingly was a connected person of the Company under the Listing Rules. On 26 September 2005, Rejoy Group had entered into an agreement to dispose of its 51% equity interest in Zhenjiang Pharmaceutical to an independent third party and Zhenjiang Pharmaceutical was therefore no longer a connected person of the Company.

Following the above mentioned equity transfer and the contemplated change in shareholders and management of Zhenjiang Pharmaceutical, the Group had ceased to purchase raw materials from Zhenjiang Pharmaceutical. For the year ended 31 December 2005, the total amount paid by the Group to Zhenjiang Pharmaceutical for the purchase of raw materials amounted to approximately RMB5,143,000.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(1) Discontinued Continuing Connected Transaction *(Continued)*

(b) *Provision of guarantee by Rejoy Group to a bank for loan drawn by Xi'an Lijun*

Rejoy Group had entered into the following guarantee contract to act as the guarantor for loan drawn by Xi'an Lijun:

Bank	Amount (RMB)	Date of commencement of the loan	Date of expiry of loan	Term of the guarantee
China Everbright Bank (Xi'an Branch)	10,000,000	15 July 2004	14 July 2005	Guarantee for the principal amount of the loan of RMB10,000,000 and interests, damages and other relevant expenses arising therefrom after 2 years of the expiry date of the loan

To facilitate the borrowing of loan for Xi'an Lijun, the above guarantee was provided by Rejoy Group for no consideration. For the loan set out above, a loan agreement was entered into between the relevant bank and Xi'an Lijun and a corresponding guarantee contract has been entered into between the relevant bank and Rejoy Group.

The loan was required for the expansion of the Group in recent years. Rejoy Group, as a substantial shareholder of Xi'an Lijun, was required to provide the above guarantee to facilitate the borrowing of loan for Xi'an Lijun from the bank. The above bank loan has been fully repaid and the corporate guarantee provided by Rejoy Group was released.

(2) Continuing connected transactions

(a) *Lease of land-use rights by Xi'an Lijun from Rejoy Group*

Pursuant to the lease of land-use rights agreement entered into between Xi'an Lijun and Rejoy Group on 16 October 2005 ("Land-Use Rights Agreement"), Xi'an Lijun leased land-use rights from Rejoy Group for a term commencing from 1 July 2005 and ending on 31 December 2007. Particulars of the areas of leased land were set out in the property valuation report in Appendix III to the Prospectus dated 2 December 2005 ("Prospectus"). The total areas of the leased land amounted to approximately 113,768 square metres and the rent paid by Xi'an Lijun was at RMB4 per square metre per month. The Group entered into the Land-Use Rights Agreement as the production plants, storage, office buildings of Xi'an Lijun are located on the relevant land. For the period from 1 January 2005 to 30 June 2005, Xi'an Lijun had also leased the land-use rights from Rejoy Group with similar terms as the Land-Use Rights Agreement. Sallmanns (Far East) Limited, an independent valuer, had confirmed that the rent payable for these land-use rights under the Land-Use Rights Agreement was fair and reasonable and reflected the prevailing market rates.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

(2) Continuing connected transactions (Continued)

(a) Lease of land-use rights by Xi'an Lijun from Rejoy Group (Continued)

Rejoy Group is a connected person of the Company under the Listing Rules as it holds 20% of interests of Xi'an Lijun. For the year ended 31 December 2005, the total amount paid by the Group to Rejoy Group in respect of the land-use rights was approximately RMB5,460,864, which did not exceed the annual cap of RMB5,460,864 prescribed for the year ended 31 December 2005 as disclosed in the Prospectus.

(b) Purchase of packaging materials from Xi'an Global Printing Co., Ltd. (西安環球印務有限公司) ("Global Printing")

The principal business of Global Printing is printing of packaging materials. The Group had been purchasing packaging materials from Global Printing on an ongoing basis for packaging its own products.

Pursuant to the supply agreement dated 16 October 2005 entered into between Xi'an Lijun and Global Printing on 16 October 2005, Xi'an Lijun purchased packaging materials from Global Printing for a term of 3 years commencing from 1 January 2005 and ending on 31 December 2007. The Directors confirmed that the purchase prices of packaging materials from Global Printing had been determined in accordance with the market prices and on normal commercial terms, and that the Group had paid to Global Printing for the packaging materials at prices no less favorable than those paid to independent third parties and on terms no less favorable than those the Group could obtain from independent third parties.

Global Printing is connected person of the Company under the Listing Rules as it is held as to 45% by Shaanxi Pharmaceutical Company (陝西省醫藥總公司) ("SPC"), which also holds all the interests in Rejoy Group, a substantial shareholder of Xi'an Lijun. For the year ended 31 December 2005, the total amount paid by the Group to Global Printing for the purchase of packaging materials amounted to approximately RMB6,883,000, which did not exceed the estimated annual cap of RMB8,500,000 prescribed for the year ended 31 December 2005 as disclosed in the Prospectus.

(c) Provision of utilities such as electricity, water, steam, cooling salt water and compressed air by Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")

Xi'an Pharmacy Factory had been supplying utilities to Xi'an Lijun. Pursuant to the utilities services agreement entered into between Xi'an Lijun and Xi'an Pharmacy Factory on 16 October 2005, Xi'an Pharmacy Factory supplied utilities including electricity, water, steam, cooling salt water and compressed air to Xi'an Lijun for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The charges for electricity and water payable by Xi'an Lijun were calculated based on the state-prescribed prices (tax inclusive) plus actual processing costs of Xi'an Pharmacy Factory. In respect of steam, cooling salt water and compressed air, such charges were determined based on actual costs of production incurred by Xi'an Pharmacy Factory. The reason for the Group entering into the above agreement was to satisfy the needs of Xi'an Lijun in respect of its production, office and storage.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

(2) Continuing connected transactions (Continued)

(c) **Provision of utilities such as electricity, water, steam, cooling salt water and compressed air by Shaanxi Xi'an Pharmaceutical Factory ("Xi'an Pharmacy Factory")** (Continued)

Xi'an Pharmacy Factory is a connected person to the Company as it is a wholly-owned subsidiary of Rejoy Group, a substantial shareholder of Xi'an Lijun. For the year ended 31 December 2005, the total amount paid by the Group to Xi'an Pharmacy Factory in respect of supply of utilities amounted to approximately RMB50,973,000, which did not exceed the estimated annual cap of RMB55,000,000 prescribed for the year ended 31 December 2005 as disclosed in the Prospectus.

(d) **Sharing of administrative costs between Xi'an Lijun and Xi'an Pharmacy Factory**

Xi'an Lijun had been sharing the administrative costs of Xi'an Pharmacy Factory so that the employees of Xi'an Lijun were entitled to enjoy certain facilities and services including hospitals, nursery, schools, security, property management and environmental beautification provided by Xi'an Pharmacy Factory. Pursuant to the agreement entered between Xi'an Lijun and Xi'an Pharmacy Factory on 16 October 2005, Xi'an Lijun shared the administrative costs of Xi'an Pharmacy Factory so that the employees of Xi'an Lijun would continue to be able to enjoy the aforesaid facilities and services provided by Xi'an Pharmacy Factory for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The total amount of administrative costs was based on the actual costs incurred for the provision of the aforesaid facilities and services. The share of administrative costs borne by Xi'an Lijun was determined with reference to the actual number of employees of Xi'an Lijun utilizing such facilities and services.

Xi'an Pharmacy Factory is a connected person to the Company by virtue of being a wholly-owned subsidiary of Rejoy Group, a substantial shareholder of Xi'an Lijun. For the year ended 31 December 2005, the total amount paid by the Group to Xi'an Pharmacy Factory in respect of the administration costs amounted to approximately RMB12,926,000, which did not exceed the estimated annual cap of RMB13,000,000 prescribed for the year ended 31 December 2005 as disclosed in the Prospectus.

(e) **Distribution of the Group's products by Xi'an Rejoy Medicine Co., Ltd. (西安利君醫藥有限公司) ("Rejoy Medicine")**

Rejoy Medicine has been one of the Group's distributors in Xi'an and is principally engaged in the retail and distribution of pharmaceutical products. Pursuant to the purchase and distribution agreement entered into between Rejoy Medicine and Xi'an Lijun on 16 October 2005, Rejoy Medicine purchased products from Xi'an Lijun and distributed such products to other distributors and end customers for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The Directors confirmed that the selling prices of the Group's products sold to Rejoy Medicine had been determined in accordance with the market prices and that the Group charged Rejoy Medicine for the products at prices no less favorable than those charged to independent third parties and on terms no less favorable than those the Group could obtain from independent third parties.

Rejoy Medicine is a connected person to the Company as it is held as to 55% by Rejoy Group, a substantial shareholder of the Xi'an Lijun. For the year ended 31 December 2005, the Group's sale to Rejoy Medicine amounted to approximately RMB20,886,000, which did not exceed the estimated annual cap of RMB27,000,000 prescribed for the year ended 31 December 2005 as disclosed in the Prospectus.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(2) Continuing connected transactions *(Continued)*

(f) ***Distribution of the Group's products by Rejoy Baichuan Medicines Chemical Engineering Co., Ltd. ("Rejoy Baichuan")***

Rejoy Baichuan has been one of the Group's distributors in the northwest market of the PRC and is principally engaged in the retail and distribution of pharmaceutical products. Pursuant to the purchase and distribution agreement entered into between Xi'an Lijun and Rejoy Baichuan on 16 October 2005, Rejoy Baichuan purchased products from Xi'an Lijun and distributed such products to other distributors and end customers for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The Directors confirmed that the selling prices of the Group's products sold to Rejoy Baichuan had been determined in accordance with the market prices and that the Group charged Rejoy Baichuan for the products at prices no less favorable than those charged to independent third parties and on terms no less favorable than those the Group could obtain from independent third parties.

Rejoy Baichuan is held as to 84% by Rejoy Technology, the issued share capital of which is held as to 100% by the beneficial shareholders of Prime United, one of the controlling shareholders of the Company. Accordingly, Rejoy Baichuan is a connected person of the Company under the Listing Rules. For the year ended 31 December 2005, the Group's sales to Rejoy Baichuan amounted to approximately RMB9,043,000, which did not exceed the estimated annual cap of RMB24,000,000 prescribed for the year ended 31 December 2005 as disclosed in the Prospectus.

(g) ***Distribution of the Group's products by Liaoning Huabang Pharmaceutical Co., Ltd. (遼寧華邦醫藥有限公司) ("Huabang Pharmaceutical")***

Huabang Pharmaceutical has been one of the Group's distributors in the northeast market of the PRC and is principally engaged in the retail and distribution of pharmaceutical products. Pursuant to the purchase and distribution agreement entered into between Xi'an Lijun and Huabang Pharmaceutical on 16 October 2005, Huabang Pharmaceutical purchased products from Xi'an Lijun and distributed such products to other distributors and end customers for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The Directors confirmed that the selling prices of the Group's products sold to Huabang Pharmaceutical had been determined in accordance with the market prices and that the Group charged for the products at prices no less favorable than those charged to independent third parties and on terms no less favorable than those the Group could obtain from independent third parties.

The registered capital of Huabang Pharmaceutical is held as to 100% by the beneficial shareholders of Bondwise Trading Limited, one of the controlling shareholders of the Company. Accordingly, Huabang Pharmaceutical is a connected person of the Company under the Listing Rules. For the year ended 31 December 2005, the Group's sale to Huabang Pharmaceutical amounted to approximately RMB4,526,000, which did not exceed the estimated annual cap of RMB11,000,000 prescribed for the year ended 31 December 2005 as disclosed in the Prospectus.

The aforesaid continuing connected transactions have been reviewed by independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transaction (a) have been approved by the Board of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) have not exceeded the caps allowed by the Stock Exchange in the previous waiver.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at 31 December 2005.

POST BALANCE SHEET EVENTS

No significant events occurred after the balance sheet date.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Model Code. The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2005.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 10 April 2006 to Thursday, 13 April 2006 (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and the entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 7 April 2006.

On behalf of the Board

Wu Qin
Chairman

Hong Kong, 20 March 2006