

REPORT OF THE DIRECTORS

The directors of the Company (“**Directors**”) present their report and the audited financial statements of the Company and of the group (“**Group**”) comprising the Company and its subsidiaries for the year ended 30 June 2006 (“**Year**”).

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group include the research and development, manufacture and sales of gynecological medicine and medicinal healthcare products for women. Details of the principal activities of the principal subsidiaries of the Company are set out in note 17 to the financial statements on pages 86 to 88 of the annual report. There were no significant changes in the nature of the Group’s principal activities during the Year.

RESULTS AND DIVIDENDS

The Group’s profit for the Year and the state of affairs of the Company and of the Group at 30 June 2006 are set out in the financial statements on pages 37 to 109 of the annual report.

The Directors recommend the payment of a final dividend of HK2 cents per ordinary share of HK\$0.10 each in the share capital of the Company (“**Share**”) in respect of the Year, to the shareholders of the Company (“**Shareholders**”) whose names appear on the register of members of the Company on 21 December 2006. The proposed dividend will be paid on or about 28 February 2007 if the recommendation is approved by the Shareholders at the forthcoming annual general meeting (“**Annual General Meeting**”) of the Company to be held on 21 December 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company’s prospectus dated 28 November 2002 and the published audited financial statements and restated as appropriate, prepared on the basis set out therein, on page 110 of the annual report. This summary does not form part of the audited financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the financial statements on pages 81 to 83 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the Year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements respectively on pages 97 to 101 of the annual report.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the Year.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 31(b) to the financial statements on page 102 of the annual report and in the consolidated statement of changes in equity on pages 40 to 41 of the annual report, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$377,268,000, of which HK\$17,615,000 has been proposed as a final dividend for the Year. The amount of HK\$358,645,000 (note 31(b)) standing to the credit of the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the Year.

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DIRECTORS

The Directors during the Year were:

Executive Directors:

Mr. Zhang Peter Y.
Mr. Xu Peng
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Wu Xian Peng

Non-executive Directors:

Mr. Wee Ee Lim (*Mr. Chng Hwee Hong as his alternate*) (*Note*)
Mr. Tarn Sien Hao (appointed on 8 May 2006)
Mr. Han Ah Kuan (*Mr. Ong Sian Hin as his alternate*) (resigned on 8 May 2006)

Note: On 8 May 2006, Mr. Chng Hwee Hong was appointed by Mr. Wee Ee Lim as his alternate in replacement of Mr. Tarn Sien Hao.

Independent non-executive Directors:

Professor Kung Hsiang Fu
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew

In accordance with the existing article 108(A) of the Company's articles of association, Mr. Zhang Peter Y., Mr. Xu Peng and Professor Kung Hsiang Fu will retire from the office of directorship by rotation at the Annual General Meeting. Each of Mr. Zhang Peter Y. and Professor Kung Hsiang Fu, being eligible, offers himself for re-election at such meeting, while Mr. Xu Peng has not offered himself to be re-elected as Director at such meeting.

Further, according to the existing article 112 of the Company's articles of association, any person who is appointed by the Directors as a Director to fill a casual vacancy on the board of Directors, under that article, shall hold office only until the next following general meeting and shall then be eligible for re-election at the meeting. Pursuant to such article, the office of directorship of Mr. Tarn Sien Hao, who was appointed as a non-executive Director on 8 May 2006, will end at the Annual General Meeting. Mr. Tarn Sien Hao, being eligible for re-election, will offer himself for re-election at the Annual General Meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his independence from the Group. The Company considers that each of such Directors to be independent from the Group based on the guidelines set out in Rule 3.13 of the Rules ("**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2002, which is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party on the other.

The independent non-executive Directors and non-executive Directors are appointed for specific terms and are subject to retirement by rotation in accordance with the Company's articles of association.

No Director proposed for re-election at the Annual General Meeting has 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' REMUNERATION

The board of Directors has the general power of determining the Directors' remuneration, subject to the authorisation of the Shareholders given at the annual general meeting of the Company each year. The remuneration of the executive Directors is subject to the review of the Company's remuneration committee. As for the non-executive Directors, their remuneration is determined by the board of Directors, upon recommendation of the Company's remuneration committee, with reference to Directors' duties, responsibilities and performance and results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 35 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“**SF Ordinance**”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest (Note 1)	Approximate percentage of interest
Zhang Peter Y.	The Company	Interest of controlled corporation	308,758,783 Shares (L) (Note 2a)	35.10%
	The Company	Beneficial owner	600,000 Shares (L) (Note 2b)	0.07%
Xu Peng	The Company	Beneficial owner	600,000 Shares (L) (Note 2b)	0.07%
Deng Jie	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. (“GHXM”)	Interest of controlled corporation	5% (L) (Note 3)	5%

Notes:

- The letter “L” represents the Director’s interests in the shares and underlying shares or, as the case may be, the equity interest of the Company or its associated corporations.
- These 308,758,783 Shares were held by Bull’s-Eye Limited (“**BEL**”), more than one-third of the issued share capital of which is beneficially owned by Zhang Peter Y. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Zhang Peter Y. is deemed to be interested in all the Shares held by BEL.
 - These Shares were Shares which would be allotted and issued upon the exercise in full of the options granted to each of Zhang Peter Y. and Xu Peng under share option scheme of the Company (“**Scheme**”). These options, all of which remained exercisable as at 30 June 2006, were exercisable at the subscription price of HK\$0.64 per Share at any time during a period of two years commencing from and including 1 September 2004 to 31 August 2006.

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3. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited (“GHKA”), which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Deng Jie is deemed to be interested in the equity interests in GHXM held by GHKA.

Save as disclosed above, as at 30 June 2006, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the options granted to the Directors under the Scheme (as defined below) and outstanding as at 30 June 2006 were as follows:

Name of Director	Date of grant	Number of underlying Shares				Outstanding as at 30 June 2006	Exercise price per Share (HK\$)	Exercise period
		Outstanding as at 1 July 2005	Granted during the Year	Exercised during the Year	Lapsed during the Year			
Zhang Peter Y.	1/09/2004	600,000	–	–	–	600,000	0.64	01/09/2004 to 31/08/2006
Xu Peng	1/09/2004	600,000	–	–	–	600,000	0.64	01/09/2004 to 31/08/2006
		<u>1,200,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,200,000</u>		

Other than as disclosed above, at no time during the Year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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SHARE OPTION SCHEME

The Company operates a share option scheme (“**Scheme**”), which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. The Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Eligible participants of the Scheme include the following:

- (i) any employee or proposed employee (whether full time or part time) of the Group or any entity (“**Invested Entity**”) in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);
- (ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any company wholly owned by one or more of the eligible participants referred to in (i) to (vii) above.

As at the date of this report, the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme and any other share option scheme of the Group is 66,616,200, representing about 7.56% and 10%, respectively, of the issued share capital of the Company as at the date of this report and 29 November 2004, being the date of the 2004 annual general meeting of the Company at which an ordinary resolution was passed by the shareholders approving the renewal of the 10% mandate under the Scheme.

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive director of the Company as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders’ approval in a general meeting.

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Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in 12-month period up to and including the date of grant, are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Scheme.

The subscription price for Shares under the Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of:

- (i) the closing price of shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the shares of the Company.

Movement of the options to subscribe for Shares granted under the Scheme during the Year was as follows:

Class of grantee	Date of grant	Outstanding as at 1 July 2005	Number of underlying Shares			Outstanding as at 30 June 2006	Exercise price per Share (HK\$)	Exercise period
			Granted during the Year	Exercised	Lapsed			
Directors (Note 1)	1/09/2004	1,200,000	–	–	–	1,200,000	0.64	01/09/2004 to 31/08/2006
Other employees (Note 2)	1/09/2004	5,400,000	–	(3,000,000) (Note 3)	–	2,400,000	0.64	01/09/2004 to 31/08/2006
Others	1/09/2004	7,000,000	–	(6,000,000) (Note 3)	–	1,000,000	0.64	01/09/2004 to 31/08/2006
		13,600,000	–	(9,000,000)	–	4,600,000		

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Notes:

1. Details of options granted to each of the Directors are set out in the paragraph headed “Directors’ rights to acquire shares or debentures” in this report above.
2. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).
3. The weighted average closing price per Share immediately before the date on which options were exercised during the Year is HK\$1.19.

During the Year, no option to subscribe for Shares either lapsed or was cancelled.

Subject to the earlier termination of the Scheme in accordance with the rules governing the Share Option Scheme, the Scheme will expire on 25 November 2012.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 30 June 2006, the following persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	Number of Shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
BEL <i>(Note 2)</i>	308,758,783 (L)	Beneficial owner	35.10%
Liu Yu <i>(Note 3)</i>	309,358,783 (L)	Interest of spouse	35.17%
Haw Par Pharmaceutical Holdings Pte. Ltd. <i>(Note 4)</i>	183,532,400 (L)	Beneficial owner	20.86%
Haw Par Corporation Limited <i>(Note 4)</i>	183,532,400 (L)	Interest of controlled corporation	20.86%
Jayhawk China Fund (Cayman) Ltd <i>(Note 5)</i>	49,280,000 (L)	Investment manager	5.60%
Kent C. McCarthy <i>(Note 5)</i>	49,280,000 (L)	Interest of controlled corporation	5.60%

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Notes:

1. The letter “L” represents the person’s or the entity’s interests in Shares.
2. More than one-third of the issued share capital of BEL is beneficially owned by Zhang Peter Y. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Zhang Peter Y., an executive Director, is deemed to be interested in all the Shares held by BEL.
3. Liu Yu is the wife of Zhang Peter Y., an executive Director, and is therefore deemed to be interested in the Shares and underlying Shares in the Company in which Zhang Peter Y. is interested under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance.
4. Haw Par Pharmaceutical Holdings Pte. Ltd. is a wholly owned subsidiary of Haw Par Corporation Limited, a company incorporated in Singapore whose shares are listed on the Singapore Exchange Securities Trading Limited. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Haw Par Corporation Limited is deemed to be interested in all Shares in which Haw Par Pharmaceutical Holdings Pte. Ltd. is interested.
5. Jayhawk China Fund (Cayman) Ltd is wholly-owned by Kent C. McCarthy. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Kent C. McCarthy is deemed to be interested in all Shares in which Jayhawk China Fund (Cayman) Ltd is interested.

Save as disclosed above, as at 30 June 2006, no person or entity, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance.

CONNECTED TRANSACTIONS

The related party transactions disclosed in note 35 to the financial statements constituted exempted connected transactions or, as the case may be, continuing connected transactions under Chapter 14A of the Listing Rules.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of Chapter 13 the Listing Rules, the following disclosures are included in respect of the Company’s loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company:

1. On 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Hong Kong (“**Loan Agreement**”), which contained specific performance obligations on Mr. Zhang Peter Y. and Mr. Xu Peng.

The Loan Agreement was for a term loan facility of up to HK\$100,000,000, the final maturity date of which should be the date falling 36 months from the date of the Loan Agreement (i.e. 15 September 2007).

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The Loan Agreement provided that so long as there remained any money outstanding under the Loan Agreement: (1) Mr. Zhang should continue to be the chairman and (save and except BEL) the person with the single largest attributable shareholding in the Company; (2) Mr. Xu should continue to be a director of the Company and (save and except BEL) the person with the second single largest attributable shareholding in the Company; and (3) Mr. Zhang and Mr. Xu should collectively maintain, directly or indirectly, not less than 35% of the issued share capital of the Company, free from any encumbrances and should collectively deposit not less than 35% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Loan Agreement. The loan facility, together with all interests accrued on the loan facility, under the Loan Agreement was repaid in full by the Company on 17 July 2006.

2. The Company entered into a new facility agreement (“**Facility Agreement**”) with certain financial institutions in Hong Kong and overseas on 30 June 2006. The Facility Agreement contains specific performance obligations on Mr. Zhang Peter Y. and Mr. Deng Jie. The Facility Agreement is for a term loan facility of up to HK\$445,000,000 for a term of three years, with an option at the end of the third year to extend the loan for an additional two years.

The Facility Agreement provides that so long as there remains any amount outstanding under the Facility Agreement: (1) Mr. Zhang Peter Y. shall remain to be the Chairman and the single largest shareholder of the Company; (2) Mr. Deng Jie, the Chief Executive Officer of the Company, shall remain to be a Director; (3) Mr. Zhang and Mr. Deng shall together, directly or indirectly, maintain not less than 30% of the issued voting share capital of the Company; and (4) Mr. Zhang should deposit not less than 30% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

A breach of any of the above specific performance obligations would constitute a default under the Facility Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Facility Agreement.

MANAGEMENT CONTRACTS

No 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by public as at the date of this report.

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CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the “**Code**”) as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the annual report, except for certain deviations. Please refer to the Corporate Governance Report on pages 30 to 35 of the annual report.

AUDIT COMMITTEE

The Board established the audit committee (“**Committee**”) on 20 September 2002 and re-constituted the Committee on 27 September 2004 and 5 September 2005. In accordance with the requirements of the Code, the primary duties of the Committee include reviewing and providing supervision over the financial reporting procedure process and internal controls of the Group. The Committee comprises Mr. Tarn Sien Hao, a non-executive Director, and Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming Matthew, the three independent non-executive Directors. The Group’s financial statements for the Year have been reviewed by the Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

AUDITORS

Ernst & Young will retire, and a resolution for their re-appointment as auditors of the Company will be proposed, at the Annual General Meeting.

On behalf of the Board

Zhang Peter Y.

Chairman

Hong Kong

18 October 2006