

CHAIRMAN'S STATEMENT

On behalf of the board (“**Board**”) of directors (“**Directors**”) of Hua Han Bio-Pharmaceutical Holdings Limited (“**Hua Han**”, together with its subsidiaries, the “**Group**”), I am pleased to present the annual results of the Group for the year ended 30 June 2006 (“**Year**”).

BUSINESS REVIEW

Results of Hua Han for the Year continued to show an impressive growth. Turnover for the Year amounted to approximately HK\$627.9 million, representing a growth of 4.3% as compared with HK\$601.9 million for the preceding year. Approximately HK\$465.2 million of the turnover was attributable to sales of the Group's own products, demonstrating a 21.3% growth over last year, while gross profit margin for the Year stood at a high level of 43.7%. Approximately HK\$162.7 million of the turnover was derived from pharmaceutical trading business. Profit attributable to shareholders of the Company for the Year amounted to approximately HK\$123.1 million, representing an increase of 21.4% over last year.



*Guiyang De Chang Xiang
Pharmaceutical Company Limited*



*Guizhou Hanfang Medicine
Manufacture Co. Ltd.*

OPERATION REVIEW

Prescription Drugs



Yeasure Series

During the Year, the pharmaceutical industry in China has been evolving swiftly under a continuously changing environment. Amid intensified pharmaceutical revolution and keen market competition in the entire pharmaceutical industry, enterprises increasingly faced ferocious elimination and active mergers and acquisitions. In light of such a prevailing situation, Hua Han attained significant improvement in

operating results by capitalising on an extensive product mix, a competitive product series and an appealing product branding and through a widespread marketing network and nationwide distribution channels, coupled with its inherent business growth strategy of “**Prestigious Brand Name Building**”, “**Legend Products**” and “**Nationwide Sales Network**”.



Anti-tumour Medicines

Since **Fuke Zaizaowan** (婦科再造丸), an over-the-counter (“**OTC**”) classic Chinese gynecological recuperation drug, and “**Magic 美即**” branded feminine medicinal healthcare products were introduced into the market, they have become a new profit growing point of the Group. **Fuke Zaizaowan** (婦科再造丸) are mainly sold to the OTC market, and are put under effective marketing through brand and point-of-sale promotion. In addition, the widespread reach of the feminine medicinal healthcare products under the product series of “**Magic 美即**” and the steadily growing sales of prescription drugs are crucial attributes to the integration of our product ranges, brand names and distribution network resources, thereby setting a stably growing path for our results.

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PROSPECTS

Given that organic factors for the continuous growth of the pharmaceutical industry including expanding population, increasing aging population and escalating medication level per capita in China remain unchanged, the domestic pharmaceutical demand is expected to continue to increase. Sales and profitability of the Chinese medicine industry is set to remain on a steadily growing track, while the sustainable growth and high profitability of the traditional Chinese medicine industry will create tremendous opportunities for the speedy growth of the core businesses of the Group.

OTC Drugs



Fuke Zaizaowan & Fuke Zaizao capsules

In the current financial year, the Group will step up its strategic plan of becoming a leading enterprise in the manufacture and sales of gynecological pharmaceutical products and feminine medicinal healthcare products in the People's Republic of China ("PRC"). The Group will continue to place an emphasis on the integration of internal resources, optimisation of internal resources allocation and manifestation of the Group's comprehensive advantages in planning, products, marketing, production and operational management. The Group will devote greater marketing efforts to the promotion of OTC drugs, namely **Fuke Zaizaowan** (婦科再造丸) and feminine medicinal healthcare products under the product series of "Magic 美即". By expanding the market share of the abovementioned products, the Group can better project a positive image of Hua Han as a leader in gynecological pharmaceutical products and feminine medicinal healthcare products to its customers in the OTC market and healthcare market. To continue to boost the sales of prescription drugs in the hospital market, a category one new national medicine, namely **Human Nerve Growing Factor** (人神經生長因子), a product of the Group which has been granted an exclusive intellectual property right and a national patent right, will be the key product to be rolled out in the hospital market. The Group is confident that the introduction and sales of **Human Nerve Growing Factor** (人神經生長因子) will definitely enhance the recognition of the Group's products in the hospital market, thus advancing and strengthening the position of the Group's prescription drugs in hospital sales. The successful implementation of the above operational strategies will bring about lasting and maximum value to shareholders.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our management and staff for their contribution and dedication. In addition, I would like to express my appreciation to our shareholders for their continued support to the Group. We firmly believe that the concerted patronage and support from various parties to the Group lays a cornerstone for the Group to become a leading enterprise of gynecological pharmaceutical products and feminine medicinal healthcare products in the PRC.

Feminine Medicinal Healthcare Products



Magic

Zhang Peter Y.
Chairman

Hong Kong
18 October 2006